

## Emerging from the post crisis world

**BG Srinivas of Infosys Technologies offers four strategies for manufacturers to be leaner and more nimble when the economy improves.**

**THE** current economic downturn is global, broader, and deeper than any other in decades, creating adverse impact across countries and industries. Credit crunch, housing market collapse and massive job losses have collectively shaken the world markets. The pace and magnitude of the downward shift has caught companies in a painful economic hangover leaving them unprepared to adapt and respond quickly.

The numbers are sobering. This recession is considered the worst since the Great Depression of the 1930s and considerable parallels can be drawn to it. High fixed costs and steep declines in demand have left manufacturers scrambling to cut capacity or risk holding high-inventory levels. The US GDP contracted at a sharp 6.1% in the first quarter, much steeper than the 4.9% annual rate expected by the economists. The Euro GDP has fallen by 2.5% as per Eurostat records. Unemployment rates are staggering at about 9% in the US and Euro regions, according to the respective labor statistics agencies.

### Signs of optimism

Amidst all the troubling economic data, fledgling signs of optimism are emerging from several key economies across the globe. The Composite Leading Indicator index that tracks forward looking economic data ticked up slightly for March '09 in UK, France and China. Such evidence of "green shoots" of recovery are, however, based on surveys that track expectations of businesses and households, not their actual behaviours.

Furthermore, German business confidence moved above its low point, and US consumer confidence recovered from its absolute lows. These indicators are still lower than a year ago, but may be viewed as further signs of a trend towards optimism.

Despite signs that the recovery may have begun, there's still time for manufacturers to position themselves to

shape their businesses to survive and emerge stronger from the post-crisis world. Governments of developed and emerging nations recognise their interdependence and have acted in a concerted manner to restore the smooth flow of credit and stimulate the economy. The injection of economic stimulus must be followed through by manufacturers with bold steps to shape their businesses and avoiding the mistakes of the past: operating with huge fixed cost structures, poor inventory focus and visibility, and slow response to rapidly changing market would be prescriptions for failure.

Here are four strategies for manufacturers and how exemplary companies have adopted these strategies to gain competitive advantage:

### 1 Restructure the business for better flexibility not just lower cost:

Manufacturers are all taking cost saving measures to conserve cash. However, they need to alter their cost structures to make these variable, and utilize pricing models that provide flexibility to scale up/down to navigate uncertainty. As Forrester Research puts it: "Companies are up against the brick wall. They're facing strong margin pressures, 10% to 15% pricing pressures, and cross currency volatility. They have only one option left: Cut costs. But never at the cost of the ability to execute a long-term vision."

A heavy equipment manufacturer had its spend for certain parts spread across a large supplier base. The value and volume for these parts made it difficult to extract cost benefits. The company restructured its procurement to a variable model where they paid an IT service provider a fee contingent upon achieving preset cost saving targets. The company expects potential savings of \$2 million, in addition to rationalisation of suppliers over a larger spend base.

A semiconductor manufacturer that primarily sells to OEMs wanted to increase direct consumer

engagement to influence consideration and purchase. The company decided to use social media technologies to engage consumers, create a consistent user experience, and enhance its brand image with end-users. It deployed a social media platform using a scalable model that makes costs variable based on interactions / transactions.

## 2 Improve information visibility to de-risk and maximise opportunities:

Manufacturers need better visibility across their operations to make informed decisions to mitigate potential risks and capitalise on opportunities quickly. For example, tools that provide intelligence into inventories and enable collaboration can improve supply-demand matching and free up working capital.

A digital imaging company launched a new consumer printing product with a different revenue model. The company needed a mechanism to analyse product performance by aggregating information across manufacturing, assembly, repairs, returns, printer usage, supplies usage, sales and purchase. It deployed a platform for service intelligence and performance management to gain 360-degree visibility of the service supply chain. The company improved product quality, increased customer satisfaction, and scaled the platform for other service initiatives.

A consumer electronics firm faced long supply chain lead times and low responsiveness to demand changes, causing inventory build-up and lost sales opportunities. The company analysed lead time and replenishment policies, identified inventory management process enhancements, and integrated the supply chain planning system with the shop floor scheduling system. The result: reduction in supply chain lead time by one-third leading to improved responsiveness to demand shifts, and projected on-hand inventory reduction by 20%.

A manufacturer of mobile phones and wireless network solutions captured \$60 million in revenue leakage by investing in information stewardship and analysis. To prevent revenue leakage, a dedicated team used the information analysis tools to cleanse data, analyse billing and provisioning, and reconcile revenues.

## 3 Leverage partner ecosystems to drive growth:

As growth stalls, innovative partnerships can create win-win opportunities. Manufacturers should expand their ecosystems to accelerate new product introduction or gain faster access to new and alternative markets with lower investment. For example, manufacturers could partner with service providers for developing products or taking them to market in exchange for a share of revenues, which aligns objectives.

A global supplier for aerospace OEMs was to provide design services for a landing gear program for a jet. The company adopted an "international-purchasing-office-in-a-box" approach where the IT service provider manages the sourcing program, supplier selection and performance. The company identified cost savings of 2% to 70% compared to its target price, while paying the IT service provider a share of the savings. Besides

direct cost savings, the company gains access to Indian supplier network with lower overhead and expenditure, and reduced risk.

A communications solutions company wanted to develop and take to market a critical new product while under pressure to significantly reduce its R&D budget. The company's engineering service provider invested R&D resources to develop the product in exchange for a share of revenues from future product sales.

## 4 Implement sustainability initiatives that impact the bottom-line:

Many manufacturers view sustainability through a compliance or corporate social responsibility lens. Manufacturers should leverage technology and prioritise initiatives that improve the bottom-line while also delivering "green products" or reducing the carbon footprint. The International Energy Agency estimates, on average, each additional \$1 spent on more efficient electrical equipment, appliances, and buildings avoids more than \$2 in investment in electricity supply.

A global manufacturer of aluminum was looking to increase efficiency of its melt furnace operations in the face of financial losses due to wasted energy, loss of molten metal, high labour overheads, and knowledge retention issues due to aging workforce. The company automated and optimised its melt furnace operations and integrated using wireless sensor networks, saving about \$1 million per furnace per year from reduced energy needs.

A communications solutions company and a software solutions company sought to reduce the complexity of their IT infrastructures and make these "greener" in the process. The companies leveraged virtualisation and blade technology to consolidate over 200 servers in the data center to realise direct cost savings of \$2.5 million and energy cost savings of \$0.2 million, with significant reduction in carbon footprint. The data center consolidation increased ROI and reduced ownership costs, while making the infrastructure future-proof in terms of scale, flexibility, and robustness.

## The way forward

While the current economic downturn is severe, manufacturers that turn this into an opportunity to reshape their businesses will have tremendous competitive advantage emerging from the crisis. They must look in to the future and prepare themselves for the upturn. The importance of innovation in creating business flexibility, harnessing information, expanding business networks and embracing sustainable practices cannot be underestimated. These operational shifts, with top management commitment and support from the partner ecosystem, could generate ideas to slowly but surely put manufacturers back on growth path.

Despite all the market turmoil and weak economic climate, organisations will need to leverage the underlying "pillars" of strength that fuel their competitiveness and create the foundation to reinvent, recover and rebuild. **End**

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