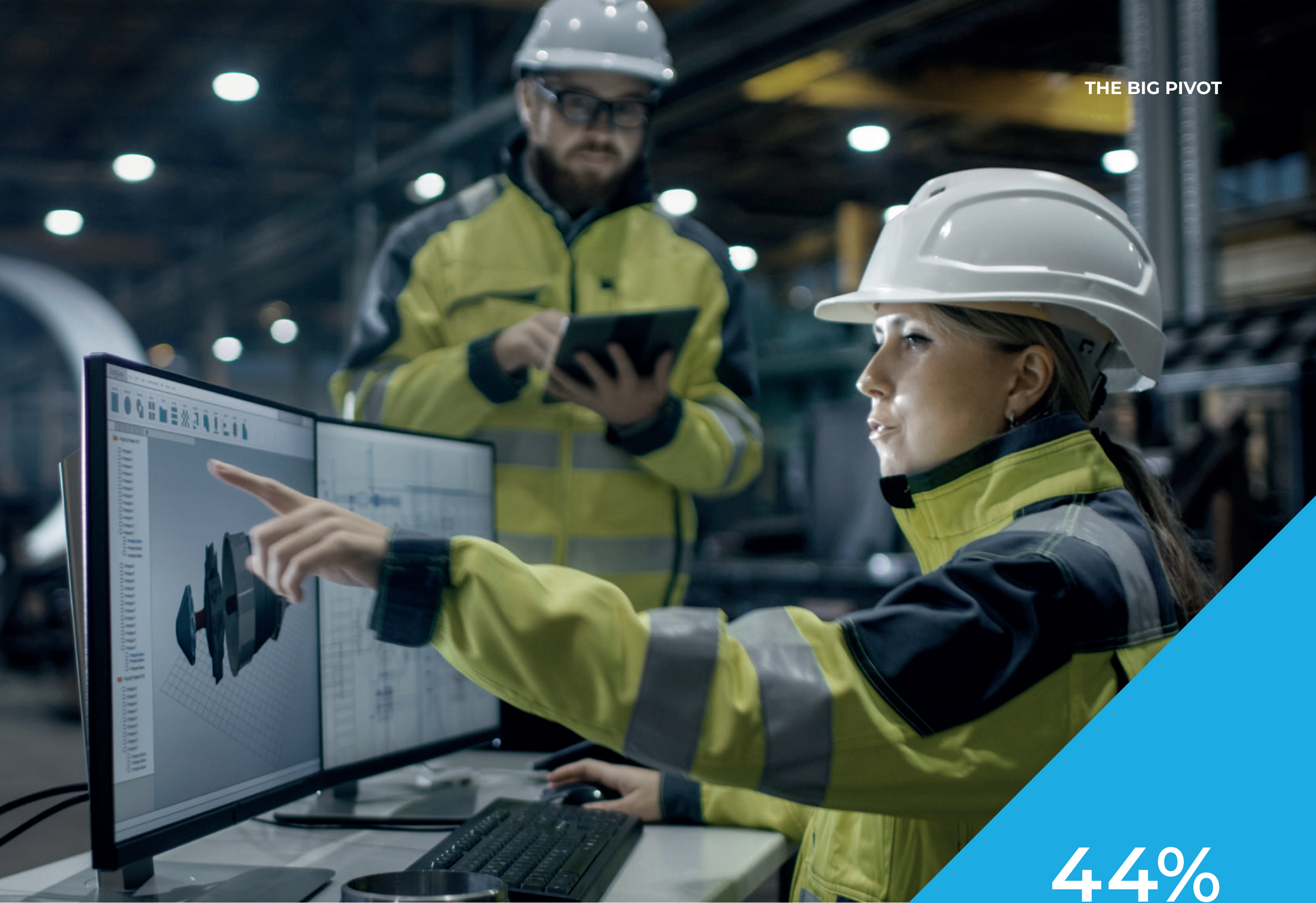
MOORE Intelligence

THE BIG PIVOT

Why smart manufacturers and distributors are re-engineering global supply chains



44%

of clients surveyed were urgently seeking to make a "Big Pivot"

When Covid hit, most of the world's factories closed their doors. A year on, those plants are back in operation but many business owners are bracing to make a Big Pivot to compete in a much-changed economic landscape.

