



REPORT

# 2022 MANUFACTURING OUTLOOK



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# INTRODUCTION

If the last two years have taught us anything, it's that the best-laid plans often go astray. At this time last year, we were guarded yet hopeful about the trajectory of the manufacturing sector: After all, nearly 75% of manufacturers had regained confidence and expressed optimism about their company's future. The national release of vaccines meant we were seeing light at the end of the pandemic's tunnel—and with it, the possibility that the industry and broader economy would quickly rebound.

Entering 2022, 87% of manufacturers remain optimistic. Challenges, however, persist—the emergence of the omicron strain of COVID-19 and the continued stagnant vaccination rate has re-introduced uncertainty just as supply chain problems appeared to be easing. While container ships are slowly moving again, worker shortages continue—due to both the resurgence of infection rates and employees proactively seeking new roles with better working conditions and pay. This reality has left companies struggling to attract and retain talent, all while feeling the pressure to respond to broader shifts impacting their operating environment.

Despite this, we remain cautiously optimistic. While the challenges facing the manufacturing sector will be difficult to overcome, we also know 75% of executives are bullish on the outlook of the U.S. economy. Our survey echoes this optimism: In the next three years, 70% of respondents from the manufacturing sector expect to grow organically, 51% intend to introduce new products or services, 42% plan to enter new sub-segments or markets, and 40% expect to grow through acquisition.

We believe manufacturers will continue adapting within volatile market conditions, focusing on **growth** opportunities while increasing productivity with the same resources and pursuing acquisitions. Issues of **scarcity**—in raw materials, talent, and products—should improve as the job market eventually cools, automation increases, bottlenecks ease, and supply becomes better balanced with customer demand. The ongoing adoption and implementation of **digital technologies** should aid the transformation of production and reshape businesses, creating greater efficiency and better relationships between producers, suppliers, and customers.

“

2022 will be the year that the structural changes coming out of the COVID economy become the new normal. Those structural changes will become embedded and will accelerate.

**TIM VADNEY**

◆ **CHAPTER 1**

# Growth

## THE CHALLENGE

Two years into the pandemic, manufacturers are still facing many of the same challenges. The battle, however, is now being waged against a backdrop of a rebounding U.S. economy with rising wages and strong growth in consumer spending—both of which should be positives for manufacturers with regard to demand. The issue? Challenges have multiplied on the cost side: Manufacturers are footing the bill for higher wages among their workers, there's a talent shortage, supply chains remain sluggish despite improvements, material shortages continue, and customers have elevated expectations for digital capabilities.

## KEY TRENDS

The impact of COVID-19 and the way it has changed customer behavior exposed long-standing flaws in many organizations that were content to cling to traditional operating approaches—until they no longer worked. The shift toward e-commerce challenged both consumer and industrial products manufacturers to balance supply with demand while meeting customers where they wanted to be. That continues to be a challenge, with some manufacturers responding better than others.

Manufacturers previously had limited ability to raise prices. Current events, however, have strained supply without subsiding consumer demand. This led to a year-over-year inflation rate of 7%, a rise we haven't seen for several decades.

Manufacturers implemented many changes over the last two years—from the need to adopt new standards for employee safety and wellness to improving work environments to providing better customer experiences. Our hope is manufacturers will have the opportunity this year to pivot from playing catch-up and reacting amid uncertainty to being proactive about establishing themselves and growing in the digital realms which are now a core part of their business. That can and should drive growth, both organically by doing more with existing resources or looking to leapfrog the competition by acquiring the necessary talent and skills.



## TAKING ACTION

Manufacturers that already invested in e-commerce and digital transformation prior to the pandemic are seeking to consolidate the competitive advantage they've enjoyed for the past two years. For everyone else, two takeaways should be noted from their peers: digital operations must be nurtured to grow, and enablement should be grounded in strategy.

