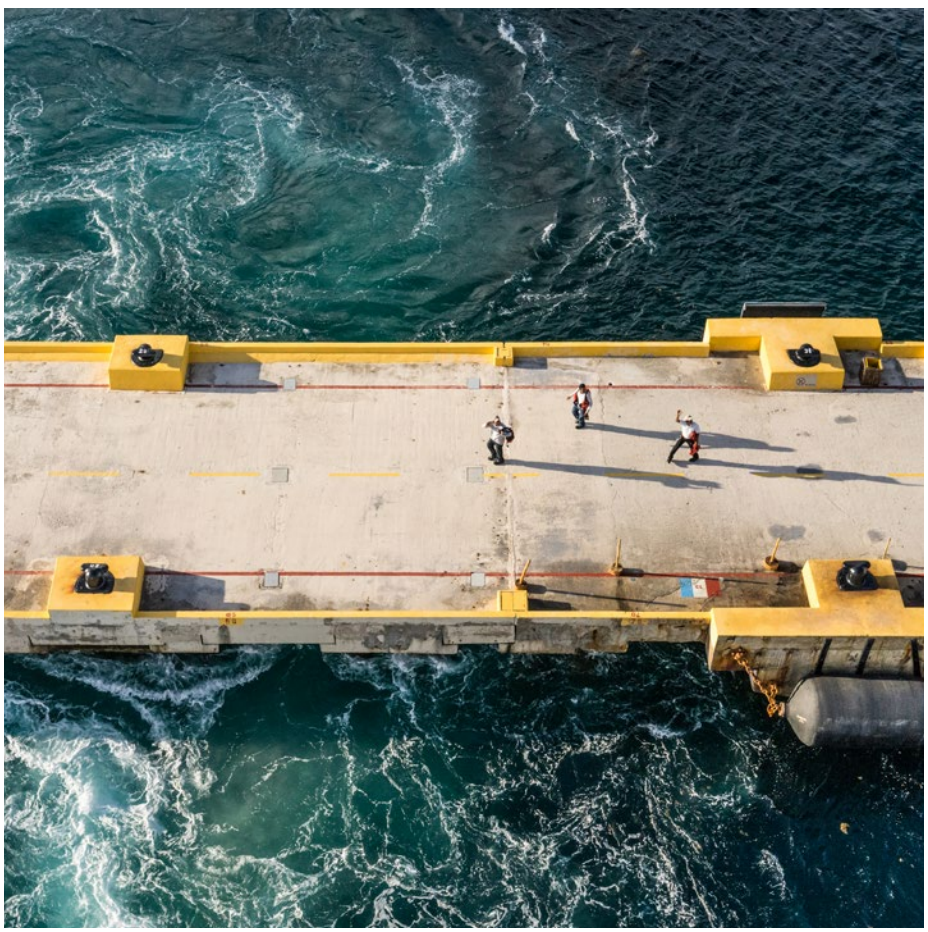
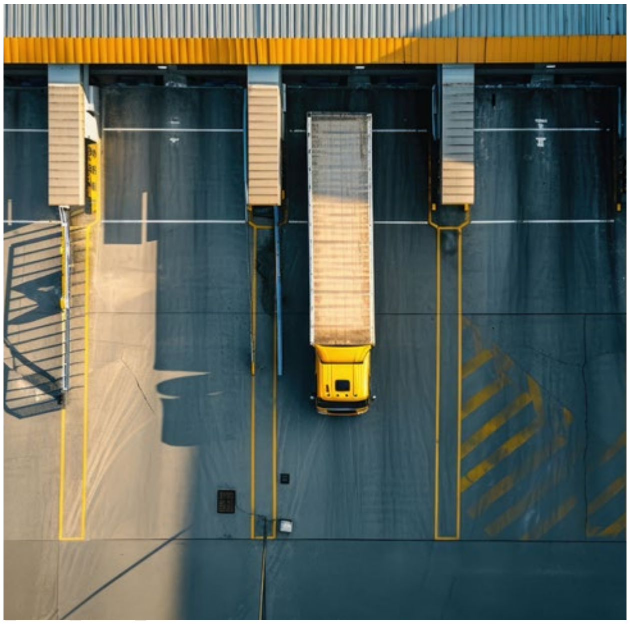
SIGNATURE RESEARCH

THE STATE OF MANUFACTURING:

From Resilience to Resurgence



WHAT'S INSIDE



EXECUTIVE SUMMARY

Manufacturers in recent years have focused on creating resilient supply chain models, addressing operational inefficiencies, and innovating talent acquisition strategies in response to rising material costs and geopolitical tensions. As the industry anticipates increased M&A activity, companies are rethinking approaches to position themselves for future success and navigate complex changes effectively.

Optimizing adaptable supply chains

Supply chain disruption forced manufacturers to diversify suppliers, build inventories, and improve inventory management—but labor shortages loom.

- 95% of surveyed manufacturers said that logistics and transportation costs as well as global market volatility have been obstacles.
- Only 60% of respondents said labor availability has been a challenge—but that could change quickly as the pace of business picks back up.

The future of manufacturing has arrived

AI and machine learning are seen as the most impactful technologies for manufacturing (32%), with sustainability (19%) also considered crucial as companies look for efficiency and meeting stakeholder demands.

- The top strategic priority for surveyed respondents were strengthening cybersecurity measures (37%), improving supply chain resilience (37%), and investing in sustainable practices (35%).

M&A uptick on the horizon

Manufacturing M&A deals slowed due to economic uncertainty but are expected to rebound as companies seek technology and product improvement.

- 90% of manufacturers said they anticipate increasing M&A activity this year
- The top buy-side M&A drivers for respondents were acquiring technology and enhancing product offerings (54% each)

An aging workforce and succession plan

Manufacturing faces a labor shortage due to an aging workforce, requiring investment in automation, upskilling, and recruitment.

- Top workforce challenges for surveyed manufacturers included an aging workforce (95%), employee retention (91%), and attracting skilled talent (89%)
- How are respondents addressing the labor shortage? Investing in automation (54%) and adopting alternative workforce (49%) were the top answers from those surveyed.

