Media Room: Manufacturing Insights Top 10 Global Supply Chain Predictions for 2009

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Manufacturing Insights spoke with technology vendors, consultants, and buyers about what the coming year will hold for supply chains in the manufacturing industry. The result is our top 10 predictions for 2009. Although there is no strict hierarchy, we do begin with predictions that relate broadly to supply chains (and underlying industry trends), moving then to those that look more specifically at key business processes, and ending with anticipated emerging business/technology initiatives.

What a difference a year makes! On October 9, 2007, the Dow Jones Industrial Average reached an all-time high of 14,279. One year later, the index was down almost 40%, hovering in the 8,200 to 8,800 range. Stock values were not the only metric to swing wildly. Perhaps the most telling statistic for manufacturing is the Institute of Supply Management's PMI number. The October value represented the third consecutive month of economic contraction after 83 consecutive months of growth, and November and December have been no better. The sub-indices for production levels, new orders, and employment all reached lows.

While there is no shortage of bad news and indicators, the large manufacturing firms we speak with realize that with a downturn comes an **inevitable recovery**. Even the automotive industry talks about past patterns of their industry being "first in, first out" when it comes to a recession and being ready to serve the pent up demand. Economic downturns also represent an opportunity for manufacturing companies to recalibrate their operations. Channel partners can be rationalized, inventories reduced, production assets modernized, and, most importantly, supply and demand can be rebalanced in preparation for a recovery.

Given the challenging economic environment in 2009 and manufacturers' intentions for austerity in IT investments, **Manufacturing Insights offers the following supply chain predictions for 2009:**

Prediction #1: Companies will exploit well-performing existing tangible and, especially, intangible supply chain assets to ride out the financial crisis and prepare for recovery.

Prediction #2: Modern Supply Chain organizations will put expenditure budgets under greater scrutiny and new investments will be cost-savings focused, requiring shorter payback periods. Expenditures will be made through the lens of cost/value.

Prediction #3: Companies will "right size" their supply chains for profitable proximity and take a total-landed cost approach to product sourcing. Standard corporate platforms will seek to configure, calibrate, and control increasingly complex scenarios.

Prediction #4: Supply chain technology initiatives must support the standard business platform and focus on modernization and decision making.

Prediction #5: Economic uncertainty, particularly for smaller suppliers in emerging economies, causes manufacturer 'brand owners' to consider strategic investments at critical supply points and financial support for key suppliers.

Prediction #6: CRM and consumer-centricity efforts continue to grow across the Modern Supply Chain as manufacturers attempt to provide the right kinds of innovation and new products. The sale is just the start as services become an increasingly important part of the 'product experience.'

Prediction #7: The high 2008 year-end inventory levels will cause manufacturers to look at supply/demand rebalancing with a focus on strategic network optimization and multi-echelon inventory optimization tools, and where industry-relevant, price and trade promotion management/optimization.

Prediction #8: Compliance-driven RFID initiatives continue to wane in favor of ROI-driven asset-tracking and security applications as manufacturers increasingly look at RFID as 'just another tool in the toolkit.' One consequence of this will be continued vendor consolidation in an effort to provide end-to-end applications and deeper industry-specific expertise.

Prediction #9: As global economic pressures mount, outsourcing opportunities proliferate and global supply networks become more complex, risk management becomes both an increasingly significant capability and a key differentiator for the Modern Supply Chain.

Prediction #10: Sustainability discovers metrics. No longer a "feel good" public relations proposition or even a regulatory compliance mandate. Emerging standard measures and a desire to benchmark will impact sustainability initiatives and the associated investment in technology and services.

Buckle up, it's going to be a rough ride. There is more bad economic news than good, and despite the recent agreement in Washington to approve loans to the 'Detroit 3' automakers and a November lull in home foreclosures, most expectations are for a tough start to 2009. So, it is practically certain that there will be more pain before we see evidence of a recovery. But, every economic downturn eventually ends and vitality returns. History shows that companies who stayed the course in improving important core capabilities enjoyed higher success when the good times came back.

Manufacturing Insights suggests that the following areas of IT investment be spared the knife:

1. **Improving Product Management Decisions**
2. **Supply Chain Optimization**
3. **Modernize Operations and Value Chains**
4. **Build Sustainability into Applications**
5. **Governance, Risk and Compliance/Global Trade Management**

Although we expect to see investment in the supply chain application areas highlighted in this paper, clearly manufacturers are leery of new investments. If borrowing continues to be restricted and cash from operations suffers due to slowing sales, cash-flow availability to fund new investments obviously will be impacted. We do expect that for 2009, and perhaps the next couple of years after that, will be about taking advantage of the information already available to you, encouraging evidence-based management, and being precise in your tactics as well as frugal with your resources.