### **Organic growth: Investing in digital to drive revenue and inspire innovation**

Building digital capabilities can be difficult. Many manufacturers have traditionally, and not unrealistically, worked on the assumption that they make products and someone buys them—without the need for deep customer understanding or engagement. That mindset has been turned upside down by the empowerment of customers through technology, from the extent to which they can truly understand products and their ability to comparison-shop. That makes customer experience more evidently a competitive advantage. And while many manufacturers have the tools to be customer-centric, few have the mindset and culture that enables a deep understanding of what their end customers want and the ability to quickly and effectively act on it.

What does it take? [Deep digital capabilities, including the vision to push toward Manufacturing 4.0 capabilities.](#) When asked what “leadership” means in the Manufacturing 4.0 era, 75% of respondents to a Manufacturing Leadership Council survey answered establishing a [fact-based, information-driven culture of decision-making in their organizations.](#) Leadership combined with skilled teams to drive the implementation of technology, the capturing of data, and the use of that data to derive actionable insights into the most profitable customer segments. It also requires a commitment to continue optimizing digital connectivity between front office (CRM, CPQ, and e-commerce) and back office (ERP, MES, WMS, TMS) systems, automating



Many manufacturers are feeling exposed—foundations cracked and futures formative. It's an opportunity to invest in truly substantive change to fix foundations and accelerate digital transformation—not to keep up, but to leap ahead.

**MIKE FOX**

parts of the middle office, and modernizing systems. It's laborious, challenging work—especially when customer demands are incessant, supply chains stretched, and talent is hard to come by. But it's critical.

### **Inorganic growth: Expanding and transforming through M&A**

M&A activity continues to be strong across all sectors, and we expect that to continue in manufacturing. The reason? Our quarterly executive poll found the market is filled with buyers, not sellers, and that the largest companies have clear priorities: [44% are pursuing M&A to expand geographically, while 42% are seeking to acquire new capabilities.](#)

These are especially relevant for manufacturers. Many are embracing the opportunity to make strategic acquisitions. The goal? Build out desired capabilities, open new revenue streams to important prospective customer bases, and acquire technologies and talent to



Organizations are coming to the realization digital isn't just an experiment anymore. This isn't survival of the fittest. This is now something that they have to invest in and grow and mature like every other part of their organization.

**ANDREW GAECKLE**

further advance their growth goals. We found that 40% of manufacturers expect to grow through acquisition in the next three years, while another survey found 55% of manufacturers planning M&A activity expected that to comprise bolt-on acquisitions to increase market share. Executives expected increasing competition from private capital (60%) relative to corporate buyers (40%), whose resources may be strained by the pandemic.

There are additional reasons M&A may be easier said than done. In such a competitive M&A environment, deals happen quickly—sometimes in a matter of weeks. That's lightspeed for many manufacturers, even before considering the additional challenge around lack of information: With so many suitors and such little time, access for buyers is becoming increasingly limited. This makes the valuation process more difficult even as

competition quickly drives prices higher—potentially beyond the point at which an acquisition makes sense without having a solid investment thesis and plan to achieve it. Suitors should be aggressive—but cautious.

Despite these challenges, M&A is a compelling avenue to acquire new talent, add new capabilities (especially when it comes to securing digital skills), expand into new markets, and diversify product portfolios, revenue channels, and supply chains. All of which—especially the ability to tap fresh talent in such a tight labor market—can help companies increase resiliency and drive competitive advantage by providing a firmer and broader foundation for growth.

◆ **CHAPTER 2**

# Scarcity

## THE CHALLENGE

It was apparent a year ago that the pandemic's impact was stretching some traditional supply chains to the limit. But it was also reasonable to expect that once vaccines became widely available and adopted, and when it was safe for people to return to work, the situation would improve. That didn't quite happen. The media was flooded with images of container ships waiting to be unloaded, empty grocery store shelves, and spiking prices for gas and key manufacturing materials such as semiconductors. While some bottlenecks have eased—and in some ways demonstrated the ultimate resilience of supply chains—many organizations seem to be operating with a permanent scarcity mentality.