INTRODUCTION

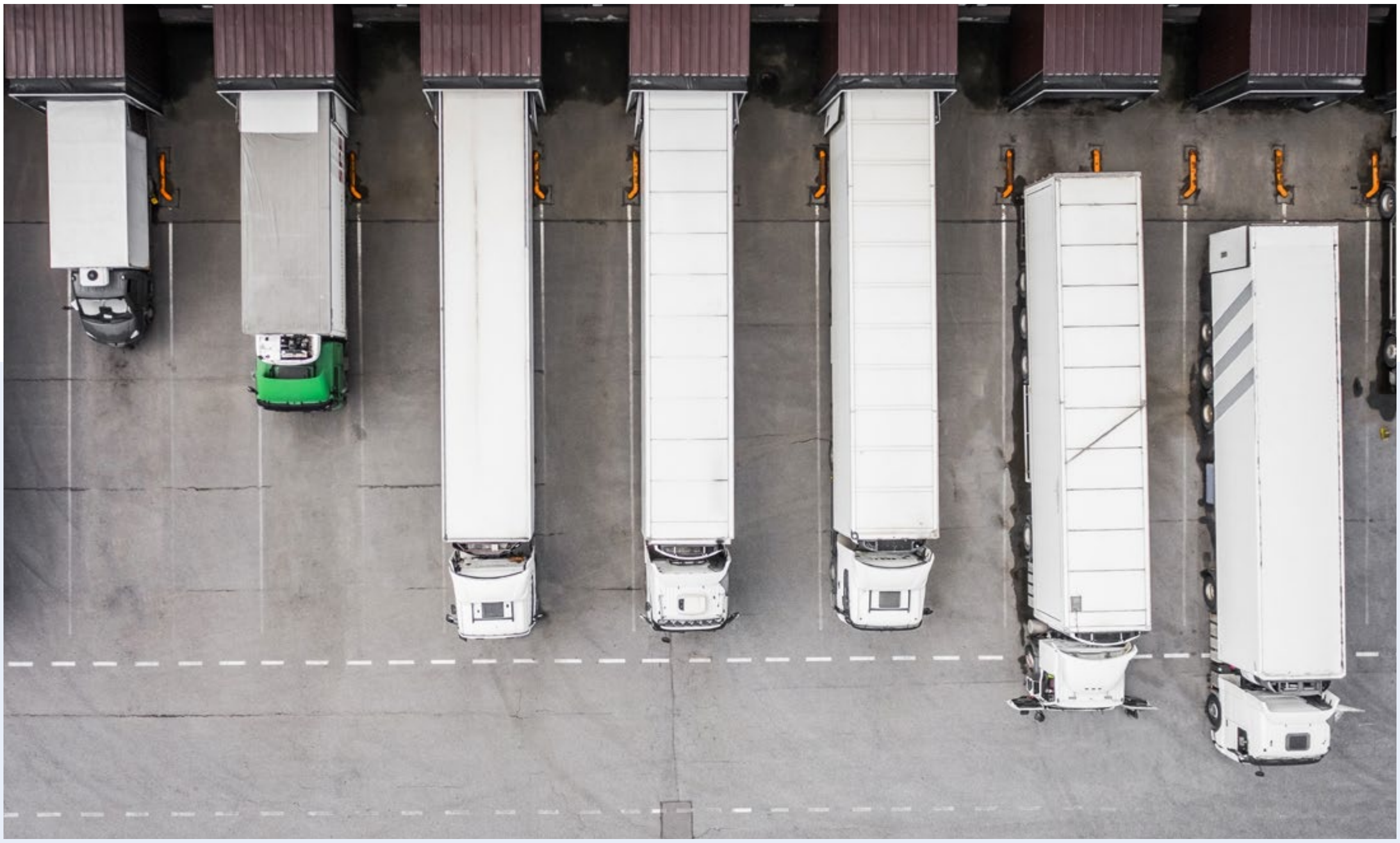
Manufacturing is in a State of Transition

In response to a challenging environment, marked by rising material costs and geopolitical tensions, manufacturers took the last year to look inward, focusing on creating resilient supply chain models and ensuring uninterrupted production. They have also addressed operational inefficiencies and tackled the looming labor shortage through innovative talent acquisition strategies.

Attention shifted away from M&A activity during this period of internal improvement—building anticipation and optimism for increased deal volume in the year ahead.

As manufacturers determine their next steps forward, the industry is actively rethinking its approaches and developing strategies to address challenges and position the industry at large for future success. Increased M&A activity could lead to faster innovation and greater market share, potentially benefiting consumers with a wider range of products and improved quality.

To capitalize on this potential and navigate these complex changes effectively, manufacturing companies will need to be aligned on their top priorities for the years ahead to ensure a smooth transition and long-term success.



