Renew Growth, Eliminate Volatility With Dynamic Operations

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This article first appeared in IMPO's October 2012 *[1]issue.*

By adapting their operations to flex with markets, smart manufacturers with global footprints are learning to profit from permanent volatility, while insulating themselves against downside risk and simultaneously moving with speed and agility to capitalize on opportunities as they arise.

Even so, the ongoing volatility looms large for manufacturers. Consequently, it should be no surprise that many of them are taking a somewhat cautious approach to their planning. In fact, research has suggested that manufacturers seem as concerned about capturing the upside of economic recovery and other market opportunities as they arise as they are about protecting themselves from the next big event: a commodity price increase, natural disaster that halts a product or supply shipment, new regulations with which they must comply, or a shift in customer demands — to name a few.

Successfully navigating these and other challenges that permeate today’s business environment requires efficient, flexible, and dynamic operations. Such operations can enable a manufacturer to be more responsive to their customers while controlling costs.

The reason: Manufacturers with dynamic operations can react nimbly to unexpected changes in the market and seize opportunities as they arise. Today, forward-looking manufacturers are rising to the challenge that volatility presents as they re-imagine their operations, which helps create adaptable ecosystems of processes, people, capital assets, technology, and data. They are striving for flexibility where it matters most in their operations and focusing their efforts to achieve the agility that will drive profits, not just short-term efficiencies.

However, the degree of dynamism that is built into manufacturers’ operations varies. Different growth strategies demand a different mix of functional capabilities. All, however, strive to achieve speed to outcome in functional domains and continuously re-optimize as market conditions change.

Accenture’s most recent manufacturing research[1], which included a survey of senior manufacturing executives at global manufacturing operations in the United States, further suggests the need for greater agility in manufacturing operations, given persistent volatility.

Despite approaching 2012 with cautious optimism, manufacturers expressed concern about a wide range of factors that could prevent them from reaching their goals. Uncertainty about customer demand and rising commodities costs topped their list, which also included: weaker pricing power for finished goods or services, pressure to reduce operational costs, the need to apply innovation to stay ahead of the competition, global currency instability, and increased competition.

As manufacturers manage against those concerns, we have identified four key areas where we suggest that they concentrate as they re-imagine their operations to add greater flexibility, efficiency, and customer responsiveness. Each area is supported by “the building blocks” for dynamic and flexible operations:

1. Strengthening the operating model. For many companies, the first step is to focus on an operating model, which provides the critical capabilities that support daily operations. Indeed, our research found that most manufacturers acknowledge weaknesses in their operating models across multiple dimensions: organization structure, talent management, business processes, information technology, adaptation to macroeconomic factors, and regulatory policies management. To do this, companies need adaptable structures that build flexibility into the operating models so they can adjust to changing market conditions.

2. Managing the physical network. Top-performing manufacturers are adjusting their global footprints to more effectively balance production costs, lead times, and their ability to flexibly respond to customer demand and diverse market developments. For many manufacturers, this has resulted in relocation of operations, starting new operations and shutting down others.

Companies that efficiently manage these transitions and start-ups — either by bringing production to where it is needed or by skillfully employing contract manufacturing — can gain the ability to quickly adjust capacity as demand changes, thereby achieving a competitive advantage. A central capability for accomplishing this is flexible innovation, which companies can use to help grow their business and drive differentiation through innovation, without increasing complexity.

3. Investing in capability improvements. Maintaining profitability in established markets while pursuing growth in emerging economies requires manufacturers to build strong capabilities in key areas of the business. This may mean acquiring manufacturing equipment and infrastructure, as well as in vital software tools to manage performance. It also entails putting more muscle behind services and initiatives to reduce the cost of goods sold, cut inventory levels, and improve operational efficiency.

Our research indicates that companies are investing in more sophisticated visibility and decision support capabilities to help them manage their global network of vertically integrated and contracted operations. Indeed, running efficient operations requires a clear picture of one’s network performance and an understanding of where and how to make adjustments to respond to internal and external developments. A key capability supporting such improvements is insight to action, which drives intelligence through increased visibility and analytics.

4. Creating a leaner, more flexible and more highly skilled work force. Labor is a

significant component of any manufacturer's cost structure, so maintaining a work force that is consistent with demand and revenue is critical. Although organizations achieved their goals associated with creating leaner organizations during the recent recession, work force skills remain a challenge today for many manufacturers. In fact, one-quarter of Accenture survey respondents said obsolete skills in their manufacturing organization are posing a significant problem, with thought leadership, IT, and engineering skills being in the shortest supply. Manufacturers identified skilled trades' labor and supervisors as roles they need to fill, but they report that recruiting for these positions is challenging. In a state of permanent volatility, companies must recruit executives who have demonstrated skills in designing and leading an organization through transformational change. This is part of agile execution, the ability to adjust and respond to changing customer expectations.

While manufacturing executives remain optimistic about growth, they are well aware that potential obstacles remain. Success in this era of seemingly permanent volatility requires flexibility and agility in their operations. An adaptable, cost-efficient global manufacturing network not only can improve competitiveness, but also can enhance the customer satisfaction that provides a strong foundation for growth. By carefully tailoring manufacturing operations for optimal end-to-end flexibility, companies can embrace the unpredictable — anticipating and mitigating risk, enhancing visibility and capacity allocation, and facilitating more adaptive execution.

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[1] "Developing Dynamic and Efficient Operations for Profitable Growth," Accenture, August 2012