After a 7% plunge last year, world trade is predicted to expand by 9% in 2021 as better treatments and vaccination roll-out allow economies to reopen. There is consensus that a return to normality is on the horizon.

However, this does not mean a return to business as usual: having survived the Covid crisis, manufacturers and distributors realise their operations must be more resilient to sudden shocks. That has resulted in new ways of thinking about how they manage supply chains and interact with consumers.

A survey by Citrin Cooperman, a member of Moore North America, found 44% of clients said they were urgently seeking to make a "Big Pivot" – ie, completely overhaul the way they do business, the products they sell, and how they target and serve customers.

Further analysis by Moore Global experts in key manufacturing locations around the world confirms those trends. Across Europe, Asia and the Americas a new industrial revolution is gathering pace.

"Covid has been the catalyst and brought what is being called the Industrial Revolution 4.0 to a whole new level," says Mark Fagan, partner at Citrin Cooperman and leader of Moore Global manufacturing and distribution. "That is because technology gives business owners the ability to see through to the changing needs of customers and analyse whether their companies are equipped to handle them.

"Those that did well were the ones that really understood their businesses. They knew how to push more online, had e-commerce in place so people could get their products without going to a store – or very quickly found online solutions."

Lockdowns have led to a huge rise in home shopping, with 68% of survey respondents saying online sales had grown significantly. This trend has encouraged many mid-tier manufacturers and distributors to sell direct to consumers.

"The relationship with customers has become more complex," said Mark Fagan. "Habits have changed and manufacturers and distributors need to understand what they want – whether it is free delivery, a more consumer-focused website or having someone who can answer questions at 10 o'clock at night."

Direct-to-consumer models require greater flexibility so manufacturers are reviewing their production facilities. China remains the powerhouse, accounting for around 30% the world's manufacturing output, but many Moore clients are looking to relocate some production closer to home.

One driving factor was the shock rise of cargo shipment costs – fees for transporting a 40-foot container from Hong Kong to the eastern coast of the US trebled from $2,500 to $7,500 at the height of the pandemic last year.

To avoid future volatility, exercise bike maker Peloton plans to spend $100 million on air freight and expedited ocean freight, a move that will increase its transportation costs by more than 10 times the normal rate. It is a price Pelton considers worth paying to reduce customer waiting times and remain competitive.

Meanwhile, the Institute of Supply Management in the US warned of input-driven constraints to production expansion and said February was another month of slowing supplier delivery performance.

"A lot of companies have realised that if they are sourcing out of one or two offshore places that puts more risk in their supply chain," says Mark Fagan. "They need to become more efficient and are rethinking that strategy, bringing production closer to the consumer and doing it in more than one place.

"They are looking at supply partners and we will probably see distributors becoming manufacturers."

"Companies are rethinking strategy, bringing production closer to the consumer and doing it in more than one place."

Mark Fagan, USA

200%

Rise in the cost of shipping a container from Hong Kong to the US at the height of Covid

"It can be less costly to deliver goods to an EU port and transfer by road or rail into Britain."

Daniel Martine, UK

"I have a client thinking of partnering with a manufacturer and building a joint production plant, possibly in Mexico or the US."

A similar reappraisal is underway in Europe, which has outsourced much of its manufacturing capacity to China and south Asia for decades.

Covid has brought supply chain issues under extreme scrutiny by both industrialists and politicians. The availability of manufacturing capacity for the AstraZeneca Covid vaccine has led to a political row between the company and the EU.

Meanwhile, the automotive industry has struggled with a shortage of semiconductors, forcing assembly lines to be halted. IHS Markit predicts the disruption will result in 670,000 fewer cars being produced in Q1 2021 and German carmakers are considering building up semiconductor stockpiles to ensure assembly lines keep running in the future.

670,000

Fewer cars will be produced due to semiconductor supply chain issues

In Britain, supply chains have been further disrupted by uncertainty around Brexit, with a free trade agreement between London and Brussels only sanctioned on December 24.