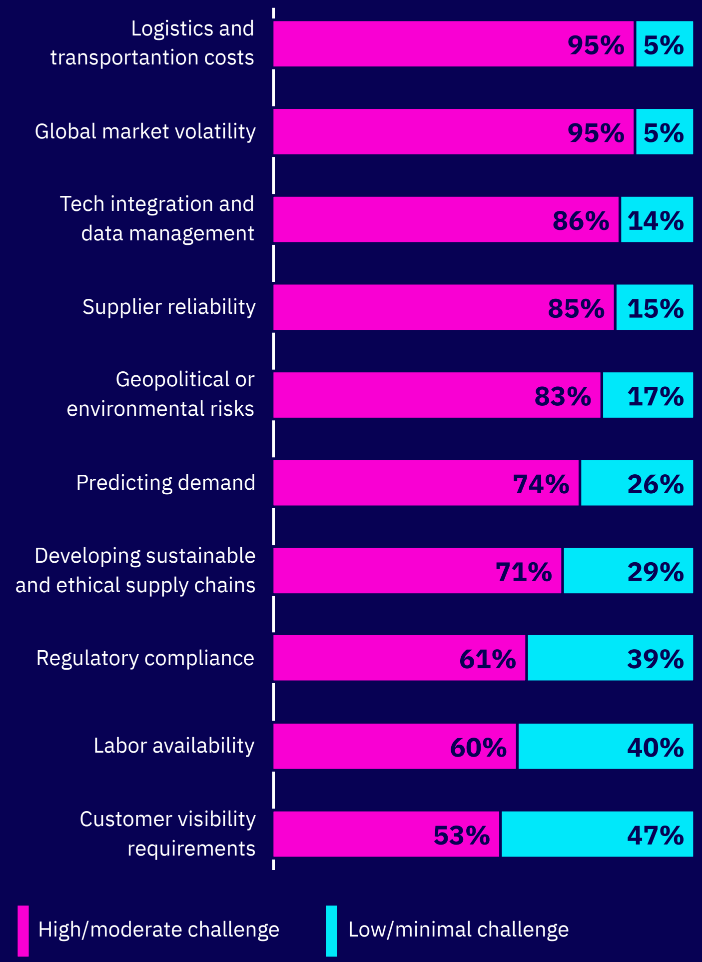
BUILDING RESILIENT SUPPLY CHAINS

Macroeconomic supply chain issues over the last year made a sustained impact across the manufacturing industry.

As a result, manufacturers have prioritized the development of robust, resilient, and adaptable supply chain models. This flexibility reflects the importance of navigating ongoing disruptions and ensuring the uninterrupted flow of materials and finished goods. Manufacturers are acutely aware of the need to strengthen their supply chain resilience, with 37% of respondents stating it as one of their top strategic priorities for the next one to three years.

Nearly all (95%) surveyed manufacturers said that logistics and transportation costs were very or moderately challenging for their company, and an equal percentage said the same about global market volatility.

Supply Chain Challenges



When asked about the strategies they implemented in response to global supply chain disruptions, surveyed manufacturing companies showed a clear focus on reducing their dependence on single-source suppliers. The most frequently identified strategy was increasing supplier diversification (62%) followed by expanding nearshoring and reshoring (45%).

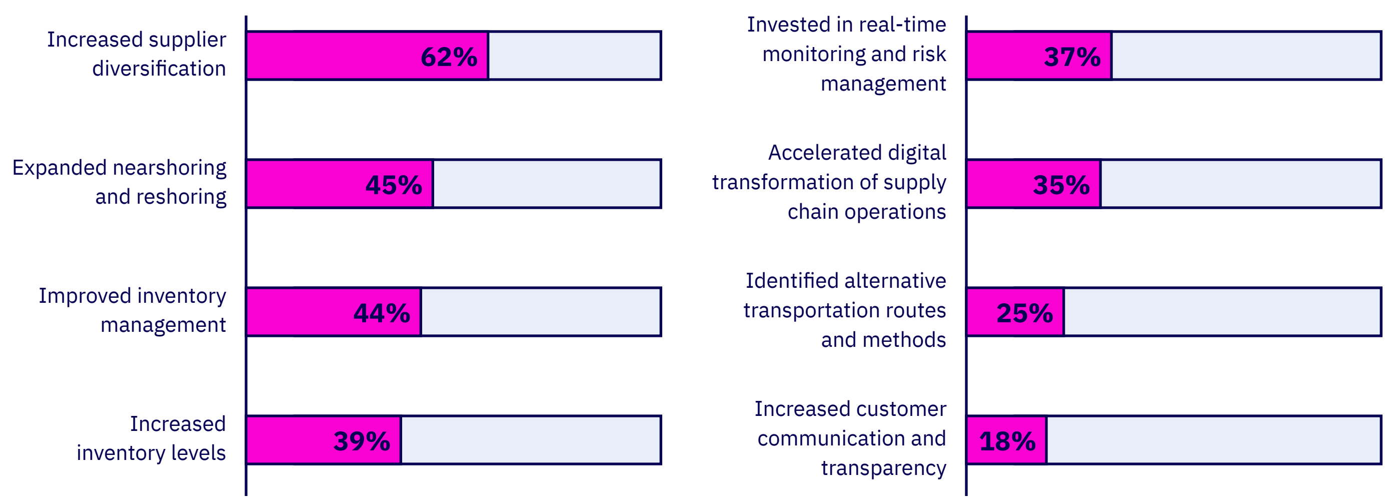
As a result of supply chain issues, more than a third (39%) of manufacturers increased their inventory levels to help offset customer demand. This, however, exacerbates the potential risk for overly high inventory levels as supply and demand balance out. Manufacturing companies are aware of this issue, with 44% stating they have implemented strategies to improve their inventory management.

While labor is a growing concern in other areas of the manufacturing industry, labor availability ranked as one of the lowest supply chain challenges for respondents (60%) and was deemed not at all challenging by just under 10%. While this may not seem like a present challenge because demand is receding, it will be if the pace of business increase and demand pick back up.

Recommendations

- Manufacturers should review their forecast and demand plan accuracy to determine if their models have become outdated.
- Supplier mapping should be conducted to identify supply lines that are at risk of disruption due to lack of durability.
- West Monroe focuses on optimizing the supply chain to make it a strong foundation for a company's growth. This begins with a quality of supply chain (QoSC) assessment, a rapid but comprehensive assessment designed to identify digital supply chain improvements that can improve margin and working capital.

