Diversified Industrials

At first glance, the most interesting results – or most varied, at least – come on the final hypothesis on outsourcing. I believe that these results correlate to the different sub-sectors within manufacturing and the stage they're currently at on their outsourcing 'journey'.

The businesses most likely to be considering reverse outsourcing are automotive businesses. Concerned by quality issues and keen to keep certain core competencies and knowledge in-house, they are already starting to turn their back on outsourcing.

The latest thinking on this issue varies from industry to industry. In certain sub-segments of aerospace and defence for example, the outsourcing journey is only just beginning and so such businesses are likely to have been in the 'disagree' camp.

Looking at hypothesis #1, less than a quarter of all respondents feels that a whole-scale shift of R&D operations to India or China is a possibility. For those who take the opposite view, it's worth remembering that any retention of European R&D capability is still like to be incorporated into the growing trend towards a polycentric innovation model.

This represents a departure from the previous ethnocentric model of having a single R&D centre, working on products aimed at multiple, diverse markets. Instead, while there may still be a main R&D centre, it will be supported by a network of R&D hubs around the world, tasked with developing products more suited to localised needs.

However this pans out, I am sure that the role of technology as an enabler of innovation will continue to grow in importance. For this reason, I am somewhat surprised that amongst the eleven Succeeding in a Changing World issues, DI respondents have given "technology as a strategic enabler" such a low priority ranking.

Returning to the hypotheses, I would not have expected many people to disagree with #2 or #3 – and so it proved. Translating this into reality is no mean feat though. For that reason, manufacturers will have to think long and hard about the sort of model that will work for them.

On the supply chain front, I think that so much of it boils down to knowledge – and being prepared to share really detailed information with suppliers. Openness and transparency translate into flexibility and, right now, manufacturing businesses need to be as flexible as possible.

Looking at the eleven issues, I have already mentioned my surprise at seeing technology ranked so lowly. The same applies to 'sustainability and the green agenda'. This is a topic I hear a lot about in DI boardrooms. Nowadays, it has significant implications for costs and revenues – in terms of products' attractiveness and the dangers of falling foul of regulation.

I can only hope that respondents simply consider this as another cost effectiveness issue and that this explains the high rating given to "changing business operations to realise cost efficiencies". This is now too big a topic to ignore.

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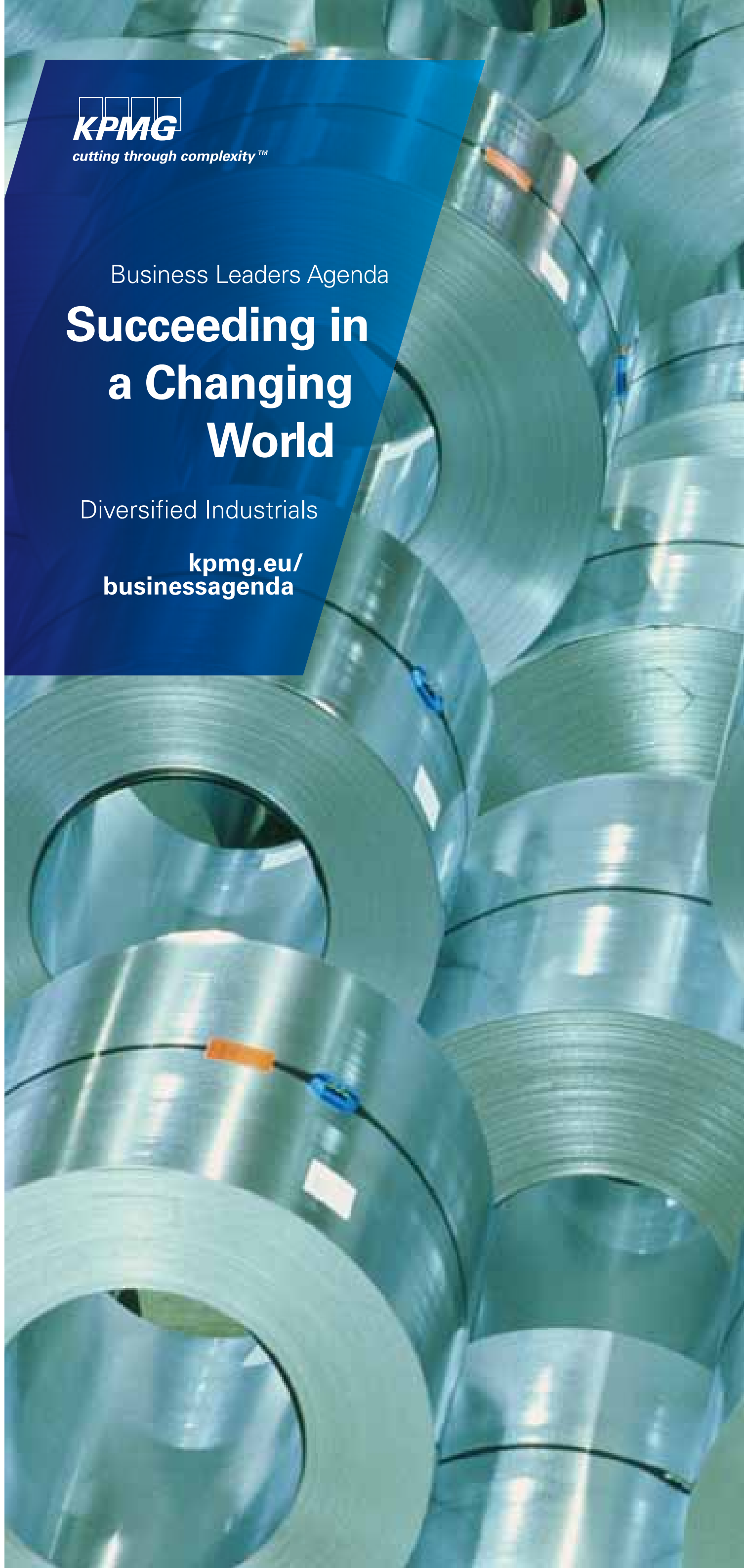
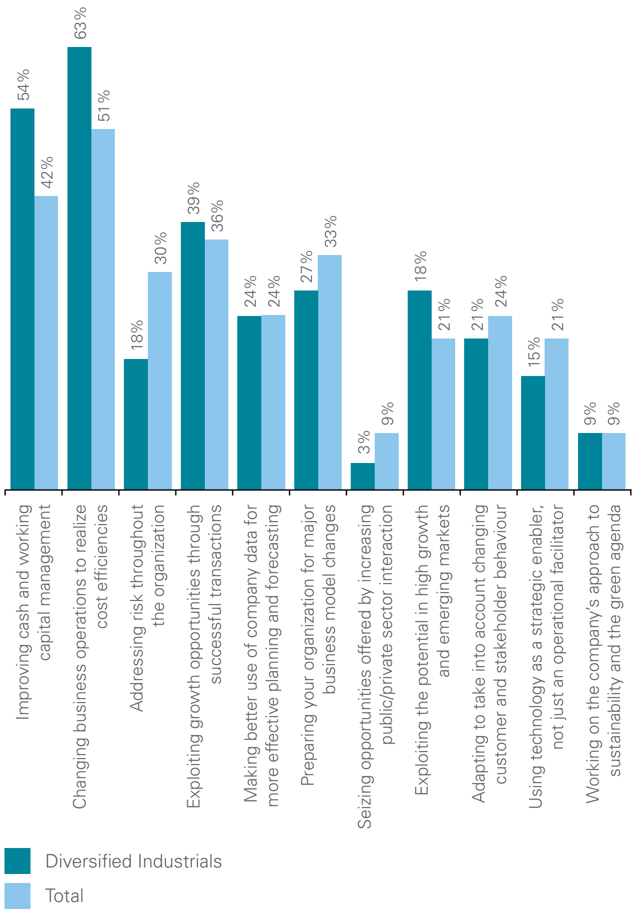