"Some people have been caught out by not taking action, some have arguably done a bit more than was necessary and others who waited until they saw the trade deal details are only now working out their detailed plans," says Daniel Martine, a partner at Moore Kingston Smith in London.

"It now becomes important to consider where profits are recognised, to understand transfer pricing rules and to consider how to work with the different VAT regimes we now have."

"There is much more paperwork for exports between the UK to Europe and there may be more cost – but I think there will be opportunities."

He is working with a number of British clients who are weighing up: the cost of importing goods to the EU rather than to the UK; movements in foreign exchange rates; warehousing costs, and the impact on logistics. "In some instances it is potentially less costly to deliver goods to an EU port and transfer by road or rail into the UK," he says. "That was not necessarily an anticipated outcome of Brexit."

Martine says planning for many companies in the mid-tier is too often focused on what products they are supplying rather than how the supply chain is delivering what customers want. He adds: "Stepping back and understanding those issues is now critical."

Martine believes the green and social responsibility agendas will become critical. Consumers will increasingly demand to know the products they buy are sourced ethically in well-maintained manufacturing locations paying fair wages.

Moving up the value chain will be important for manufacturers and countries alike.

India is an example of how this can be achieved. Once dismissed as a low-cost producer of commodity goods, it is emerging as a world leader in high-value pharmaceuticals, specialist metals and chemicals.

The Delhi government launched the Make in India initiative in 2014, targeting 25 economic sectors for job creation and skill enhancement. The aim was to "transform India into a global design and manufacturing hub" and the plan envisages manufacturing rising from 15% to 25% of GDP by 2025.

Covid locked down the economy for around three months but smart business owners used this enforced idleness to rethink many of the assumptions that had driven their companies for generations.

"People now really understand the importance of quality, the need for automation and reduction of labour intensive production capacities," says Anurag Singhi, partner at Singhi & Co, which is part of Moore Global.

"In the past, we have always chosen low cost labour over high cost technology. What ten people could do somewhere else, we were maybe using 25 or 30."

However, Singhi sees those 'extra' workers as a huge potential resource to be put to use in new ways. "The country pretty much manufactures everything: it could be in small quantities or larger scale but the diverse skill set of the labour force is our biggest asset and what differentiates us from other countries.

"If we upgrade technology, those extra workers become available to do something else. So, what we are trying to do is help clients understand the role technology should play in manufacturing."

Singhi & Co set up its own IT consultancy to assist clients in this transformation and had to increase the workforce five times in three months to meet demand.

South Africa is another country that outsources added-value activities but is now re-evaluating that stance.

For example, old steel mills are being recommissioned where previously supplies would be bought in from China and India.

South Africa has vast reserves of valuable metals and minerals and investment is flowing in to fund new opportunities. The aim is increasing benefication, or economic value, derived from the minerals extracted from the ground.