One big surprise for many has been the dramatic labor shortage across all industry sectors, which seems to be the result of myriad converging forces. A record 38 million workers quit their jobs in 2021 during [the Great Resignation](#). Regardless of the contributing factors—from workers fundamentally questioning the value of their work, to demanding greater flexibility, to reduced immigration—the net result is even more cost pressure for companies.

A lack of skilled labor was a major challenge for the manufacturing sector even before the pandemic. Some 62% of manufacturers and distributors cite [hiring skilled talent as a top labor challenge](#). The second-tier challenges? Everything from understaffing to increasing productivity of the existing workforce and high turnover. While the industry has been able to replenish more than 60% of the 1.4 million jobs lost at the onset of the pandemic, there is concern the manufacturing skills gap in the U.S. will continue to widen and could result in more than [2 million unfilled jobs by 2030](#).



Labor scarcity has been more systemic and deeper than we anticipated. Employee engagement is a top priority for manufacturers, it's now absolutely critical for attracting new talent and retaining the talent they have.

**DAN YARMOLUK**

## KEY TRENDS

The big question for 2022? Are these challenges temporary or will they persist? There's increasing evidence of the latter, which has significant implications for how organizations respond. On the one hand, manufacturers can take heart: Even in the face of a once-in-a-lifetime disruption, their operations were tested but (generally) didn't break. On the other hand, if the pressure on costs is here to stay, manufacturers must act on multiple fronts to build resilience and set themselves up for future success.



Many companies make the mistake of equating sustainability to large capital investments such as electric vehicles or hydrogen fuel cells. The reality is that focusing on operational efficiency can do more to decrease a company's carbon footprint than some of the flashier investments by producing more with fewer resources.

**JEREMY TANCREDI**

## TAKING ACTION

We expect manufacturers to take an even harder look at selling, general, and administrative (SG&A) expenses, which could mean cuts in marketing and other discretionary spending. It may also mean less investment in sustainability initiatives such as carbon neutrality in the near term.

Despite obvious marketplace benefits, from being regarded as a leader in that effort, companies may decide being green is a luxury they can't quite afford. That would be a mistake, and not only in reputational terms: Addressing sustainability can also help solve supply-chain issues, especially around [traceability](#), [efficiency](#), and [resiliency](#).

One obvious route to lower costs and lessen the impact of the talent shortage is automation. It's worthwhile, but costly, it takes time, and it's difficult to calculate

the return on investment when demand is volatile. All of which is to say: Manufacturers don't have a quick fix to the scarcity issue. Instead, they should lay out a clear strategy to address shortages by moving on multiple fronts: Our proposal? Accept that [higher wages and better working conditions](#) are here to stay and [continue to push forward automation efforts](#) and the [implementation of digital technologies](#). We believe that will allow for demand volatility to be smoothed and improved visibility and resiliency across the supply chain.



◆ **CHAPTER 3**

# Digital

## THE CHALLENGE

Lingering effects of the pandemic, including workforce shortages and supply chain instability, continue to present obstacles for the manufacturing sector. There are also many unknowns as we head into 2022. Inevitably, there will be risks to the outlook, unexpected events, and disruptions to overcome. But we're confident that manufacturers prompted to action over the past two years out of necessity are ready to meet the challenges ahead.

Agility will be critical to navigate challenges ahead while balancing the difficult act of advancing growth goals despite uncertainty. And, in our experience, true agility comes from being digital.

While the promise of digital technologies to increase revenue, improve operational efficiency, reduce costs, and further engage customers sound great, it requires navigating a complex and rapidly evolving array of options from artificial intelligence to machine learning, visualization, simulation, blockchain, 5G networks, and more. Evaluating options and aligning the necessary talent and skills to successfully integrate becomes even more overwhelming in today's scarce talent market. However, technology is just the beginning of becoming a digital business. Implementing the right digital solutions—ones that are also flexible, scalable, and secure—requires understanding and addressing your business challenges more than your technical needs.

