Activate Business Synchrony to Drive Growth in Industrials and Manufacturing (Even in a Recession)

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Summary

- Industrial and manufacturing companies are often some of the hardest hit during periods of recession.
- Many manufacturers have underinvested in digital transformation to date.
- An intentional focus on strategic digital transformation, or business synchrony, can differentiate organizations that thrive during recessions from those that struggle.
- The four elements of business synchrony (strategy, processes, people, and technology) should be intentionally integrated into any digital transformation initiative to ensure success.

An article in Reuters suggests that the **U.S. manufacturing industry entered a recession** as early as the fourth quarter of 2022, based on a variety of indicators:

- The sub-50-point threshold was breached by the Institute for Supply Management's (ISM's) manufacturing purchasing managers' index.
- The Federal Reserve's manufacturing production index saw a 0.4% decrease in late 2022 compared with 2021.
- Container freight volume slowed to its lowest rate since 2015 at the nine largest ports; the first two weeks of 2023 were down 9% compared with the same period the previous year.
- Nearly a third (32%) of manufacturers reported decreased orders in December 2022.

In this difficult economic environment, leaders across industries are looking for opportunities to position their organizations to thrive during the coming months. But leaders in the industrial and manufacturing space have even more to be concerned about as, historically, recessions tend to hit this sector harder than many others. Higher production costs coupled with supply chain issues and labor shortages converge to drive down profit margins while consumer demand similarly tanks,

with the average consumer prioritizing food, shelter, and healthcare over other goods.

The average manufacturer is paralyzed by fear right now. There's a push for faster time to market because of new consumer expectations driven by technology advancements. Technology spending in manufacturing is typically fairly low, so the starting point for transformational budgets is significantly smaller than other sectors. As there's increased demand for new tech, the money must be found somewhere. This is when an argument for mergers or acquisitions might make sense — to fund the technology budget. There's not a lot of time to waste because the companies that are laggards in this arena are only getting further and further behind.

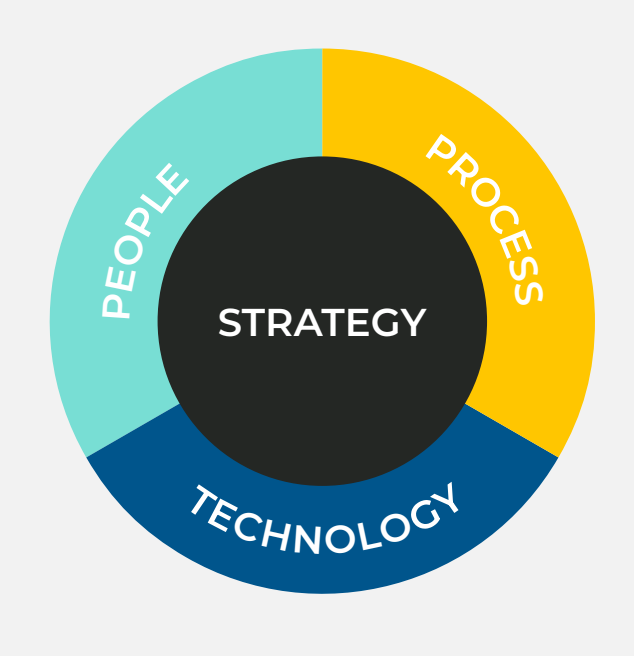
With World Bank predicting the period from 2020 to 2024 to see the slowest **global gross domestic product growth** since 1960, manufacturers cannot rely on business as usual. Uncertain economic times call for strategic decision making and intentional action in order to remain agile and responsive to fluctuating markets.

There are a number of issues specific to industrials and manufacturing that are exacerbated in a recessionary period. Think supply chain issues (including vendor rationalizations, visibility, traceability), workforce management and other labor challenges, and an ongoing shift in consumer expectations.

Synchronizing Business Systems

To maintain competitive positioning during and after the recession, strategic digitization, or business synchrony, will be key for manufacturers. With so much on the line, leaders must increase the speed of their decision making and process execution.

The best way to ensure your digital transformation project is successful is to intentionally build in synchronized business functions that support your long-term objectives. If your current systems don't align to the direction of the business, you are likely out of balance in at least one of the areas of **business synchrony** (strategy, processes, people, and technology). And many organizations don't have access to the intelligence they need to figure out where to focus or what problems to solve for.