Supply Chain Challenges

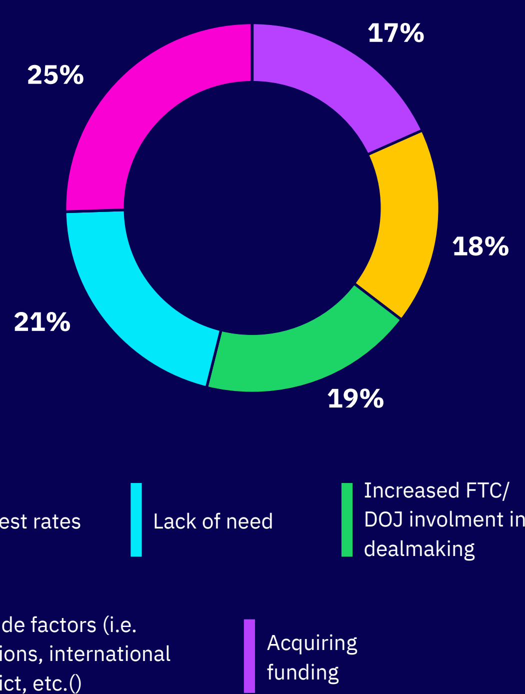


AN OPTIMISTIC M&A FUTURE AHEAD

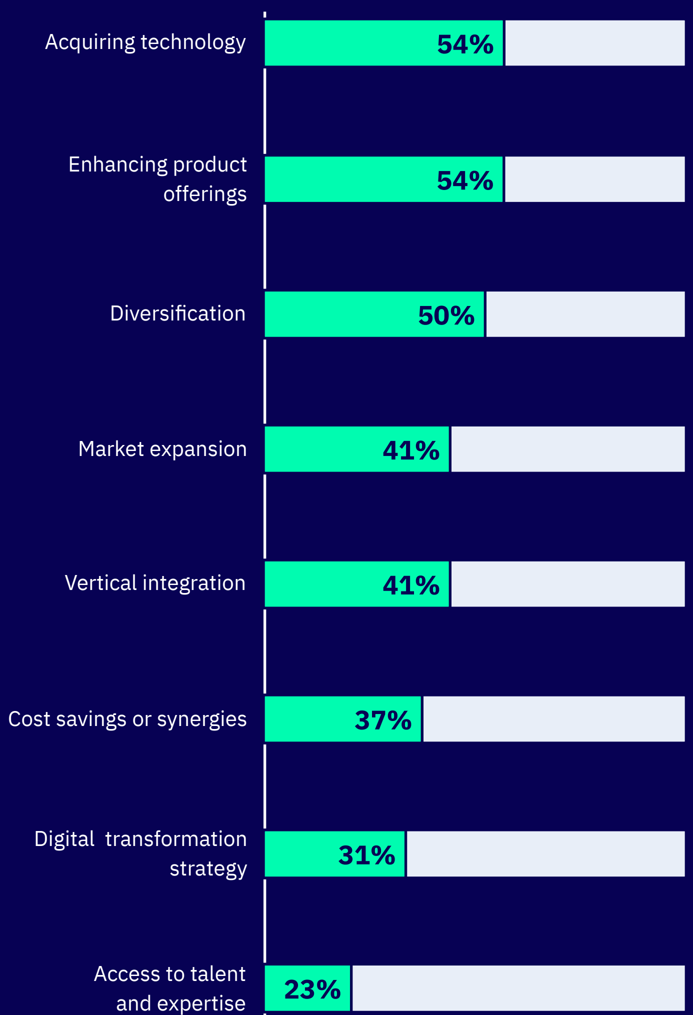
Economic uncertainty and rising interest rates slowed down M&A activity in most industries over the past year, and manufacturing was no exception. Nearly half (48%) of surveyed companies did not pursue any buy-side M&A activity in the past 12 months, citing a variety of headwinds such as interest rates, the ability to acquire funding, and increased federal regulatory scrutiny in dealmaking.

At the same time, one in five respondents (21%) stated their primary reason for not pursuing any buy-side activity is a lack of need for transactions. It stands to reason that companies may have seized the opportunity to evaluate their internal operations amid uncertainty before pursuing any dealmaking.

M&A Headwinds



Buy-Side M&A Drivers



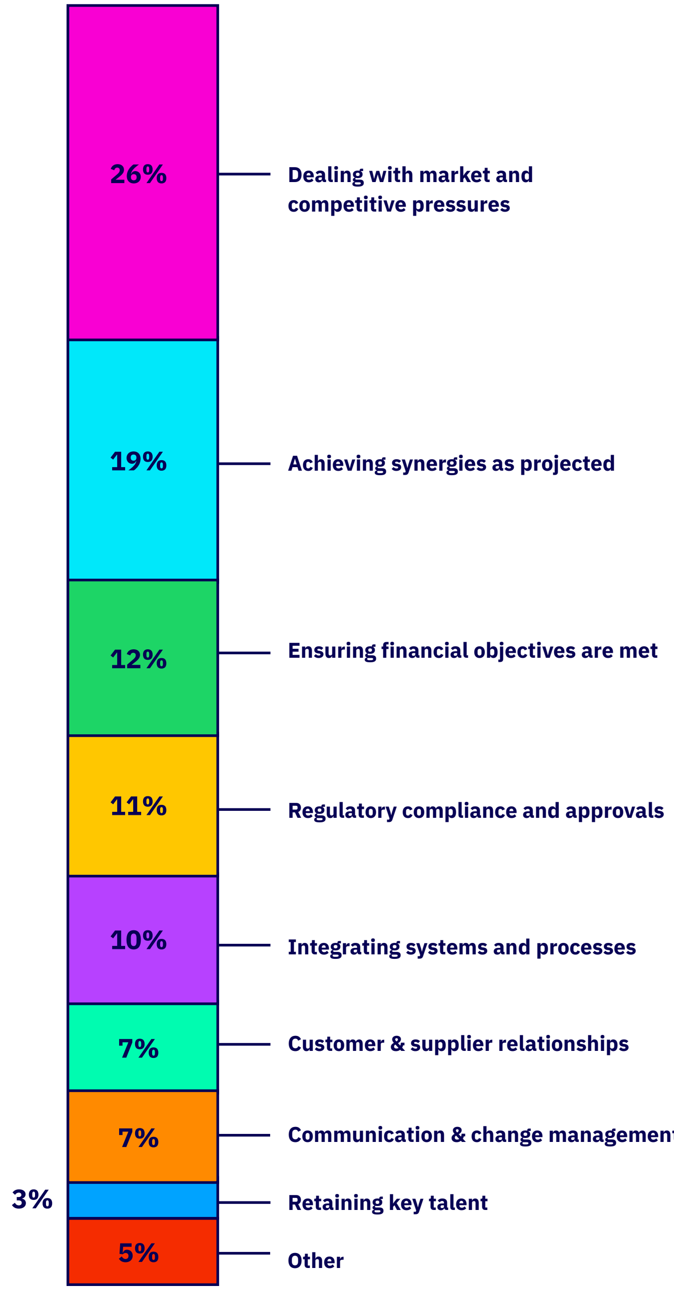
For companies that did have buy-side activity in the past 12 months, primary drivers were varied but showed an overall focus on operational improvement and increasing competitive advantage. Acquiring technology and enhancing product offerings were the most stated drivers at 54%, followed by diversification (50%). This reveals that new technologies (including AI and machine learning solutions) continue to permeate the manufacturing industry, leading some companies to see acquisitions as the best strategy for getting—and staying—ahead.

