Eliminate Volatility with Dynamic Operations, Part 2

This is part two of a two-part piece. Part one can be found here *[1].*

By GARY GODGREY & RUSS RASMUS, Accenture

Russ Rasmus

As manufacturers manage against those concerns, we have identified four key areas where we suggest that they concentrate as they re-imagine their operations to add greater flexibility, efficiency and customer responsiveness. Each area is supported by “the building blocks” for dynamic and flexible operations:

1. **Strengthening the operating model.** For many companies, the first step is to focus on an operating model, which provides the critical capabilities that support daily operations. Indeed, our research found that most manufacturers acknowledge weaknesses in their operating models across multiple dimensions: organization structure, talent management, business processes, information technology, adaptation to macroeconomic factors and regulatory policies management. To do this, companies need *adaptable structures* that build flexibility into the operating models so they can adjust to changing market conditions.

2. **Managing the physical network.** Top-performing manufacturers are adjusting their global footprints to more effectively balance production costs, lead times and their ability to flexibly respond to customer demand and diverse market

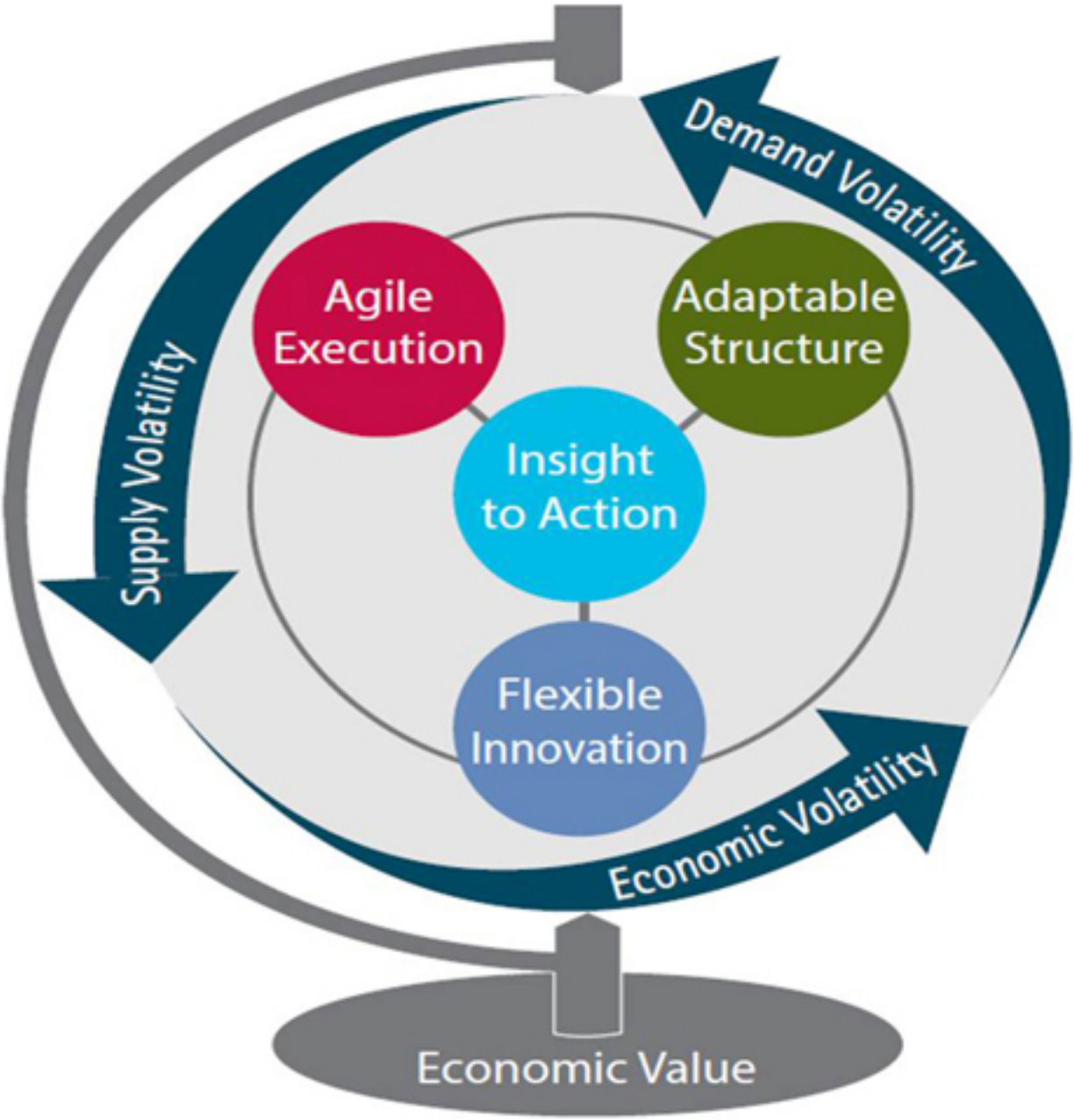
developments. For many manufacturers, this has resulted in relocation of operations, starting new operations and shutting down others.

Companies that efficiently manage these transitions and start-ups — either by bringing production to where it is needed or by skillfully employing contract manufacturing — can gain the ability to quickly adjust capacity as demand changes, thereby achieving a competitive advantage. A central capability for accomplishing this is *flexible innovation*, which companies can use to help grow their business and drive differentiation through innovation, without increasing complexity.

3. **Investing in capability improvements.** Maintaining profitability in established markets while pursuing growth in emerging economies requires manufacturers to build strong capabilities in key areas of the business. This may mean acquiring manufacturing equipment and infrastructure, as well as in vital software tools to manage performance. It also entails putting more muscle behind services and initiatives to reduce the cost of goods sold, cut inventory levels, and improve operational efficiency.

Our research indicates that companies are investing in more sophisticated visibility and decision support capabilities to help them manage their global network of vertically integrated and contracted operations. Indeed, running efficient and operations requires a clear picture of one's network performance and an understanding of where and how to make adjustments to respond to internal and external developments. A key capability supporting such improvements is *insight to action*, which drives intelligence through increased visibility and analytics.

4. **Creating a leaner, more flexible and more highly skilled work force.** Labor is a significant component of any manufacturer's cost structure, so maintaining a work force that is consistent with demand and revenue is critical. Although organizations achieved their goals associated with creating leaner organizations during the recent recession, work force skills remain a challenge today for many manufacturers. In fact, one-quarter of Accenture survey respondents said obsolete skills in their manufacturing organization are posing a significant problem, with thought leadership, IT and engineering skills being in the shortest supply. Manufacturers identified skilled trades' labor and supervisors as roles they need to fill, but they report that recruiting for these positions is challenging. In a state of permanent volatility, companies must recruit executives who have demonstrated skills in designing and leading an organization through transformational change. This is part of *agile execution* [2], the ability to adjust and respond to changing customer expectations.



While manufacturing executives remain optimistic about growth, they are well aware that potential obstacles remain. Success in this era of seemingly permanent volatility requires flexibility and agility in their operations. An adaptable, cost-efficient global manufacturing network not only can improve competitiveness, but also can enhance the customer satisfaction that provides a strong foundation for growth. By carefully tailoring manufacturing operations for optimal end-to-end flexibility, companies can embrace the unpredictable – anticipating and mitigating risk, enhancing visibility and capacity allocation and facilitating much more adaptive execution.

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