



Global Manufacturing Prospects 2022

**The CEO view: Supply chain resiliency
helps achieve a twin transformation**

KPMG in Belgium

home.kpmg/be





The pandemic is not the only disruptor of the supply chain; geopolitics is also playing a big role. Near-shoring is one method of reducing supply chain risk. “Manufacturers in Western Europe are achieving financial success building factories in Turkey, Hungary, Poland and Romania with costs that are competitive with those in China,” says Kaveh Taghizadeh, Partner, Consulting, Value Chain Transformation at KPMG in Germany.

Another way to mitigate risk is for manufacturers to gain deeper insights into their supply chains. To do this, OEMs will likely have to track their supply chains to at least the level of tier 4, which is very difficult, notes Stéphane Souchet, Global Head of Industrial Manufacturing at KPMG International. To do so entails big changes in the way manufacturers operate. “Companies are moving from just-in-time supply chains to just-in-case and are diversifying their sources of supply. If they plan to re-shore supplies closer to the target market, then supply chains will shorten. For Western Europe, this means shifting procurement to Eastern Europe and North Africa. In Asia, this means focusing on Vietnam, Malaysia and Thailand,” he says.

Most definitions of resilience focus on three capabilities: the capacity to decrease vulnerability, the ability to change and adapt, and the facility to recover quickly from disruption.¹ There is no doubt that the events of 2020–21 showed how vulnerable companies were to unexpected dislocation. The pandemic had a particularly dramatic effect on manufacturing supply chains, leading to shortages of key components and rising costs. Managing supply chains certainly presented unique challenges. CEOs were asked to choose which of 12 categories of risk poses the greatest threat to their organization’s growth; supply chain risk was the top choice by far.

“

It looks as if the world economy has reached a turning point: The US-dominated trading system appears to be de-coupling from the China dominated one.

”

Kaveh Taghizadeh

Partner, Consulting, Value Chain Transformation
KPMG in Germany

¹https://www.researchgate.net/publication/224144529_Perspectives_on_measuring_enterprise_resilience

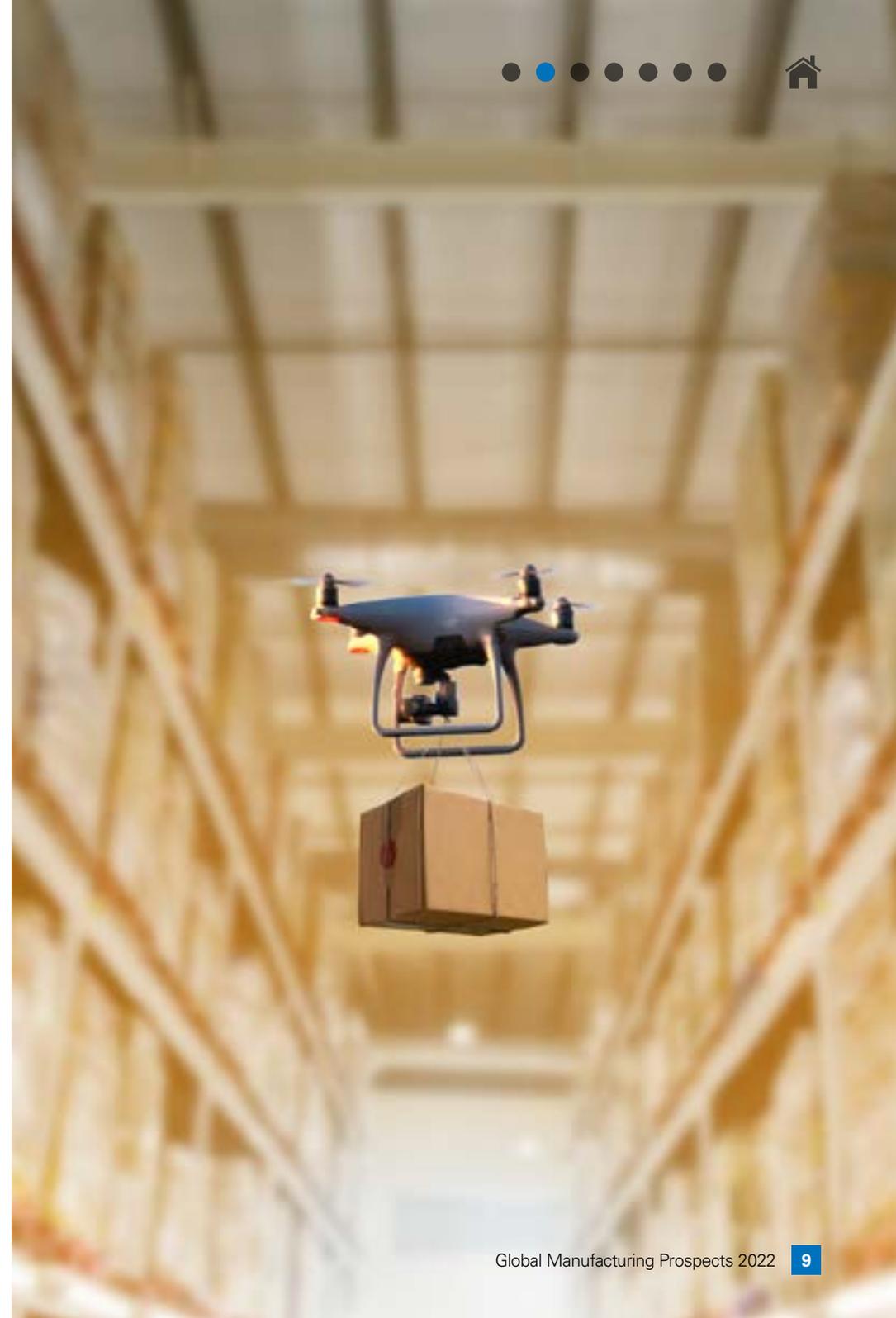
Another potentially game-changing technology is blockchain, but this is not always a realistic solution. “More enterprises are considering blockchain technology to improve the way they track the supply chain, but for it to work you need a broad array of suppliers, and many are not capable of using it, especially in tier 3 and 4,” says Stéphane Souchet. “An electrical equipment maker may be able to extend the use of blockchain that far, but in metals and mining it is likely to be more difficult to do so.”