With the worst of the recessionary period behind us, optimism prevails despite the headwinds: Nearly all surveyed companies (90%) anticipate increased M&A activity in the coming year, with just under half expecting it to increase significantly.

While promising, manufacturing companies also need to keep a close eye on potential post-acquisition challenges. One quarter of respondents identified market and competitive pressures as their biggest challenge, which was more than double any other response.

While achieving projected synergies was only the top challenge for just under one-in-five manufacturing companies (19%), this is a larger issue for companies whose buy-side M&A efforts are driven by market expansion and/or vertical integration. For manufacturers with either of these primary drivers, achieving projected synergies emerged as their most-cited post-acquisition challenge.

Post-Acquisition Challenges



Emilie Butler-Olimb,
Director, M&A, Consumer and Industrial Products

As market challenges such as inflation and high interest rates ease, manufacturers should see greater flexibility in dealmaking. Companies need to ensure activity over the next year is strategically focused on areas to help their market expansion and further develop their digital strategy, ensuring they remain competitive.

Recommendations

- Establish a clear investment thesis that articulates expected benefits and synergies, market share, and vertical alignment to mitigate challenges post-acquisition.

- West Monroe identifies and implements digital strategies that focus on differentiating solutions in key, interdependent areas to deliver value in a competitive market. This process starts with a comprehensive technology due diligence designed to generate insights and quantify value potential of activating digital and technology use cases to unlock an asset's full potential.

Utilizing Data in Manufacturing

Manufacturing companies are increasingly recognizing the importance of harnessing data—especially customer data—to inform decision-making and drive product development strategies. An overwhelming majority (92%) said customer data significantly helps to inform and refine their market strategies and enhance product offerings.

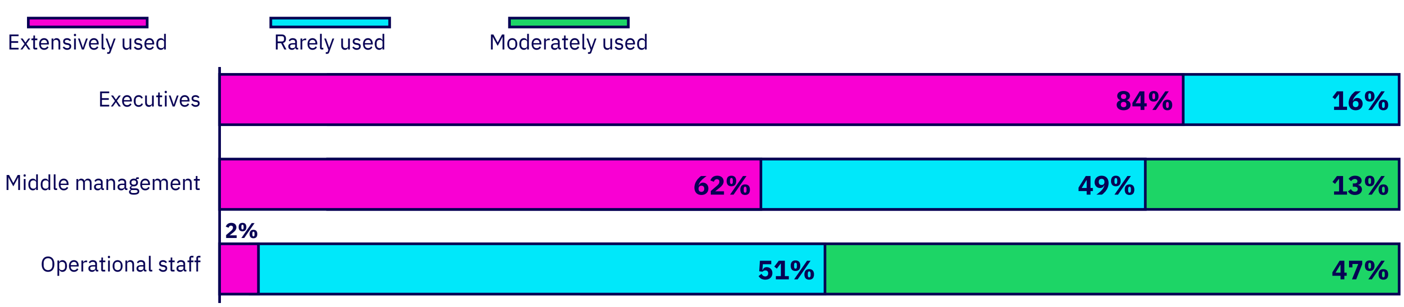
Despite this, a clear trend among manufacturing companies exists: Their current data-driven approaches are often top-down, prioritizing big-picture strategy over operational optimization. Among survey respondents, 84% of companies are extensively using data for decision-making at the executive level while almost half (47%) of companies stated their operational staff is rarely using data.

Jeremy Tancredi
Partner, Operations Excellence & Supply Chain Management

"Companies should be thinking about this inversely. By empowering middle management and operational staff to leverage data on a daily basis, they will be better informed when making business decisions that reduce costs and improve margins. Embracing more data-driven decisions in real time on the operations floor helps employees to think more strategically and drive businesses forward."

Data in Decision-Making

Empowering frontline workers with real-time insights derived from customer data not only improves process efficiency but also fuels innovation by aligning products more closely with customer needs and preferences.



THE FUTURE OF MANUFACTURING

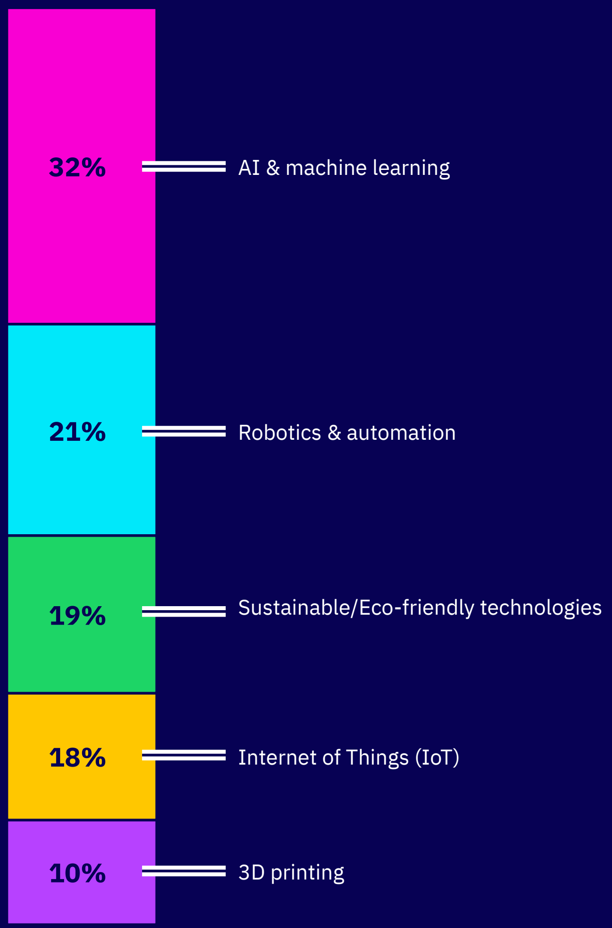
The evolution of the manufacturing industry is often underpinned by the growing role and importance of new technology, and companies have already begun incorporating these tools throughout their processes. As the industry continues to transform, it will only become more important for companies to understand how new technology can shape the ways they do business.

