

MANUFACTURING – A “HAYNES MANUAL” FOR RECOVERY

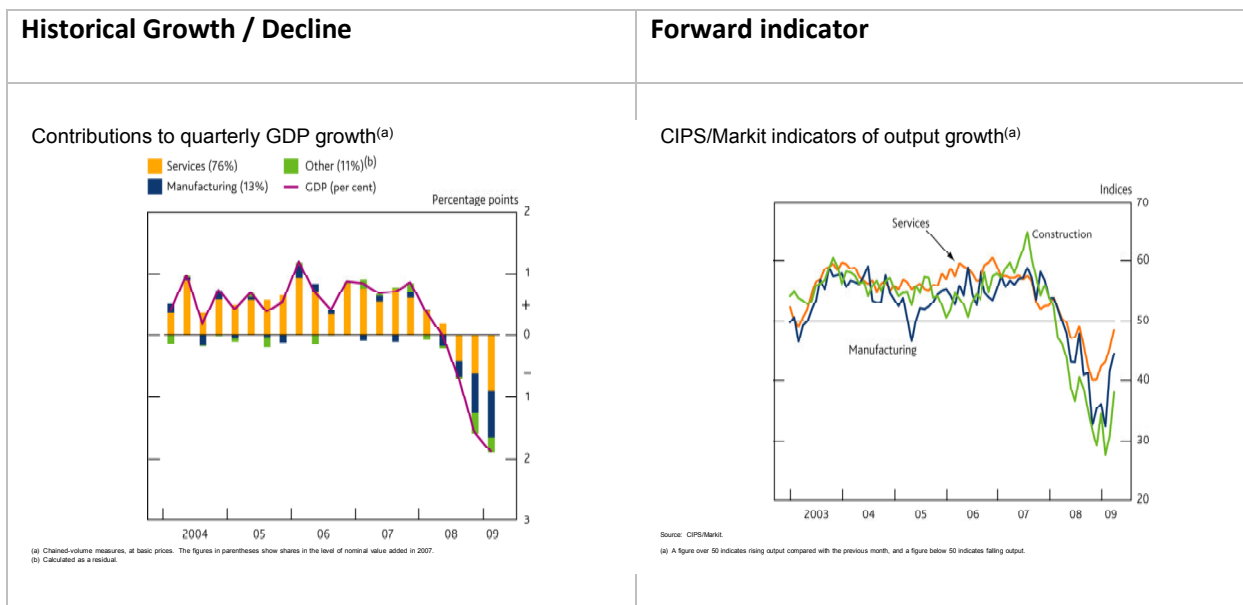
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Over the last few months, manufacturers have experienced more swings and roundabouts than a day at the funfair – but without the fun! Exchange rates have oscillated, commodities have collapsed and rebounded, inventories have been run down and demand has collapsed, flat lined, and is now being nursed back to health. In response, employee relations have been put to the test, operational models have been ripped up and thrown in the bin, and owners and managers have been left wondering what on earth is going to happen next.

In this blog, I explain why I believe there is a long term opportunity for high-value manufacturers, and I outline some of the short- to medium-term actions for our customers to grasp this opportunity. Some of our customers are, of course, already doing these things!

UK Manufacturing – don’t mention the Green Shoots

Since the beginning of 2008, manufacturing output has been in decline, although recent forward indicators suggest a recovery is not inconceivable in the not-too-distant future:



Of course, whilst economists’ graphs are quite capable of using statistics to present one view of the facts, the reality of life for people affected by rising unemployment will feel quite different.

Whilst there are significant challenges for manufacturers in the months and years to come, and it’s still too early to claim the emergence of those infamous “Green Shoots”, there are some opportunities that are worth considering. Companies such as WPP and Tesco were highlighted in a recent [FT article](#) as organisations that have previously benefited by seizing opportunities in a recession from under the noses of weakened competitors. In the same article, John Connolly, Deloitte Chief Executive and Senior Partner, asserts “how companies act over the next 24 months will drive their performance for the next decade – difficult though it is, with so many near-term priorities, now is the time to think beyond today’s challenging markets.”