A further method to improve visibility is to deploy technology to create supplier networks in which connectivity plays a pivotal role. “Digital marketplaces offer a way to connect suppliers and to improve transparency. But changing companies’ attitudes is a challenge, because they are reluctant to share more information on volumes and prices,” he says.

The second objective of new technology investment revealed by the survey is to use it to expand revenue more rapidly. According to the survey, the top operational priority to achieve growth objectives over the next 3 years is to invest in the digitization and connectivity of all functional areas. If integrated effectively, this type of investment may also improve agility and speed up innovation.

“In Japan, more companies need to take a ‘lighthouse’ approach to accelerate digital transformation,” says Hidenori Sakata, Supply Chain practice, KPMG in Japan. “Choose a pilot factory or process and radically digitize the operations. Once the benefits are realized, roll it out to other factories.”

Technology investments are also needed to mitigate the risk of cyber attack; CEOs say their biggest cyber worry is the possible impact on supply chains. Their highest priority in improving digital resilience in the next 3 years is to focus on the security of their supplier ecosystem. They expect this effort to bear fruit: Those who are confident their companies are prepared for future cyber attacks outnumber those who feel under-prepared by a ratio of more than two to one. Furthermore, CEOs of manufacturers understand that creating a cyber-aware culture is as important as technological countermeasures.



ESG to the fore

Of the three letters in ESG, CEOs say that they are focusing more on social issues than on environmental and governance matters, in response to the pandemic. For workers, a key component of social objectives is promoting diversity, which CEOs in the survey acknowledge helps with the recruitment of Generation-Z and millennial employees.

“Attracting new employees means leveraging all your efforts on diversity, equality and inclusion, and on training recruits. This includes creating successful, hybrid work processes. To keep skilled people, it’s not just about the financial compensation, but also listening more carefully to their aspirations and what they care about, and not taking a top-down approach,” says Stéphane Souchet.

While emphasizing social objectives, CEOs are not ignoring environmental goals; 71 percent do see ‘global challenges’, such as income inequality and climate change, as the biggest threat to long-term growth. More than half (55 percent) say they will invest between one and five percent of revenue to become more sustainable, but this is not a huge amount, considering the global challenge of climate change.

CEOs do want governments to give them a leg up: 76 percent say it is up to governments to stimulate climate investments by the business community. But there will be a quid pro quo. “Governments won’t be providing handouts; officials are saying that if companies do the right thing in terms of ESG goals, then they will receive things like tax concessions and R&D credits,” Grant McDonald adds. “There’s a new ecosystem of funding in this area, consisting of government, business, academia and foundations. The Canadian government is encouraging industrial partnerships and alliances of large numbers of companies to invest in green technologies.”