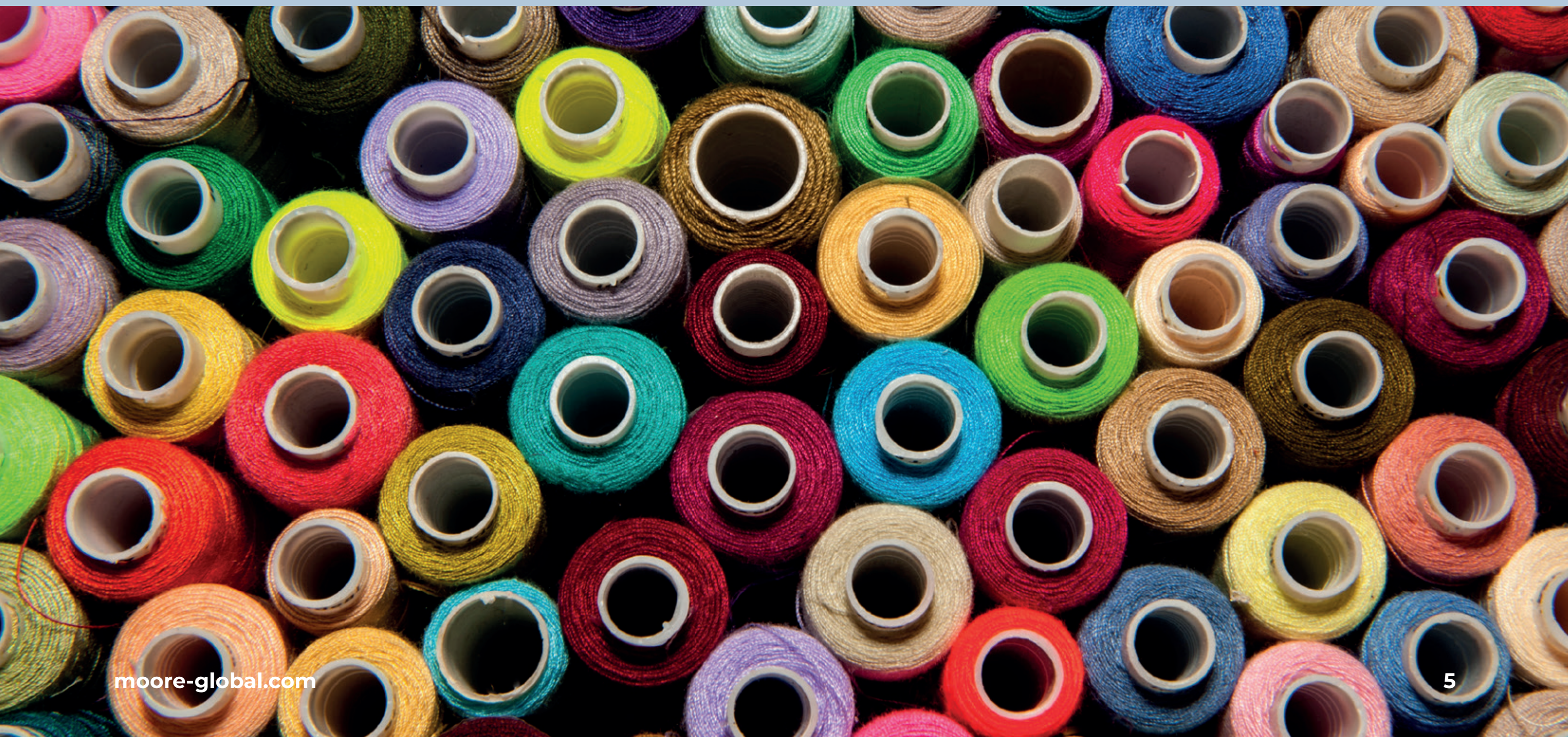
Kai Reuning is a qualified engineer and supply chain expert who used to run Coca Cola bottling operations from Johannesburg. Now he is a director at Moore South Africa and has seen Covid reignite the debate about rebuilding the local manufacturing base.

