THE RESILIENCE PLAYBOOK FOR MANUFACTURERS: ENABLING FUTURE-FOCUSED RECOVERY
More than 18 months after the pandemic first impacted the U.S. manufacturing sector, economic activity is nearing pre-pandemic levels, aided by the vaccine rollout and approval of booster shots. Although challenges remain, the Federal Reserve has projected **7% GDP growth for 2021**, which is good news for both consumers and businesses.

For manufacturers, the focus must be on preparing to meet the rising demands of a rebounding economy. As customer demand increases, manufacturers will need to adjust their operations and supply chain strategies while working to anticipate how demand is likely to change. It’s not just about making customers happy, however—manufacturers will also need to keep up with changing state, federal and international regulations, all while taking active steps to mitigate the risks that the pandemic put center stage.

Now is the time for action—the choices and moves you make today will have a significant impact on your business in the post-COVID-19 environment. To get from recovering to thriving, it’s all about being proactive and capitalizing on your momentum ahead of your competitors.

It’s time to re-enter growth mode.

**WEATHERING AN ECONOMIC CRISIS IN FOUR STAGES**

Based on the trajectory of past pandemics and recessions, we’ve been able to determine the general stages of the pandemic-recession cycle: Persevere, Maintain, Recover and Thrive. The duration of each stage varies based on the course of the virus, vaccination rates, the trajectory of the economy and more. The stage each manufacturer finds itself in varies as well—while some manufacturers are well on their way to meeting accelerated demand and growing their business (the Recover stage), others are still working to optimize performance (the Maintain stage).
THE PANDEMIC-RECESSION CYCLE

STAGE 1: PERSEVERE
Beginning of the downturn. Immediate actions are required to ensure employees are safe and healthy, capital is adequate, and suppliers and customers are closely connected with the business. Scenario planning is beginning using economic and customer data.

STAGE 2: MAINTAIN
Business is under control. Employees are safe; capital structure is solid. Operations are maintained at the proper levels to meet demand.

STAGE 3: RECOVER
Order rates begin to increase. Manufacturing operations and supply needs are adjusted based on increasing customer demand and availability of raw materials/components.

STAGE 4: THRIVE
Business is meeting or exceeding market growth rates. Order rates continue to grow, and the new norm of growth is established in the business.
THE MANUFACTURING EXPERIENCE AT A GLANCE

The pandemic hit manufacturing hard in March of 2020, as lockdowns and supply chain disruptions pushed the PMI®, manufacturing employment and average manufacturing work hours to extreme lows. However, the sector began to bounce back quickly. As of August 2021, activity in the industry had nearly returned to pre-pandemic levels. While COVID-19 variants could constrain economic growth temporarily, manufacturers have proven resilient and are well-positioned to respond to challenges.
In the figure below, we outline the practical levers manufacturers should consider pulling to expedite recovery and gain competitive advantage at each stage of the pandemic-recession cycle.
RECOVER / THE ECONOMY REBOUNDS

In this third of a four-part series, we will focus on the moves that manufacturers should make during the Recover stage to meet increasing customer demand as the economy begins to rebound.

TRIGGERS

Signs your business is ready to shift from Maintain to Recover

Your business is not at pre-pandemic levels yet, but your order rates are increasing.

You’re working to determine what your post-pandemic normal will look like.

Your supply chain is experiencing minimal disruption and beginning to resume normal operations.

Your workforce is vaccinated or nearing full vaccination and all of your facilities are open.

SCALING UP WHILE BUILDING FOR THE FUTURE

As order rates increase, manufacturers will need to ramp up production—which means they need more workers. However, for years manufacturing has suffered from a skills gap which will present problems as Industry 4.0 adoption continues to gain steam. According to BDO’s 2021 Industry 4.0 Survey, 43% of manufacturers are accelerating some or all of their existing digital plans as a result of the events of 2020, but a lack of tech-savvy workers will hinder their progress. There are more technologies integrated into everyday manufacturing processes than ever before, and the ability to use these technologies is a must for today’s workforce. As job roles require greater digital literacy, they become harder to fill, especially from a labor pool that’s already in high demand.

Manufacturers will need to prioritize not just hiring and retaining skilled workers, but also upskilling and retraining current employees. They must consider options for attracting workers from non-traditional backgrounds to compensate for the competitive labor pool. They also need to consider remote work policies, as some employees value the flexibility afforded by remote work over other types of benefits.