## KEY TRENDS

Disruptive events tend to inspire change and innovation. Advancements made over the past two years have been inspiring, and we look forward to seeing manufacturers take digital to the next level in 2022.

We see manufacturers continuing their efforts to lay the foundation to become digital factories of the future by looking inward at their talent, technology, and processes, and making fundamental and transformational changes to their operating model to enable more connected, secure, insights-driven, and automated operations.

Each will progress at a different pace. Transformation is not a race. In our view, becoming a digital leader doesn't have a deadline or a finish line. It's a never-ending process that will move from one end of the enterprise to the other.

To expedite change requires a digital-first mindset—across every level and department—to move faster, rely on data, and put the customer at the center of every decision. When your workforce is empowered with technology and data to make better decisions, better ideas and solutions will come from every corner of the organization.

## TAKING ACTION

We see the coming year as a chance to advance the operating model to increase resiliency, improve productivity, and further engage customers. Continuing to integrate information technology (IT) with operational technology (OT) is an obvious route—and some more forward-thinking organizations may consider moving toward a [project-driven organizational structure](#) to create a collaborative, innovative, and empowered culture that reaches across silos.

The other significant area of opportunity lies in data—and [there's no shortage of it](#). Manufacturers are generating more data than ever and many expect their [data volume to surge by more than 500% over the next two years](#), according to a study conducted by the Manufacturing Leadership Council. Despite the challenge to best manage and analyze all this information, 100% of survey respondents believe that data is essential for future success.

Making better sense of data can drive actionable insights and increase value on everything from customer preferences to product optimization to predictive maintenance. Data provides the ability to learn more about customers, refine segments and personas, and develop specialized e-commerce solutions to achieve organic sales growth. However, data accuracy, consistency, and literacy are key. It's hard to conceive

and implement a strategy unless teams trust and understand the data, what's behind it, and how they can use it to guide decisions. Getting that right requires having the right talent.

Also understand that the increasing reliance on technology brings the increasing threat of cyberattacks—and their potential impact on the organization. Cyberattacks represent the second-largest threat to conducting business, [behind only hiring and retention of the workforce](#). Most manufacturers are only accustomed to protecting assets within the physical walls of their facilities. In a digital world, threats are everywhere—both within a company's IT and OT systems, and the systems of their partners and vendors. Since 2018, ransomware attacks on industrial entities have increased more than 500%, with [manufacturing and utilities being the top targets](#). We expect an acceleration in IT and OT security needs in the year ahead—and further expect that demand to remain indefinitely.

# CONCLUSION

Manufacturers have come a long way in the past two years, managing through unexpected challenges in an uncertain operating environment. That's cause for celebration. We see 2022 as an opportunity to apply the lessons learned, remain focused, and pivot to seizing opportunities. COVID-19 will slowly become yet another default factor to be folded into a broader operational approach that includes multiple elements the pandemic spurred: workplace flexibility, employee safety and wellness, e-commerce growth, and the need for supply chain resiliency.

For sector leaders, the coming year provides an opportunity to build upon the gains made during the past 18 months. 2022 will undoubtedly pose new challenges, which will require continued focus on finding avenues for growth, coping with scarcity, and further adopting and embedding digital as a standard operating procedure. Pivoting from a reactive to proactive mindset promises to create the agility for a brighter future—despite what challenges may lie ahead.



# ABOUT WEST MONROE

West Monroe is a digital consulting firm that was born in technology but built for business—partnering with companies in transformative industries to deliver quantifiable financial value. We believe that digital is a mindset—not a project, a team, or a destination—and it’s something companies become, not something they do. That’s why we work in diverse, multidisciplinary teams that blend industry expertise with deep operational and technology capabilities—moving clients from traditional to digital operating models and creating products and experiences that transcend the digital and physical worlds. Our 2,000 employees have the opportunity to own a stake in the company, so when you partner with us you know we are committed—because your success is our success. Our undeniably different approach breeds undeniable results.

Visit [westmonroe.com](https://westmonroe.com) to learn more.

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