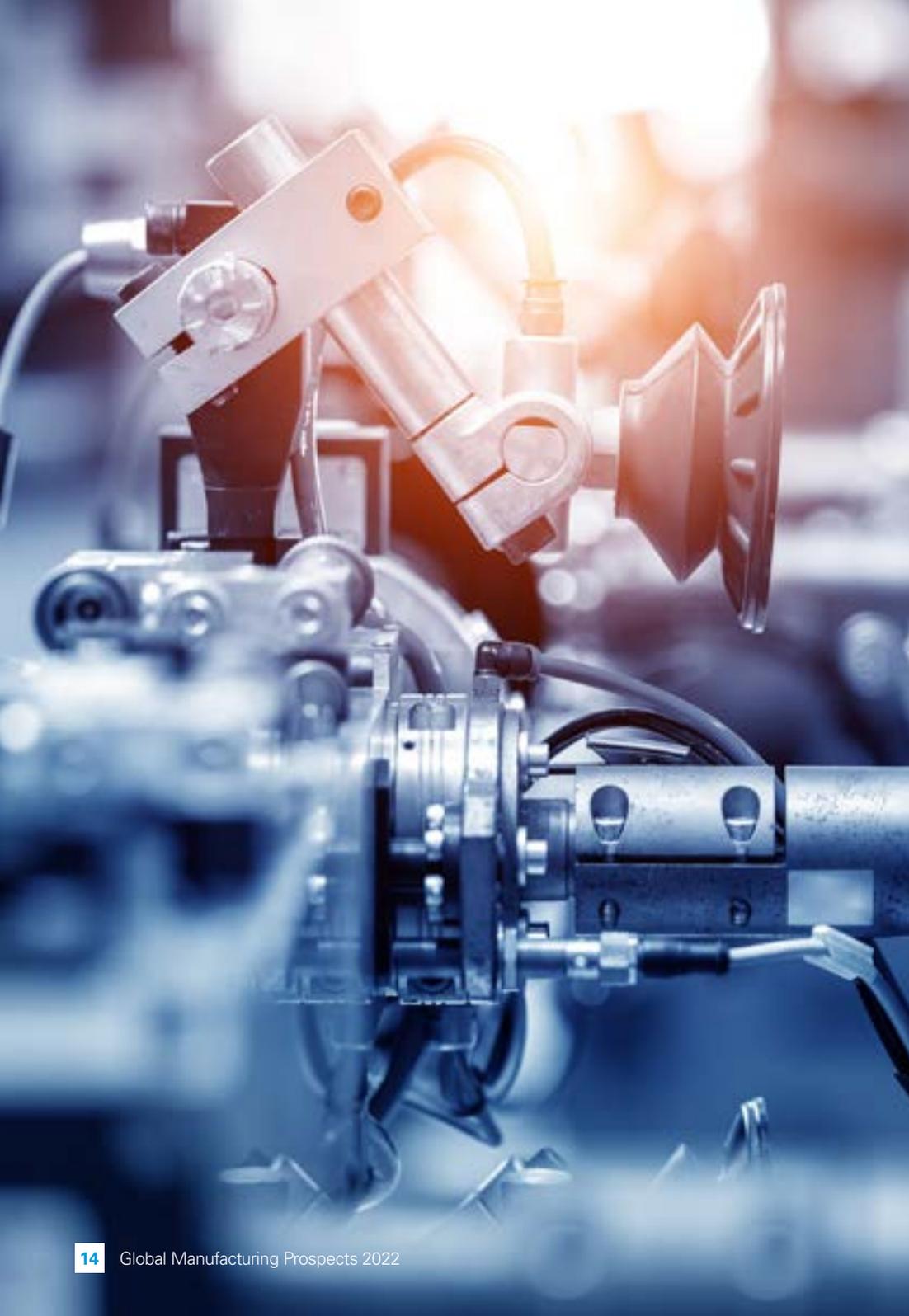
“

Manufacturers are aware they need to invest more in sustainable operations. They will likely have better opportunities for growth and innovation, if they think about it through an ESG lens. Shareholders are urging them to do this. Aero engine manufacturers, for example, are cooperating on the development of new energy systems.”

”

Grant McDonald

Global Industry Leader, Aerospace and Defence
KPMG International



A drive to decarbonize

New [research by KPMG International](#) in its report on the Net Zero Readiness Index shows that industry (both manufacturing and other industrial sectors, such as energy) is the sector with the highest degree of variability by country in terms of decarbonization progress and government action. The top five countries in terms of readiness for industrial decarbonization are, in descending order, Japan, Norway, the UK, Germany and Denmark.