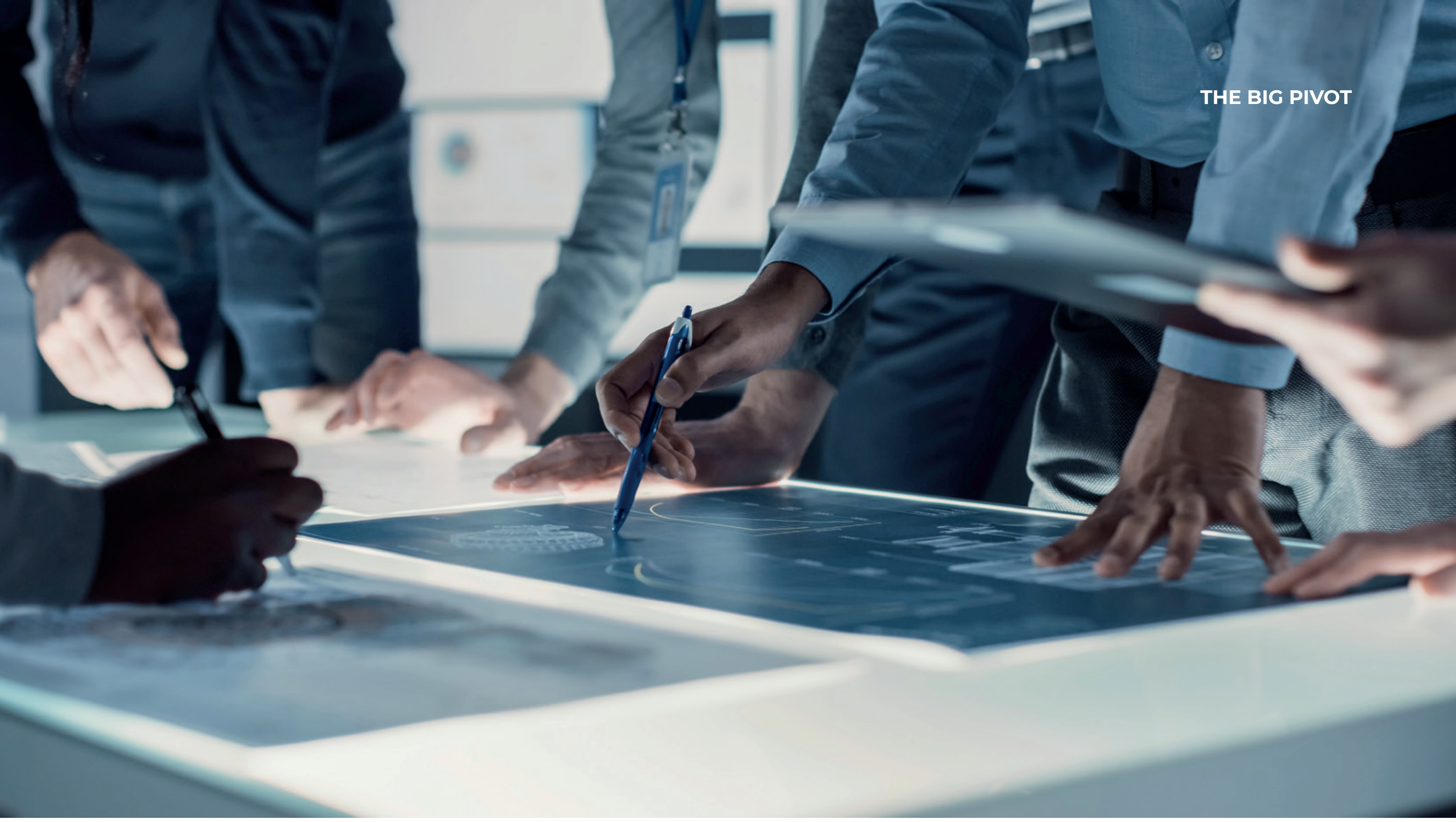
Exchange controls are being relaxed, government financial incentives are available and the economics of projects that may have been marginal a few years ago are viewed differently now.

"It comes back to the point of creating a more resilient supply chain versus a supply chain that is just built around price efficiency," says Reuning. "Cheapness should no longer be the main determining factor about whether you outsource or produce it yourself ... that's something that has been emphasised with Covid.

"We are trying to help clients understand the role technology should play in manufacturing."

Anurag Singhi, India





"A sale is always going to be a lot more profitable than having a very cheap supply chain. You can't save your way to prosperity and many companies are now asking 'How do we rejig our supply chain?'

"They might have a very efficient system that has low buffer levels but what's the Plan B? What is the diversified source for a particular raw material, for example?

"On the finished goods side, what is the correct level of inventory that they need to hold in order to buffer potential risks from either a manufacturing plant or raw material perspective?"

As manufacturers around the world emerge blinking into the post-Covid dawn, understanding changing consumer behaviour will be key, even for those that do not sell directly to the public.

At the same time, investment in technology and data analytics will make production more efficient, and profitability of individual product lines more apparent.

Underpinning all of this will be a new approach to supply chain management and finance to protect against potential future shocks ... and to take advantage of the better times ahead.

"You can't save your way to prosperity and many companies are now asking how they rejig their supply chains."

Kai Reuning, South Africa

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