According to PwC's Global Crisis Center, most crises require short-term reactions around mobilization, medium-term stabilization efforts, and strategizing for long-term and permanent transformation.

However, we believe manufacturers should strategize now on how they can transform and position their organization in ways that will give them a competitive advantage and help create greater resilience in a post-crisis world. This ought to be done on the heels of the disruption, throughout the crisis and during recovery.

This may seem like a lot to ask, as each manufacturing sector faces its own stiff headwinds. Indeed, according to a recent PwC survey, 74% of CFOs at US industrial products companies agreed that COVID-19 has the potential to significantly impact their business and is causing “great concern.”

For example, as the automotive sector begins reopening shuttered production, it does so amid great uncertainty about consumer demand — and with a global supply base that has been damaged financially and operationally. Likewise, commercial air travel demand has nosedived, and there’s little insight into when that demand will recover. Aircraft OEMs, their tier suppliers and the maintenance industry should fundamentally rethink future-state supply-and-demand requirements. Industrial manufacturers, meanwhile, are shutting down plants due to parts shortfalls and plummeting consumer demand. While dealing with this disruption, most manufacturers are fighting to keep their workforce intact and shore up cash liquidity.

While manufacturers globally continue to grapple with the economic contraction triggered by the COVID-19 pandemic, some are already considering what they can do now to get ahead of the crisis. Or, to use a renowned ice hockey aphorism: They’re skating to where the puck is going.
Looking ahead, over ensuing months — or even over the next year — we expect this crisis to move further along an arc toward the end of the cycle, eventually leading to competitive advantage and resilience.

The 2008 recession taught us that the most successful companies took measures in lockstep with each phase of the crisis. They forged a strategy early on. They made decisive, bold, informed decisions. And, most important, they didn’t miss a beat.

Below, we highlight some ways manufacturers can prepare for — and navigate through — the crisis in the current heat of the moment … and well beyond.

Dealing with disruption

Take coordinated actions

The timeline for the disruption stage of the pandemic is not fully known, given the number of factors involved: the virus’ contamination period of at least two weeks, asymptomatic carriers, limited testing, and no vaccine or treatment. What we do know is that there will be a recovery at some point, and government and fiscal policies will likely aim, as much as possible, to promote a V-shaped recovery curve.

Meanwhile, according to a recent PwC survey, 67% of CFOs of industrial products companies plan to take advantage of government support programs provided by the CARES Act, with tax payment deferrals and extended tax deadlines cited as the most common types of support they’re considering. Yet, it is unclear to what degree such measures will help mitigate the disruption unleashed by the virus.

However, given the unclear nature and length of the current disruption, it’s crucial for business leaders to plan now on courses of action for the eventual recovery. That will help them get ahead of the curve of this crisis more quickly and fully than their competitors.

The recovery

Charge out of the gate

Many businesses are still focused on the triage-like disruption. While the economy is still in dire condition, it may seem premature or even incongruous to be gearing up for the next stage of the operations strategy cycle: recovery. However, we believe it may be too late if manufacturers wait to act until conspicuous signs of a recovery are in full view.
That’s a lesson gleaned from the recession a decade ago, when the global economy was crossing the same threshold we’re now facing. The companies that emerged from that recession strongest (which we call the leaders), moved faster, decisively and more agilely during the recovery phase than their laggard peers. According to PwC analysis, leaders set their course in 2009 and, by 2010, put their pedal to the metal. They increased capital expenditures by 27% and accessed cash and liquidity. They set their M&A targets on distressed companies or suppliers. They identified growth areas of the business and committed capital to areas with an average 16% increase in selling, general and administrative expenses — while surgically reducing SG&A and COGS in sagging areas of the business. The result? Their revenues rebounded more quickly than their lagging peers’ (see graphic).

This time around, it’s important to be mindful of such lessons. These leaders focused on transforming operations through the recovery, improving the areas that drive growth and agility, including:

- Investing in manufacturing flexibility to help drive customer service and future growth, despite lower margins during the crisis.
- Rationalizing portfolios to focus on profitable products and eliminate complexity
- Working closely with struggling suppliers (especially sub-tier ones) to avert bottlenecks
- Strengthening ties to customers and rebuilding customer confidence, loyalty and market share to carry through the recovery.

Taken together, such swift, strategic and bold measures carried out during the recovery phase can provide the solid footing needed to achieve sustainable competitive advantage and growth in the wake of the crisis.
Turning back to what we learned in the 2008 recession, leaders who came through strongest and made aggressive moves during the 2010 recovery were handsomely rewarded during the 2011 to 2013 period — during the competitive advantage stage of the cycle. They sustained revenue growth, demonstrated higher EBITDA margins and significantly increased ROIC.