Top five countries in industrial decarbonization readiness



Score based on a range of economic indicators.

Source: Net Zero Readiness Index 2021

Areas of focus include improving the efficiency of industrial energy consumption and an urgent need to address scope 3 emissions in the supply chain (i.e. all indirect emissions, other than the indirect emissions that come from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company). In the case of equipment such as jet engines, operational emissions far outweigh those required to build them, meaning industry has an even greater impact than its numbers suggest.

“There is an urgent need to address scope 3 emissions, although an increasing number of companies are taking accountability for them in emissions reductions targets, in response to customer and investor pressure,” says Wafa Jafri, Director, Energy Lead Advisory, KPMG in the UK.

These findings are borne out by a separate study, published in 2021,² of the sustainability of the supply chain — a report co-sponsored by KPMG International. Among the areas of focus that have intensified most for manufacturers between 2020 and 2021 is energy saving and renewables.

<https://sscs.mit.edu/>

More training and greater skills



A reason for focusing on social issues among ESG objectives is the growing need for skilled workers: 84 percent of CEOs say they plan to increase headcount in the next 3 years. However, since COVID-19 struck, they have had even more difficulty than usual in hiring them. Forty-five percent say they are investing in developing the workforce's skills to meet their growth objectives — and even more, 55 percent, say they are investing in new technology.

“Aerospace and defense companies are always in need of STEM graduates. For those in mid-career, employers need to do something different to ensure nobody is left behind. A lot of aerospace manufacturers have moved some operations to Mexico, creating training colleges and nurturing hubs around them, following the model of Montreal and Toulouse,” says Grant McDonald.

Still, CEOs do see training as the most important factor in making a success of hybrid working, and they want to give their workers a strong voice on issues, such as climate change. Workers are likely to continue to work part of the time at home and part at the office. So far, this has been a mixed success. Productivity has not been impaired by hybrid work patterns, but team building and innovation have become harder. Certainly, the large number of resignations during the pandemic has become a big headache for CEOs.

“

Companies should try to ensure their skilled workers meet in person regularly, by making plans to do so and sticking to them. They must not fall into the trap of complacency with the status quo of hybrid working. Employees have to feel they are part of a team and part of a company, by meeting in person; otherwise, there is a risk that employees will drift away and find work elsewhere.”

Kaveh Taghizadeh

Partner, Consulting

Value Chain Transformation

KPMG in Germany



What are the key success factors to ensure employees are engaged, motivated and productive in a world where hybrid work is increasingly common?



Source: KPMG 2021 CEO Outlook

Conclusion

Amid a period of transformative industrial change, the main lesson to be drawn from the CEO survey is an evergreen theme that is more urgent than ever: companies shift attention away from their supply chains at their peril. Operational effectiveness cannot be achieved without a resilient supply chain. This report's analysis of top executive opinion strongly supports the view that a healthy supply chain is likely to support a healthy manufacturer. But how can this be achieved?

The combination of a pandemic and climate change is accelerating digital transformation, as companies search for tools to mitigate new risks and maximize new opportunities. The survey suggests that CEOs may not yet have grasped that the goals of digital transformation and ESG are both consistent and work powerfully together. Digitization can mitigate supply chain risk and enhance sustainability, but CEOs need to see ESG as a strategic imperative not simply a means to an end. They won't likely have a healthy supply chain if they don't focus on ESG, and without a healthy supply chain, they will likely struggle to meet their long-term goals.