Here are the key actions manufacturers should take to ensure they have the right people in the right places to build a future-forward business:

- Assess your current benefits packages and make them more competitive. Consider things like childcare incentives and shift preferences and offer more flexible and generous PTO policies.
- Create a more flexible work arrangement to appeal to employees who value flexible working as much or more than increased compensation and benefits.
- Invest in your local communities to attract and foster talent and interest in the manufacturing industry. You can do this by attending career days at local high schools and universities and offering tech-focused apprenticeships to promising candidates.
- In your marketing and branding, highlight the advanced innovative aspects of your organization to attract workers with technology backgrounds and interests.
ACCELERATING TOP-LINE GROWTH & INNOVATION

Post-pandemic economic recovery is marked by a period of rapid change—in demand, customer expectations, business models and more. To further complicate matters, the changes are constant. For example, customer demand for a product may jump one week, then fall dramatically the next. We saw this happen during the pandemic when demand for masks spiked. Manufacturers rushed to produce masks, only to be left with a surplus of product when demand fell just as suddenly.

Manufacturers need to be able to not only anticipate and proactively manage changes in demand, but also respond to unexpected demand surges. Additionally, they need to meet increasing customer expectations for better quality, faster delivery times and greater convenience, a trend that has been led by business-to-consumer models and is quickly diffusing into the business-to-business universe. To that end, manufacturers must also foster greater collaboration, both internal to the organization and externally with suppliers and customers, while also adapting to an increasingly digital business environment and leveraging technology to unlock new value.

Solving for the unexpected is a challenge, no matter your business model. For manufacturers, meeting that challenge will enable outstanding growth as they emerge from the pandemic.

Here are the key actions manufacturers should take to ensure their business strategy positions them to seize post-pandemic opportunities:

- Accelerate Industry 4.0 adoption to introduce greater agility, operational efficiencies and cost optimization into your business. Focus on smaller pilot projects first for quick wins before moving onto more ambitious projects.
- If you have cash on hand, negotiate supplier payment terms to get an increased priority on your deliveries.
- Assess supplier risk, starting with priority direct material categories with the objective of improving security of supply for goods and services to capitalize on increased demand.
- Evaluate your production and distribution network to determine if the future business strategy/growth plans can be successfully achieved under the existing footprint.
- Increase customer intimacy to assess if pandemic behaviors will continue to evolve into the new normal or will readjust back to pre-pandemic life. Take steps to better align sales and operations planning to manage accordingly.

- During the pandemic, you likely assessed your product portfolio and pivoted to focus on your greatest revenue drivers. Now, it’s time to reassess and consider which products should be reintroduced and which can be phased out permanently, and how to adjust your manufacturing processes to be most efficient for your new product portfolio.
- Use technology like data analytics, artificial intelligence (AI) and machine learning (ML) to improve demand forecasting. Focus both on real-time and predictive insights into demand to understand which customer behaviors and demand patterns are likely to be sticky and which could change quickly.
INCREASING FINANCIAL FLEXIBILITY

With order rates increasing, manufacturers in the Recover stage may be seeing a financial bump. Now is not the time to overspend; however—it’s important to use your money wisely to capitalize on current opportunities. With the right investments, you can lay the foundation for continued growth in the future and push yourself into the Thrive stage.

Manufacturers need to take stock of their financial responsibilities in the coming months—in particular, the status of their government funding and whether they need to repay the loans received during the height of the pandemic. Additionally, they’ll need to consider how to keep costs low while still creating an agile and stable supply chain. Through it all, manufacturers will need to account for cash flow constraints, particularly during lulls in customer demand, as well as payment cycle challenges, which may complicate supplier relationships and investment plans.

Now is the time to harness financial power to boost your business forward. With the right strategy, manufacturers can make intelligent investments with an eye for long-term business growth.

Here are the key actions manufacturers should take to ensure they’re making the right financial moves to supercharge their business performance:

- If demand provided a bump to cash flow, use that money to fund the longer-term capital needs of the business and ride the momentum forward.
- Target operational improvements and long-term cost efficiencies so you can fund growth through reinvestment.
- Resist the urge to spend cash just because you have it. Follow zero-based cost budgeting and go back to your roots where every dollar matters.
- Focus on gaining a holistic view of your supply chain to inform cost optimization strategies alongside investments in risk mitigation.
- Maximize your internal capital by redeploying or selling underused assets.
- If you haven’t refinanced your debt recently, you should leverage your improved financial position to both reduce the weighted-average interest rates on your debt and push any near-term maturities into the future.
VALUE CHAIN DE-RISKING

The pandemic has caused a drastic shift in how we assess and address risk. From unimaginable supply chain disruptions—resulting from natural disasters, crucial shortages like the semiconductor chip shortage, geopolitical tensions and more—to devastating cybersecurity attacks, businesses are facing a threat environment unlike anything we’ve ever seen before. At the same time, businesses are grappling with increasing demands from investors, regulatory bodies and customers alike around their management of environmental, social and governance (ESG) risks.