AI and machine learning (ML) are the clear frontrunners and were the most identified answer (32%) when respondents were asked which technologies they believe will have the most significant impact on the industry in the next 12 months. Although these are not new concepts, most companies are now realizing the benefit of using AI and ML and increasingly infusing data into their operations.

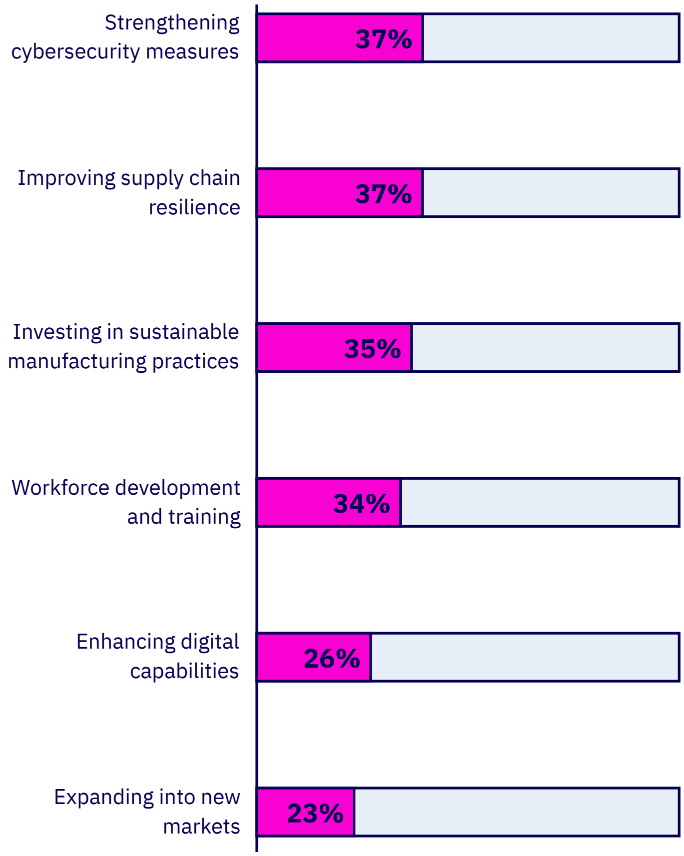
In addition to technology, a growing movement toward sustainability is also poised to have a significant impact on the manufacturing sector over the next few years. More than one-third (35%) of respondents indicated that investing in sustainable manufacturing practices is one of their top strategic priorities for the next one to three years, and 19% expect sustainable and eco-friendly technologies to have the most significant impact on the industry in the next 12 months.

Sustainability initiatives have been a fluctuating priority over the past few years but are beginning to see a resurgence as an area of focus. Manufacturers need to introduce and implement these practices across their organizations, especially as stakeholder demands and expectations grow.