Reasons to be cheerful – 1, 2, 3

But what opportunities are there and do we really have any cause for celebration?

Firstly, the correction in exchange rates may well turn out to be a longer term correction – for example, how much of sterling’s recent strength was due to the rise of the Financial Services industry in the UK?

Secondly, the running down of inventories within the supply chain looks to have shaken out, and demand for manufactured goods is being picked up, albeit at a lower level than prior to the recession.

Finally, it is encouraging to see examples of companies and their people working together to avoid redundancies. We are seeing organisations coming up with innovative and flexible ways of preserving jobs to keep hold of the precious skills and talent that have been built up within their businesses. Jaguar Land Rover is an example of this¹.

So what actions can **our** customers (large enterprises, with SAP at the heart of their IT strategy) take to take hold of these opportunities, capture market share in the current environment and position themselves for a greater share of the upswing?

How to capture the opportunities and mitigate the risks

Focus the talent within the organisation

In a redundancy situation there are rules in place to ensure those affected are treated fairly, so talk of focusing the talent does not necessarily apply to this process. However, it is crucial to ensure that employees who remain within the business know they too, are being treated fairly, and are recognised for their contributions. In particular, it is critical to identify, coach and develop rising stars within your organisation – these are the people who will make the difference between being carried by the recovery, and being at the leading edge of the recovery. Organisations like Smiths News² have recognised you don’t have to make huge investments to implement the changes necessary to do this. A relatively small system’s investment, coupled with an organisational shift in the process to hand more knowledge to the HR professionals involved in the process, can make a significant difference.

Whilst nurturing the rising stars, the question needs to be asked – who will replace them? At a time when low-cost, low-value roles are more commonly off-shored (something the services industry is only recently experiencing in any volume, whereas manufacturing has seen it happen for years), the entry point for skilled career paths in the UK is moving upwards. What is going to bridge the gap between school leavers, or even university graduates, and the bottom rung of the ladder? Apprenticeships can only address certain types of roles – what is the equivalent for office-based roles? This is where I believe that systems can play a disproportionately important role. It puts in place performance management frameworks that ties objectives, behaviours and results together in a flexible way, mentoring junior people through the different stages of their career becomes more focused, and focuses more of the talent within the organisation on the goals that matter.

¹ <http://www.hrmagazine.co.uk/News/MostEmailed/887913/Jaguar-Land-Rover-staff-face-reduced-working-week-pay-freeze-avoid-redundancies/>

² <http://www.bluefinsolutions.com/case-studies/erp-case-studies/succession-planning-at-smiths-news.html>

Empower the sales force

What is going to lead us out of this recession? Is it going to be a more efficient, streamlined back office of stressed-out administrators working overtime to cover the work of their redundant colleagues? Or is it going to be a honed, effective sales team who understand your customers' needs better than the competition, and better than they did before the recession? The answer sounds obvious, but what is not obvious is that now is a good time to invest in your sales force.

Bluefin has a number of customers – many of them in challenging sectors, i.e. construction – who are doing exactly that. For example, we are working with part of a large group that is exposed to the automotive industry. The division we are involved with is part of the group's push to diversify into other sectors. They are choosing to prioritise a Sales Force Effectiveness programme, at a time when other budgets within their own business are being cut. They have set the challenge of doubling revenue in the division over the next 5 years and are using the latest version of SAP CRM as an enabler to bring the Commercial team closer together and align it to the Division's CRM Strategy. Doing this will enable them to understand their complex customer relationships better, and give them the depth of information needed to make a difference.

Get smarter at managing Supply Chain Risk – and remember what you did for the next time

What is Risk? According to a publication from McKinsey³, “risk means more things *can* happen than *will* happen, which is a fancy way of saying we do not know what is going to happen”! It's an obvious statement, but in today's world of predictive systems, processes and procedures, it's easy to feel like everything's under control, when in fact, we don't really know what is going to happen tomorrow or the day after, let alone next month, or in a year's time. With hindsight, the writing was on the wall for Woolworths a long time ago, but for the huge number of suppliers to Woolworths – including some of our own customers – this didn't make their failure any easier to deal with.

