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Manufacturing Outlook for 2009

Buckle up, it could be a bumpy ride

By Bob Parker, vice president of Research at Manufacturing Insights

Feb. 3, 2009



One of our favorite activities at Manufacturing Insights is compiling our annual top ten predictions. The exercise allows our global research team to take a breath, aggregate our conversations in the marketplace and set the key areas of investigation for our research agenda.

Our top ten predictions for manufacturing include:

- **Prediction #1:** Companies will exploit existing tangible and, especially, intangible assets to ride out the financial crisis and prepare for recovery.
- **Prediction #2:** IT organizations will put budgets under severe review and new investments will require shorter payback periods.
- **Prediction #3:** Companies will "right size" their supply chains for profitable proximity. Standard corporate platforms will seek to configure, calibrate, and control increasingly complex scenarios.
- **Prediction #4:** Supply chain technology initiatives must support the standard business platform and focus on modernization and decision making.
- **Prediction #5:** To serve the value imperative, manufacturing companies will revisit past product investments and look to reuse existing designs, technology, and knowledge.
- **Prediction #6:** Product management software will be geared toward harmonizing product information to rationalize and better position the product portfolio.
- **Prediction #7:** Effectively managing manufacturing assets has become something of a lost art but companies will realize that, given the challenging economic environment, can be a significant competitive weapon.
- **Prediction #8:** Investments in digital manufacturing (preparation), modern execution platforms, product performance, and manufacturing intelligence will come together to begin to support the factory network of the future.
- **Prediction #9:** The urgency for better knowledge management via the use of Web 2.0 tools will increase due to volatile staffing scenarios. The quick and substantial return doesn't hurt.
- **Prediction #10:** Sustainability discovers metrics. No longer a feel good public relations proposition or even a regulatory compliance mandate. Emerging standard measures and a desire to benchmark will impact sustainability initiatives and the associated investment in technology and services.

realize that, given the challenging economic environment, can be a significant competitive weapon.

The predictions that are likely to be of the most interest to **IW** readers are numbers 7 and 8 which relate to manufacturing assets and the implications for investment in operations technology.

Prediction #7: Effectively managing manufacturing assets has become something of a lost art but companies will realize that, given the challenging economic environment, can be a significant competitive weapon.

The manufacturing industry has experienced ten years of a reconfiguration of production facilities. At a minimum, excess demand did not lead to new investment in plants but rather increased use of contract manufacturing such as the use of co-pack facilities in consumer packaged goods. For more highly engineered products like automobiles or, more recently, commercial aircraft, increasing amounts of

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production responsibility was shifted to suppliers. At the extreme, the high tech industry sold their circuit board and assembly assets to contract manufacturers. All of this activity is really a form of "asset arbitrage" -- getting expensive equipment and tooling off the books to improve return on asset (ROA) performance (by shrinking the asset base).

This asset redistribution activity was underpinned by high liquidity for the sellers and cheap capital for the buyers. However, the world changed fairly suddenly at the end of 2008 with a premium on cash and a tightly constrained capital market. In order to deliver on ROA goals, industrial firms will have re-ingratiate themselves with manufacturing principles and assure optimal performance of those assets.

One example may come from the craft brewing industry where brands originally only made locally enjoy broader distribution by contracting with other craft brewers to produce their recipe in local markets. This pooling of manufacturing resources may prove itself to be applicable to many other vertical sub-segments within manufacturing. A good early example may be Nokia. They, like other consumer electronics companies, make liberal use of contract manufacturing. However, they also maintain several of their own facilities where manufacturing issues can be vetted early before being produced elsewhere. This approach has proven to deliver an advantage over rivals in the mobile phone industry.

Industrial enterprises will return to their manufacturing roots and put a renewed premium on production knowledge. This trend will not necessarily produce new investment in plants, but tighter linkages with manufacturing partners around the world and a willingness to produce other companies' products within their own plants. The overall effect will be higher utilization of manufacturing assets worldwide, greater flexibility in responding to demand, and significant new challenges in managing the execution.

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