

A photograph of two industrial workers wearing hard hats and safety glasses, looking at a tablet. In the background, there is an industrial facility with tall chimneys and smokestacks under a bright sky.

# Building the Case for Crisis in Industrials

By Kathleen Dobrovic

In a post-pandemic environment where major advancements are commonly accelerated out of necessity (e.g., work from home, telemedicine, online retail), keeping business strategies relevant and timely can be difficult. This is largely because these organizations are just focused on business survival or weathering the next storm. And, as we all can attest, whether a company delivers professional services, sells artisanal baked goods, or manufactures precision metal parts, the next crisis could be just around the corner.

Middle-market industrial and manufacturing companies have been particularly hard hit over the past few years, dealing with unexpected crisis after unexpected crisis — a global pandemic, supply chain problems, global conflicts, the semiconductor shortage, labor shortages, and significant weather events like the deep freeze in Texas, just to name a few. Middle-market industrial companies typically have a limited amount of liquidity cushion, making it difficult to bounce back from major pivots or unforeseen expenditures.

The bright side? Industrial and manufacturing leaders are lean, performance improvement experts by nature, and the very essence of what we do every day comes down to manufacturing our products more efficiently with the highest quality and at the best price. Even prior to this latest round of disruption, we have been accustomed to managing erratic customer requirements and ensuring operational continuity regardless of circumstance.

Industrial and manufacturing leaders have had to get comfortable very quickly with navigating through unfamiliar territory. Who among us cannot say they've built up their propensity for agility in recent years? We've all had to be flexible in order to adapt to an alien landscape no one could have predicted, let alone forecast for. The question, then, becomes how to capitalize on these new skills to insulate our organizations against the next big disruption. In other words, how can we apply our new, crisis-forged skills in between crises?

In the following paragraphs, we'll share guidance industrial and manufacturing leaders can implement today to protect their bottom lines and push the limits of profitability — by building a business case for crisis.

## How the Business Case Process Shifts During Crises

During non-crisis times, building a business case for new processes, updated equipment, or strategic innovations is fairly straightforward. You collect inputs, make assumptions, analyze outputs, and determine acceptable outcomes. Then, the budget is either adjusted to accommodate this new purchase or it isn't.

During times of crisis, leaders must expand their capacity for innovative thinking to factor in various inputs (beyond the traditional financial performance markers) that can make certain strategic investments worth exploring. Yet, this can be the hardest time to make more strategic decisions instead of reactive ones in the name of survival.

Industrial and manufacturing companies are always looking for ways to achieve better efficiency. In periods where labor is inexpensive and available, investing in abundant staff likely seems like the best and most cost-effective decision. However, the current inflationary environment, coupled with shortages of skilled labor and a rapidly changing geopolitical climate, is making low-cost offshoring less attractive. Thus, a strategic investment in improved engineering or modern equipment can play a major role in these companies' survival.

## Turning the Process Upside Down

We'll never be able to predict what the next major crisis will be, so industrial and manufacturing companies will never be able to plan for these upheavals. With forecasts largely impossible, it becomes critical to build a playbook of strategic investments or activities that may not make sense for the business in the current environment

but could be deployed at the first sign of trouble and would be aligned with its longer-term strategy. Turn the process upside down and, instead of inputs, look at what the known outputs need to be to achieve your strategy.

It's shortsighted to hinge business planning on a future dependent on forever-consistent variables. Building flexible innovative capabilities in times of lull is a smart way to get ahead of inevitable future disruptions. Think about the business case for certain strategic investments in terms of the costs of not executing rather than the costs associated with their deployment. This requires collaboration that goes well beyond what the traditional financial model can tell.

It's about keeping innovative plans — that have been thoroughly vetted, investigated, and planned for — in the company's proverbial back pocket so they can be deployed quickly when the unexpected happens.

To build this playbook, consider integrating the following tactics:

- **Enhanced business planning processes:** Create a playbook of a few key actions you could take to insulate yourself against disruption.
- **Reflect on decisions made during the last two years:** Identify if those are "repeatable plays" or if they should be retired. (If so, consider if there is any damage control needed to preserve value now.)
- **Measure the right things:** Regularly evaluate the metrics you're looking at to ensure they're the right ones to help you proactively identify red flags (liquidity problems, declining or unprofitable performance, etc.).
- **Foster a culture of innovation:** Avoid groupthink by encouraging your teams to work outside of their functional silos, question the status quo, and maintain an eye toward innovation.

## Determining if You're Building a Case for Crisis

Industrial and manufacturing leaders should ask themselves the following questions to determine how well they are building a case for crisis.

- **Do you have a strong short-term cash forecast process?** Integrating a 13-week cash forecast could help you identify and prevent crisis liquidity events.
- **Does your annual budgeting process allow room for scenario planning?** Expanding your focus beyond year-over-year growth or short-term margin expansion could help you identify tools ripe for deployment when the unexpected happens.
- **Do you encourage innovation among your teams?** There are often potential impacts and paybacks that are difficult to quantify but have a high cost associated with a missed opportunity or investment.
- **Are your teams working collaboratively and not in silos?** Problems and crises can be more easily solved or averted when teams work cross-functionally for the greater good.
- **Are you on the lookout for early warning signs of crises in your customers and supply base?** These metrics might include unpredictable customer demand, inflationary pressures, plant consolidation, missed payments or defaults, or pricing pressures from unprofitable product lines.

## Conclusion

The pandemic has shown that businesses left flat-footed in the wake of the disruption don't recover as quickly (or at all) as those that were more prepared. In this rapidly changing economic environment, businesses must be first-movers or risk being left behind.

If you just follow the same planning process and do not allow adequate thought and space for innovation, you're putting your business at risk. Some of these new, innovative ideas might never be implemented for a variety of reasons, but just having a playbook or reserve plans or knowing when to bring in an expert may help your business survive the next inevitable crisis.



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