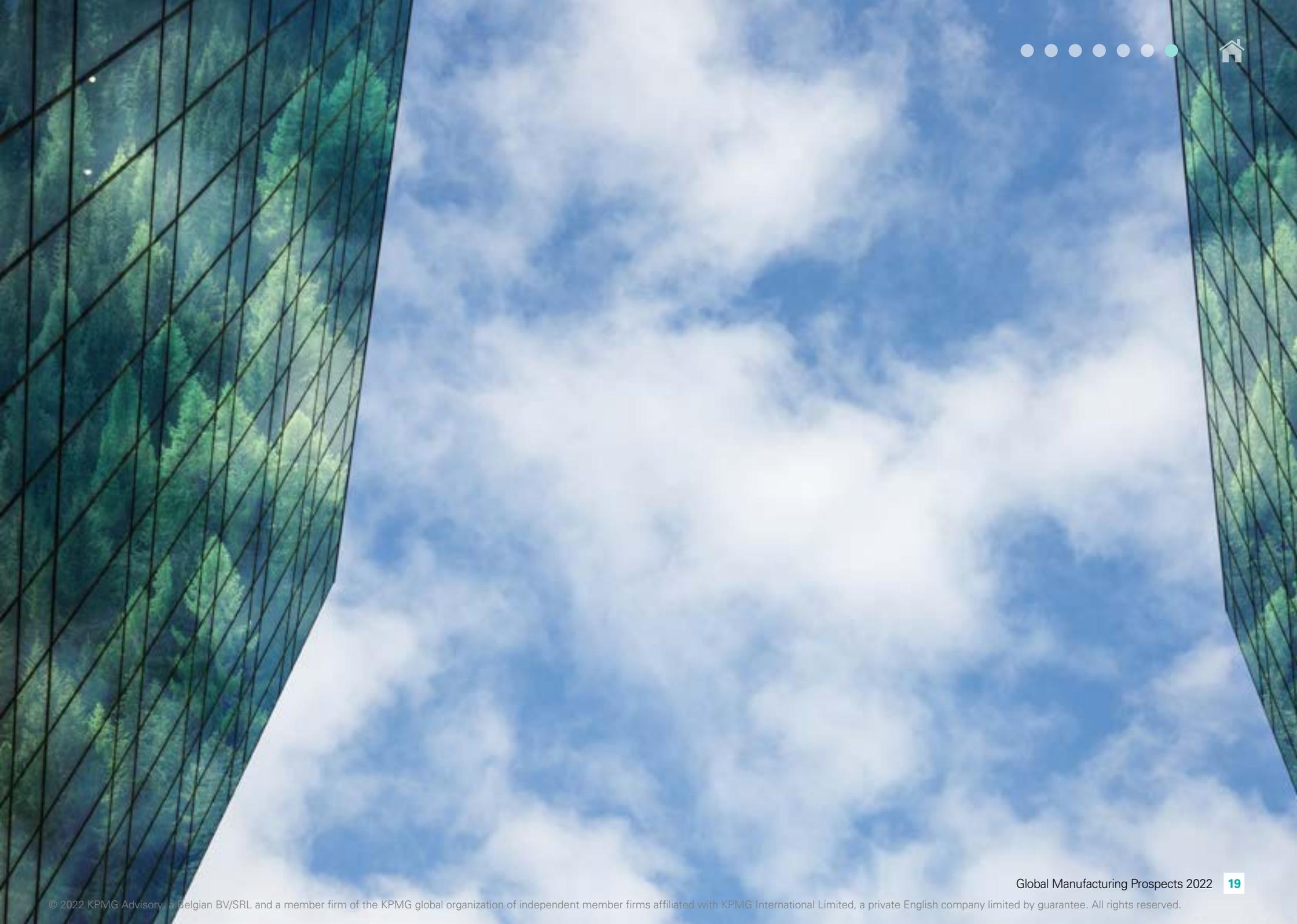
“

Manufacturers should now focus on a twin transformation: intelligent digitization and ambitious ESG goal-setting. If they are executed effectively, they are likely to reinforce each other to create a more competitive enterprise and a more habitable planet.

”

Stéphane Souchet

Global Head of Industrial Manufacturing
KPMG International



Contacts

Stéphane Souchet
Global Head Industrial Manufacturing
KPMG International
+33 (0) 1 55 68 33 90
ssouchet@kpmg.fr

Romain Liotard
Global Sector Executive, Industrial Manufacturing
KPMG International
+33 (0) 1 55 68 96 84
rliotard@kpmg.fr

Grant McDonald
Global Industry Leader, Aerospace and Defence
KPMG International
+1 246 233 7866
grantmcdonald@kpmg.bb

Stijn Potargent
Partner, Deal Advisory
KPMG in Belgium
+32 2 708 36 81
spotargent@kpmg.com

Jos Joos
Executive Director Procurement & Supply Chain
KPMG in Belgium
+32 2 708 36 84
josjoos@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

home.kpmg/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2022 KPMG Advisory, a Belgian BV/SRL and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit home.kpmg/governance.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Throughout this document/film/release/website, "we", "KPMG", "us" and "our" refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity.

Designed by Evalueserve.

Publication name: Global Manufacturing Prospects 2022

Publication number: 137835-G

Publication date: January 2022