

# Five Fundamental Areas that Are Key to Success for Innovative Manufacturers

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A more demanding business environment will require CEOs and their management teams to think more holistically about innovation, their operating models, and even how their products and services get at their end customers' needs.

(IW - Brian Heckler: 2-5-16) It seems everywhere one looks that technology is evolving more rapidly than at any time in history. From personal electronics devices to self-driving cars, innovation is moving forward at a swift pace. As a result, manufacturing leaders are spending an increasing amount of time asking themselves, "How can I ensure my organization keeps pace?"

The reality for leaders is that it will take more than increased capital and enthusiastic leadership to create innovative manufacturers. It will also require CEOs and their management teams to think more holistically about innovation, their operating models, and even how their products and services get at their end customers' needs.

Many manufacturers break down "innovation" into three main areas: product innovation, manufacturing innovation, and business model innovation. Most CEOs intrinsically understand the need for product innovation. If customer demand isn't driving product innovation, the need to compete for sales almost certainly is.

Numerous manufacturing CEOs are highly focused on reducing cost and achieving efficiency in their manufacturing process. It's one of the main reasons why they are streamlining plant layout, consolidating footprint, increasingly adopting advanced manufacturing techniques and piloting new manufacturing technologies (everything from 3D printing and nanotechnology to robotics and predictive analytics) in order to gain a competitive edge through reduced costs and speed to market.

Probably the most difficult type of innovation for manufacturing CEOs, however, will

be in catalyzing business model innovation. The fact is that traditional business models are coming under increasing pressure as new, more nimble competitors take advantage of their agility to create and dominate new market segments and sales channels.

## **Overcoming Challenges and Competition**

Yes, there will be challenges. And creating a sustainable approach to innovation will take time, experience and practice. But our experience working with leading manufacturers suggests that there are often five key areas that the more innovative manufacturers recognize as being fundamental to success.

### **1. Running at multiple speeds**

While most capital investment plans tend to span five-year periods, technology is evolving at a much more rapid pace. The traditional capital investment screening and payback analysis, implementation horizon, and managerial speed must accelerate to be nimble and take advantage of the much faster technology evolution cycle. Consumer electronics firms for instance have developed their entire business models to allow the flexibility to adopt, develop, and adapt new technologies as they emerge through an extended ecosystem, flexible design of physical product and other techniques.

### **2. Recognizing the inflection point**

Most innovation happens in small, incremental steps, so it is easy to miss the point where an emerging trend becomes a breakthrough technology. That is why manufacturing CEOs are now striving to figure out how to stay on top of developments—both in their immediate peer group and in other industry sectors—and how to assess and monitor threats and opportunities as they emerge. In KPMG's 2015 Global CEO study for example, 74% of respondents indicated they are concerned about new entrants disrupting their business model, and 72% said they are troubled about keeping up with new technologies.

### **3. Creating today's innovative culture**

Innovation for manufacturers in the current environment must fundamentally evolve.

Frequently, it either is restricted to a few in an isolated research lab or a small team focused on operational improvement on the plant floor. Balancing the different objectives of achieving profitable results from existing products and encouraging employees to try new things (and, if necessary, fail and try again) goes against the manufacturing DNA or operating model of many manufacturers focused on incremental “continuous improvement” techniques. Today, innovative companies need different ways to motivate and reward breakthrough innovation, and its inherent risks and targeted outcomes.

#### **4. Adapting the business model**

Whether to defend against a new competitor, respond to a growing customer demand, or to take advantage of emerging trends, leading manufacturers are already adapting their existing business models and creating new ones. 44% of CEO’s in a recent KPMG survey are concerned about whether their business model is adequate. Many are now focusing on overcoming the challenges related to managing, maintaining, and optimizing multiple business models simultaneously without disrupting the core business. Traditional manufacturers are looking to leverage data and analytics for new solutions like a leading global manufacturer who strives through data, analytics, software and solutions to deliver greater asset reliability, lower operating costs, reduced risk and accelerated operational performance for its customers. They also are evolving services and solutions through the internet of things (IoT) and connected, intelligent products like Joy Global’s JoySmart Solutions.

#### **5. Having a long term vision**

Nobody knows exactly how technology will evolve over the next 10 years. But leading manufacturers and their executive teams are, nonetheless, developing a clear vision of how their innovation investments align to their long-term business objectives. And they are clearly articulating that vision to employees, suppliers, customers, and shareholders to drive real competitive advantage from their innovation investments.

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