Diversified Industrials – Sector Results

Comparison of top business issues for Diversified Industrials with total results



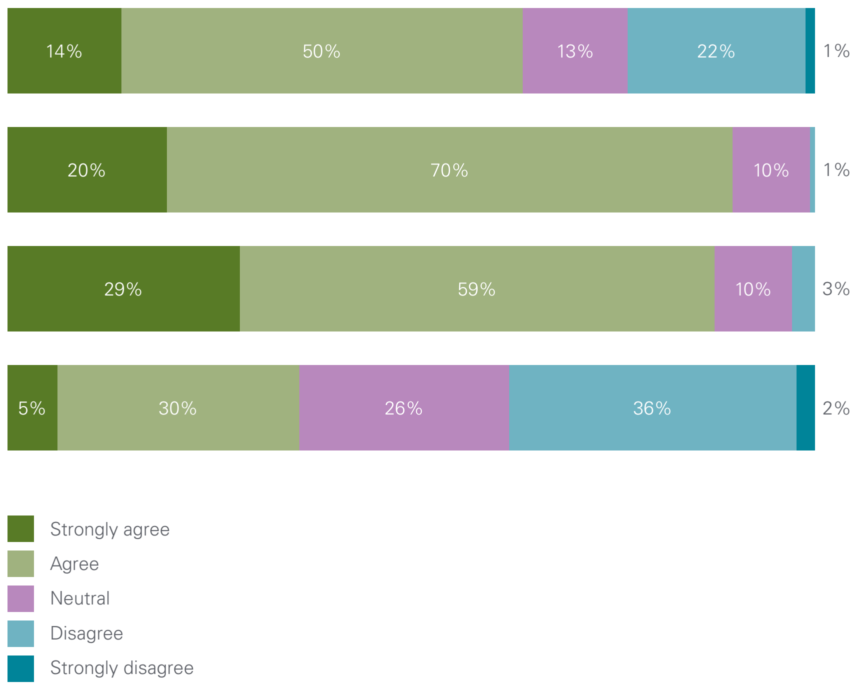
Percentage add up to 300 percent as all respondants had three votes.

Hypothesis 1:
Large European manufacturers are unlikely to ever shift their entire R&D operation to China and India, despite the presence of thousands of suitable, available engineers in those countries. These companies will retain their core R&D operations in Europe for the foreseeable future.

Hypothesis 2:
The growth agenda for European manufacturers will be characterised by a number of factors such as continued globalisation, the need for a footprint in emerging markets, reassessing core competencies and the convergence of sub-sectors within manufacturing. The net result will be that manufacturers will be obliged to significantly revisit their business and organisational models to take account of the shift in demand patterns brought about by these factors.

Hypothesis 3:
In the future, the key characteristic of manufacturing industry supply chains will be closer cooperation to diminish risk, to gain greater flexibility and to be able to stop or re-start supply immediately.

Hypothesis 4:
As manufacturers increasingly come to bemoan the loss of product quality and of control over suppliers which has come about as a result of outsourcing parts of their operations, we shall see more outsourcing arrangements reversed and brought back in-house.



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Dr Gerhard Dauner

Further info

The SiCW Business Leaders survey Exec Summary is available at:
www.kpmg.eu/businessagenda

A suite of videos and kitcards, on the top themes is available online. This includes Jeremy Kay outlining what the Board is thinking about in terms of changing their business operations to realise cost efficiencies; and Andrew Ashby on how companies can improve cash and working capital management. To view the information please go to:
www.kpmg.eu/businessagenda