At this stage, the focus will shift from short-term cash flow and liquidity management to cost reductions and aggressive measures to expand market share. For example, companies will likely put CapEx-intensive projects on hold in regions experiencing market contraction, while still making investments that are needed to compete effectively. These include deploying 4IR technologies that drive cost competitiveness, flexibility and innovation: the internet of things (IoT), artificial intelligence (AI), automation and 3D printing. Deal-making activity will likely pick up and speed up industry consolidations (e.g., Tier-1 auto suppliers acquiring smaller, distressed suppliers).

While there are certainly lessons to be learned from the recession, the rebound can be faster and stronger in this crisis because 4IR technologies present tremendous cost-cutting and revenue-generating opportunities. Of course, there are numerous levers an organization can pull to cut costs, trim margins or eke out more revenue. But, as in any crisis, timely decision-making is crucial to getting ahead. Businesses ought to consider these three broad areas as they decide what measures to prioritize in the competitive advantage stage.

**Launch new products and services as new demand patterns emerge:** The auto industry, for example, is using sophisticated demand analytics to pinpoint opportunities to market on-line sales and attractive financing deals during the COVID-19 outbreak. Some of these changes may prove to be lasting. Leaders will be quick to model customers’ behaviors and estimate long-term demand. They’ll make aggressive moves to build on customer loyalty and invest in new products and services to capture market share and leapfrog competition.

**Shift to a flexible global manufacturing footprint:** At the peak of the crisis, companies are moving quickly to build an inventory buffer and explore alternative suppliers outside the most affected regions. Chemical companies, for example, were facing multiple drivers of volatility, from the instability of oil prices to vanishing demand as industrial activity abruptly dropped. It’s critical for manufacturing sectors to transition to more flexible capacity and resilient operating models. Companies should rethink delivery models and traditional operating rules, including stronger business partnerships in the value chain, just-in-time and inventory policies. Leaders will shift to more flexible supplier and logistics partnerships and deploy multi-sourcing strategies for critical materials. Now is also the time to lock in future supply capacities to help support profitable growth and avoid price increases later when capacity restraints return.

**Maintain, or even accelerate, investments in digital technologies on all fronts:** Leaders will deploy new capabilities in supply chain visibility, business modeling and rapid-response. For example, IoT sensors working in tandem with blockchain’s distributed ledger provide end-to-end visibility throughout the supply chain and transportation network. Intelligent algorithms can be applied to large data sets for demanding sensing and inventory optimization.
Collectively, such smart products and operations will position manufacturers to better anticipate — and adjust quickly to — future disruptions, while also unlocking potential new revenue streams.

Resilience

At the height of the COVID-19 pandemic, governments and citizens turned to industrial manufacturers for critical support — and the industry responded. Companies quickly ramped up production and innovated to produce ventilator parts and personal protective equipment in large volumes. That underscored how crises provide opportunities for businesses to earn trust and enhance reputations.

Post-crisis, it will be important for companies to build on that trust and seize opportunities to help reshape markets and their competitive positions. The pandemic is reordering the global economy and society in fundamental ways, such as increasing remote working and fast-tracking automation and industrial mobility (e.g., robots and drones). It’s also changing customer behaviors (e.g., more online sales and digital experiences). Leaders have a plan throughout the strategy life cycle, from disruption to recovery to competitive advantage, and they signal their progress to their consumers, suppliers and investors through specific actions. Additionally, manufacturers — especially those that supply to critical national infrastructures — may be in the position to contribute to regulatory-inspired initiatives aimed at improved preparation for future disruptions.

Those that get this right will come out on the other side with very different operations, products and services than they had before COVID-19 hit. The traits that will set them apart include:

- Decision support tools designed for speed and agility in decision-making
- An investment in advanced supply chain technology for clearer and near-real-time visibility into production, inventory and supply, which helps with both agility and cost
- A refocused product and service portfolio
- A ramped-up application of digital technologies to understand and anticipate customer behaviors and preferences to provide a more valuable experience attached to the product
- Strengthened and diversified value-chain ecosystems to secure capacity and scale smartly (i.e., a “Keiretsu-at-scale” mindset).

Clearly, manufacturing sectors are tacking against fierce gales. And, because no economic shock is the same, predicting the future is a fool’s errand. However, while the sector may now be grappling with a different sort of economic crisis, it can be sure of one thing: There will be a progression of waves in this crisis, but it will have an end-point.

Forging a well-informed strategy on how to get through the waves of this crisis and then executing on that strategy will help chart a course through what now may seem unnavigable and choppy waters.