Smart organizations understand that you have to identify the problem and understand its parameters before you can solve for it. But getting started can be a major barrier. We've seen organizations paralyzed by the daunting task of determining how and where to dive in.

Every organization is different and there is no one prescriptive answer we can give you. But if you make sure that your systems are synchronized and providing accurate, timely data, that intelligence will give you the road map you need.

Strategy: The Linchpin

One of the biggest mistakes industrial and manufacturing companies make when it comes to digital investments is failing to tie them back to the larger, technology-agnostic **organizational strategy.**

Manufacturers can make more educated decisions about the future of their organizations (where to invest and why) when these options are crosswalked with the future needs and objectives of the business. When you understand where you're going, it's easier to anticipate which alternatives pose the riskiest or most strategic opportunities.

When digital transformation initiatives are not tied to a clear strategy, organizations run the risk of investing in unnecessary, redundant, or outmoded technology systems that are expensive and don't deliver a significant return on investment.

With intentional, strategic governance of these investments, however, organizations can hone their digital initiatives and shift resources to those projects with the most promise of return. Organizations without a clear strategy can become unmoored by rapidly changing market conditions and fall victim to "shiny object" syndrome, constantly chasing the newest tool or methodology.

Process: The Enabler

Some organizations undertake technology implementations before process improvements. Our experience, however, shows that organizations that put process improvement initiatives first have a better chance of success with digital transformation. Processes that are digitized without undergoing a rigorous evaluation for efficiency and effectiveness can introduce significant design flaws into the larger transformation project. And the automation of obsolete processes is usually counterproductive.

A clear organizational strategy underscored by modernized processes, on the other hand, can help to lay a stable foundation for digital transformation efforts. There's a balance to strike here between road-tested manufacturing processes and innovative, technology-enabled workflows.

This piece of the puzzle is essential to get right because even the most advanced technology in the world will not solve for broken processes.

Process: The Enabler

There's often a fear of disrupting business continuity with change. This is, of course, also true for organizations that are embarking on intentional digital transformation (or business synchrony) for the first time (or the first time in a while). That's why there's a real need to consider the people that are involved in any new project and how you can help them embrace the change.

Involving key players from the very beginning helps them to understand the stakes and the role they play in project success or failure. People tend to embrace initiatives more wholeheartedly when they feel like they have a part in them.

There's also a discussion here around upskilling and re-skilling employees to thrive in this new environment. As robotics, artificial intelligence, and cloud technologies continue to play an enhanced role in our businesses, legacy employees will need to develop new skills to remain competent and efficient in their roles.

Creating and fostering a change-ready culture is what sets digital transformation success stories apart from their peers.

Technology: The Accelerator

Regardless of the **technology investments** you choose to make, those that shift their organizations toward digital advancement will come out the other side of the recession better positioned for long-term success than their counterparts that don't.

Manufacturers that have dealt with declining growth and intensifying margin pressures in the recent past have, on the whole, underinvested in the automation technology of the third industrial revolution. These organizations are often characterized by outdated systems, poor integrations, and largely manual processes.

There is no longer time to waste when it comes to digital transformation in industrials and manufacturing. Those that choose to lean in and invest strategically in the modernization or their organizations will survive, while those that continue to bury their heads in the sand risk quickly becoming obsolete.

Planning for a Post-Recession Comeback

If your organization is worried about the potential impacts of a recession, the best thing you can do is go into it with a clear-eyed strategy that leverages the best information to support agile decision making. How to get there? By ensuring you're investing strategically in business synchrony, or the intentional digital transformation of the organization from the ground up.

There's real potential benefit at stake for manufacturers that choose to look at this economic downturn as an opportunity to invest in their infrastructures. Those that do stand to gain significant market share that may not be available again until the inevitable next recession.

Questions for Leaders

- What will be required for our organization to strengthen and extend our growth?
- Will it be sufficient to double down on our existing business models to achieve our growth ambition?
- What role will digital play? Will it be in the form of improved experiences, new products, or entirely new business models?
- What capabilities and operating model will be required to successfully navigate this changing landscape?

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