Tech with the Most Significant Impact in the Next 12 Months

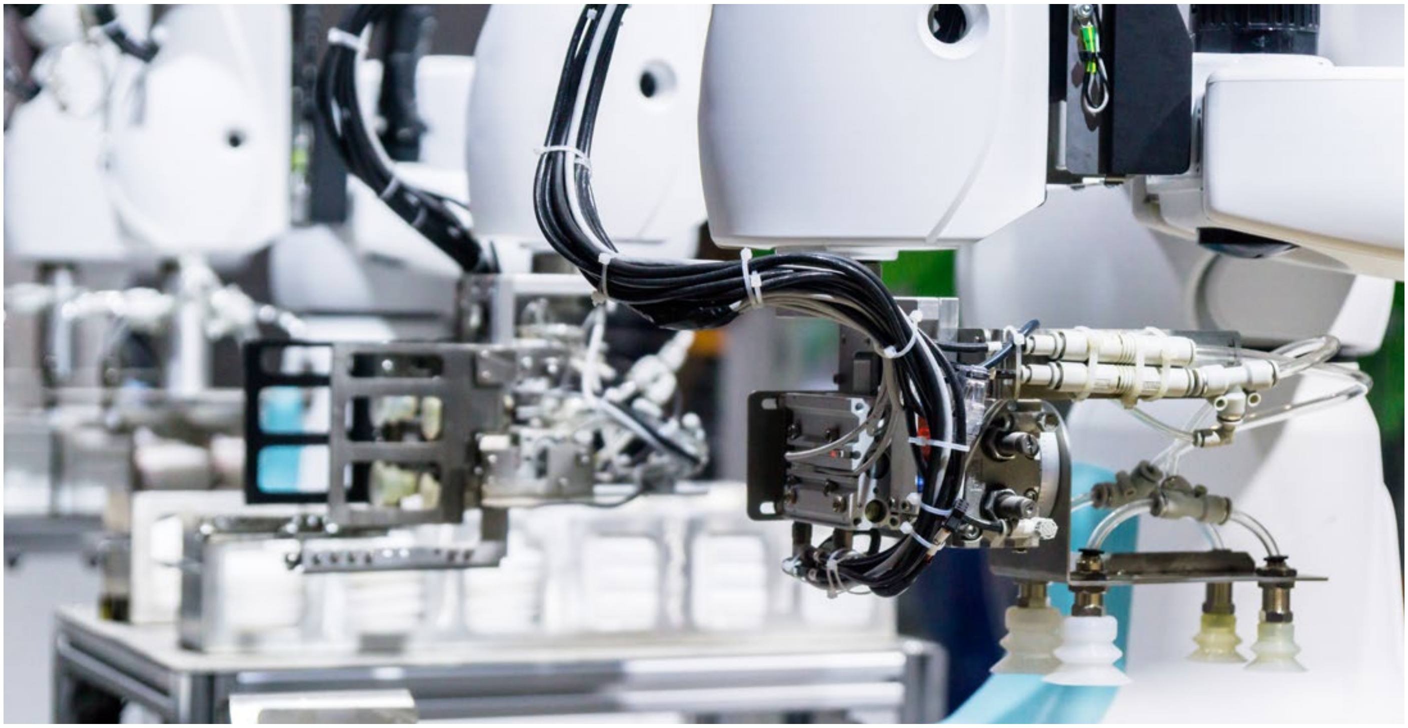


Top Strategic Priorities



At present, this message is being heard loud and clear: Only 5% of respondents stated they are not currently pursuing any sustainability initiatives. For the companies that have started, their top driving forces for doing so are still centered on strengthening their businesses: enhancing long-term resistance was the top-cited answer at 54%, followed closely by mitigating supply chain risks (52%). Keep in mind, however, that this will not be easy to mitigate: 71% of respondents stated that developing sustainable and ethical supply chains was very or moderately challenging.

While there's an overall shift in sentiment surrounding sustainability initiatives, surveyed manufacturing companies appear more immune to this pressure: Just over one-third (37%) of respondents said investor demands and stakeholder expectations were a significant reason for implementing sustainability initiatives. Instead, a slightly greater impetus may be agency and governmental pressure, with 39% of respondents citing a need to align with global sustainability standards.



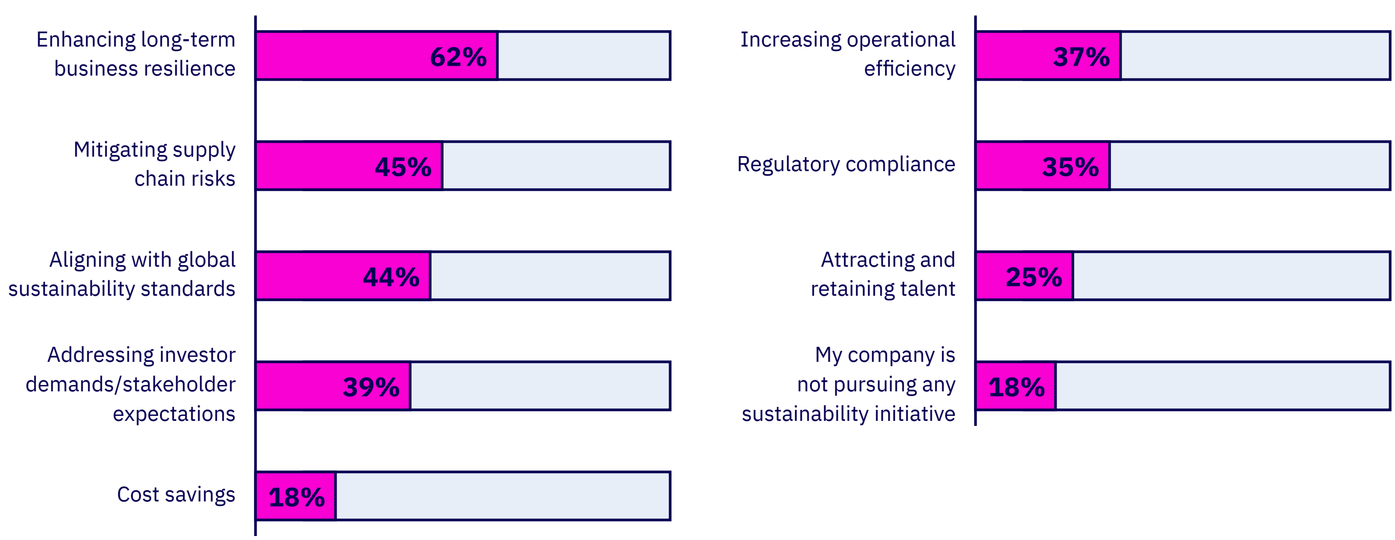
Randal Kenworthy
Industry Leader, Consumer and Industrial Products

Sustainability has long been a toss-up as a priority. But new regulatory pushes and federal grants, such as the Infrastructure Investment and Jobs Act and Inflation Reduction Act, are pressuring and financially aiding manufacturers to adopt sustainable practices and improving resource efficiency. Now is the time to focus and develop actionable next steps.

Recommendations

- Manufacturers need to start preparing for increasing expectations, demands, and reporting around sustainability by using operational data to establish ESG baselines.
- Organizations need to view sustainability not as a cost but as an opportunity to reduce costs and drive revenue.

Top Drivers for Sustainability Initiatives



NAVIGATING THE MANUFACTURING WORKFORCE

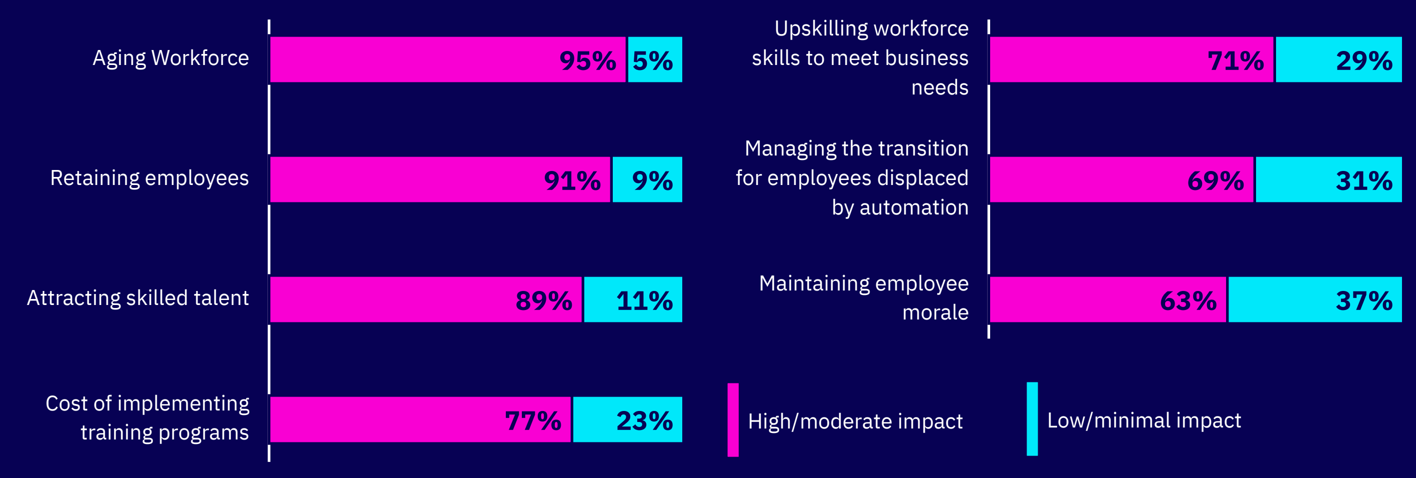
Labor is a top-of-mind issue as the manufacturing workforce nears a precipice. Companies are adopting multifaceted approaches to confront their labor shortage issues, but these will soon be exacerbated by their aging workforces.