Manufacturers must turn their attention to optimizing their global value chain footprint by increasing supply chain visibility, assessing their carbon footprint and diversifying their supply chain geography in order to preserve business continuity and protect themselves from possible future disruption. New technology like GPS tracking and digital twin technology can enable greater supply chain visibility, mitigate risk and unlock new value—but manufacturers must also be aware that these technologies could introduce greater cybersecurity vulnerabilities. Furthermore, by their very nature, some parts of the supply chain will be outside of manufacturers’ direct control and will expose them to risk driven by ESG factors such as human rights abuses and corruption. Manufacturers need to not only be aware of the risks they’re exposed to via their supply chain, but also take steps to mitigate those risks however possible.

In addition, manufacturers need to comply with disclosure requirements associated with the vast ESG regulatory landscape that continues to expand and evolve globally. These regulatory frameworks provide the license to operate in numerous countries outside the US; new regulatory requirements are expected to follow soon in the U.S., requiring companies to comply with climate commitments made at the Climate Summit in April 2021 by the Biden administration after rejoining the Paris Climate Agreement earlier in 2021.

Mitigating both known and unknown risks is critical to business continuity. For manufacturers, the challenge is great—but not insurmountable.

Here are the key actions manufacturers should take to minimize risk and uphold their social responsibilities:

- Assess the risk profile of your supply chain and make any necessary operational changes to mitigate current and future disruption, such as reducing reliance on a small set of suppliers from one location or addressing reputational exposures related to unethical labor practices.
- Get as familiar as possible with your suppliers’ network and resource pool to proactively manage issues such as forced labor, sub-standard working conditions and pay equality.
- Implement digital tools and solutions to mitigate disruption and unlock new value. Make sure privacy safeguards are built into all digital systems to provide maximum cybersecurity protection while providing transparency.
- Consider what physical environmental risks your company may face because of climate change and plan accordingly. You should create disaster preparedness plans to proactively address these risks while also making investments to improve the resilience of your physical assets to natural disasters.
- Understand the risks associated with transitioning to a lower carbon economy. Assess environmental risk factors, your response to them, and develop a plan around how you will position yourself to manage climate change transition risks going forward. Based on insights gained from the data you collect, create or update an ESG policy.
- Stay up to date with emerging trends around ESG regulations and map out the operational impacts of any new legislation that passes.
COMPLIANCE EFFECTIVENESS AND VIGILANCE

Increasing global connectivity means increasingly compliance complexity. Every manufacturer will be directly or indirectly impacted by global regulations, because even if all of their suppliers and customers are located in the U.S., their suppliers’ suppliers or customers’ customers may be international. The bottom line is that supply chains are global by nature, and it’s no longer enough to keep up with U.S. regulatory requirements—manufacturers must remain up to date on disparate regulatory environments around the world.

Manufacturers must be fully informed of the relevant regulatory requirements in each country where they operate. They must consider the impact of new domestic regulations—such as California’s new data privacy laws, CCPA and CPRA—which may inspire federal data privacy legislation—as well as international developments like Brexit and the OECD’s work on developing an international digital taxation framework. At the same time, they must prepare for upcoming federal tax and trade policy regulation changes under the Biden administration, as well as new policies targeted at the manufacturing industry, including new incentives to reshore supply chains to the U.S.

Here are the actions manufacturers should take to ensure they’re meeting compliance and regulatory requirements, both at home and abroad:

- Assess the regulatory implications of any planned operational shifts to your supply chain and scale your compliance capabilities accordingly to ensure you are compliant with any new regulations you may be exposed to.
- Stay up to date on global regulatory trends, particularly trends coming out of Europe—especially those related to data privacy, climate change and other ESG factors—as they may influence the direction U.S. regulation takes in the future.
- Conduct an audit of your supply chain to determine if any part of it falls under categories that the Biden administration have deemed critical to national security—including semiconductors, large-capacity batteries, pharmaceuticals and rare-earth elements—and factor new reshoring incentives into your supply chain planning.
- Maximize use of available tax credits and incentives, including R&D tax credits, to lower your total tax liability and fund innovation.
- Take into consideration qualitative aspects of compliance when doing supply chain network optimization studies to ensure a comprehensive view beyond costs, lead times and service levels.

GROWING FOR THE FUTURE

The gradual recovery of the economy opens new doors to growth for manufacturers. Now isn’t the time to get complacent—the moves manufacturers make in this stage will position them to thrive or just survive in the pandemic’s aftermath. Manufacturers need to adapt in real time to the fast-fluctuating norms and market trends that accompany the economy’s recovery, while correctly identifying what pandemic changes are permanent and which are only temporary. The most successful manufacturers will be able to plan not only their immediate next moves, but also forecast a full picture of their post-pandemic business environment so they can begin preparing today for tomorrow’s world.
Stay tuned for the next and final edition of the resilience playbook for manufacturers, focused on the key strategic actions for the Thrive stage of the pandemic-recession cycle and beyond. Make sure you’re subscribed to our COVID-19 insights for manufacturers so you don’t miss a thing.

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Just need the high-level? View our interactive guide across all four stages of the manufacturing resilience journey here.
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