Organisations going through the current turmoil are experiencing events, and going through planning scenarios, that occur once every few decades. Not to capture that knowledge is misguided at best. At worst it is a dereliction of duties to the stakeholders in the organisation. It is quite simple to capture and codify the scenario planning/risk management framework that your organisation is probably undertaking right now. The elements that need to be considered are easy to model – even if they are difficult to think through. Supply Chain Risk can help an organisation think through the risk of disruption to the inbound supply chain, highlighting where unforeseen critical suppliers reside, and where the major financial risks lurk – which can be surprisingly different from where the spend is placed. That's not to say that understanding where spend is placed is not important – we have implemented many Procurement MI solutions⁴ that have made that visible to companies as diverse as Utilities and Chemical companies.

Underpinning all of this is information, do you have the information needed to make the decisions you need to make today? For our customers, there are no excuses for this being a constraint – SAP has long had a competitive BI and MI offering, which in the last 12 months has been further reinforced by acquisition.

³ “What Matters”, McKinsey

⁴ <http://www.bluefinsolutions.com/case-studies/bi-case-studies/united-utilities-gains-control-of-1bn-spend-with-sap-bi-solution.html>

Invest in the core

Even in 2006, observers like Aberdeen Group⁵ were seeing best practice for manufacturers moving beyond reactive and preventative maintenance of their core assets, through predictive maintenance, towards a vision of “holistic asset management”. One of the key findings was that the greatest challenges to progressing had nothing to do with technology or process (tools to manage processes, and even link in telemetry to ERP systems, have existed for some time) - they were people challenges. 49% of companies surveyed cited “Culture of Change (relative to asset management)” as the biggest implementation challenge. The next two biggest challenges were also people-related: “Insufficient resources with the necessary skills and experience,” and a lack of alignment between the different departments involved.

Where does your organisation sit in the continuum from reactive, to preventative, to predictive to holistic asset management? If you’re not aligning your people properly and capturing the knowledge and skills they have in some form of corporate memory, what happens when redundancy programmes are implemented? What happens when the recovery occurs, and new people have to be brought on board and up-to-speed? How is that knowledge going to be retained and shared?

The good news is that part of the solution for our customers (such as BAT⁶) rests in an area that they usually already have but may just be underutilised: HR. HR in SAP terms is an area that sometimes suffers from poor data quality and corporate anguish over its purpose. This is because it is usually not used to its greatest effect, and keeping important data up to date is optional. How quickly would you know if a supplier’s bank account was incorrect on your AP system? Contrast that with how quickly you would know if someone’s “next of kin” was not maintained in the HR system. If it’s not used, there’s no incentive to maintain it, and it languishes. However, HR can play a much more important role in a manufacturing company. It can be the central skills and qualifications database, and can even drive the allocation of resources to critical jobs. If HR data was the basis of deciding how, when and by whom mission- and safety-critical activities are undertaken, it would quickly become updated more, and add value. It can do all of these things, and if you’re an SAP customer, you may already be paying for the privilege of having this functionality on the shelf.

Look ahead and be prepared

What I have set out to achieve in this article is to highlight some of the challenges faced by our customers, and some of the opportunities. If there’s one thing above all that I hope to have achieved, it’s to inspire you, the reader, to turn at least part of your attention away from the internal doom and gloom that you may be experiencing, and to look ahead, and start preparing the ground for your future success. If we can help you achieve that, by bringing our experience to bear, and sharing best practice from our customers to help you, then so much the better.

And remember, in a recession – when even the front page of the FT reads like the News of the World – what the world needs is a reason to be cheerful. If you can keep your best people, demonstrate that you’re investing in your company, and perhaps even grow your business – you’ll be inspiring not only your own stakeholders, but perhaps contributing to the wider increase in confidence that will precipitate the recovery.

My call to action for you is don’t be part of the problem – be part of the solution!

⁵ The Asset Management Benchmark Report: Moving Toward Zero Downtime, April 2006

⁶ <http://www.bluefinsolutions.com/case-studies/bi-case-studies/british-american-tobacco-implements-sap-hr.html>