While 94% of survey respondents feel their company is very or moderately prepared to adapt to future workforce needs, they still consider their aging workforce (95%) and ability to retain employees (91%) to be highly impactful challenges.

As a result, developing comprehensive plans to address the shortage is becoming increasingly critical for sustaining workforce capacity and meeting future industry needs.

More than half (54%) of surveyed companies are mitigating workforce issues by investing in automation. This technology, which 21% of companies believe will have the most significant impact over the next 12 months, can help reduce labor intensive activities while increasing efficiency, productivity, and accuracy in production.

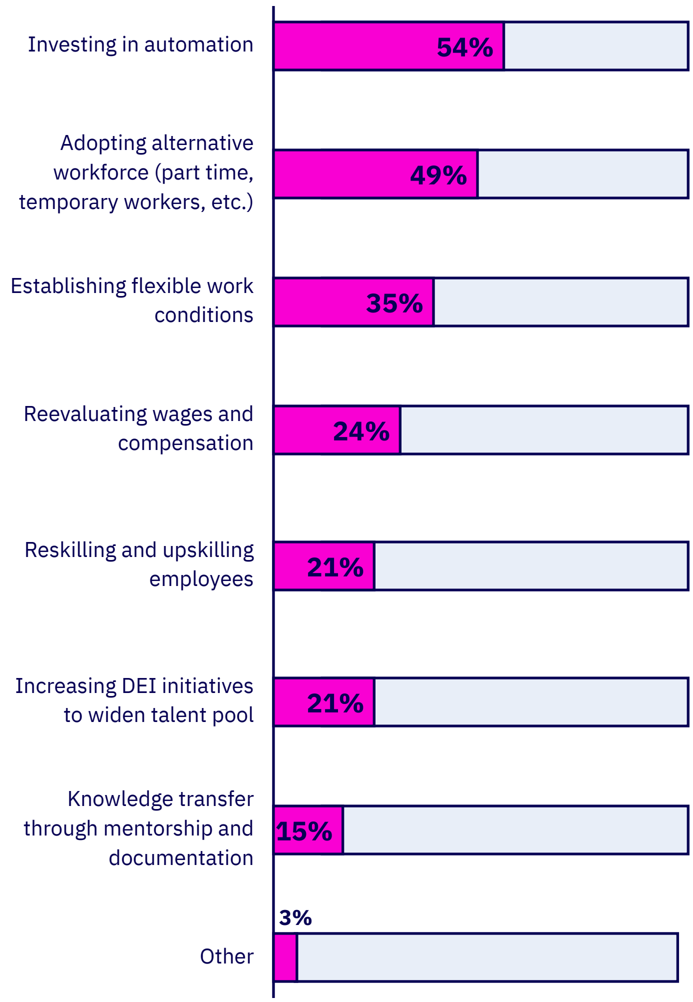
Workforce Challenges



Automation does, however, have impacts that need to be addressed, with 69% of respondents stating that the transition for employees displaced by automation is highly or moderately challenging for their organization. With only one-fifth of companies focusing on reskilling and upskilling their employees, there are clear steps for manufacturers to take to ensure that employees can effectively operate or work alongside automated technologies—an essential step for long-term success.

Manufacturing companies are also reevaluating their overall workforce structure and operations, with 49% adopting alternative workforce models like part-time or temporary workers and 35% establishing flexible work conditions.

Steps to Address the Labor Shortage



Recommendations

- As seasoned employees approach retirement age, companies face the loss of valuable knowledge and experience. This can be mitigated with proper succession planning and knowledge transfer through mentorship and documentation.
- As manufacturers struggle to attract talent, they should adapt by reinvigorating their recruitment initiatives and focusing on upskilling programs for existing employees—while also leveraging technology to enhance productivity and bridge skills gaps.

CONCLUSION

The manufacturing industry's recent focus on internal improvements like creating resilient supply chains and addressing labor shortages marks a pivotal period of resilience and strategic reorientation. With manufacturers on strong footing and M&A activity expected to pick up steam, there's anticipation and optimism for what comes next.

As manufacturers actively rethink their strategies to navigate challenges and drive future success, alignment on top priorities becomes paramount. Collaborative efforts across organizations, coupled with a renewed commitment to innovation and sustainability, will be instrumental in shaping a resilient and thriving manufacturing landscape for the years ahead.

Methodology

West Monroe surveyed 150 C-suite executives at middle-market manufacturing companies with revenues between $500 million and $1 billion. The survey was conducted in Q1 of 2024 by Rep Data, an independent marketing research firm.

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ABOUT US

West Monroe is a global business and technology consulting firm passionate about creating value for our clients. We co-create solutions that accelerate results now and prepare industries to tackle what's next. We're excited by the possibilities that technology creates. We work with our clients to deliver on the possible, building on their goals, generating fresh insights and creating inspiring outcomes.

We excel at the intersection of industry, strategy, people and technology—always driving rapid impact. Our all-in approach comes from our unique employee ownership structure. Our clients' success is our success. From the beginning, our growth has come from putting people at the center. Fortune and USA Today consistently celebrate West Monroe as a top workplace, and we're recognized as a leading consultancy by Forbes and Forrester. Let's find more value for your business.

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