Survey finds manufacturing CEOs reporting aggressive growth strategies

The 2016 KPMG International Global Manufacturing Outlook (GMO) has stated that 74% of manufacturing company CEOs reported growth as a high priority over the next two years. Competition for market share is fierce with many planning rather aggressive strategies in the pursuit of their growth objectives.

Douglas K. Gates

Image source: KPMG.com

More than half of the manufacturing CEOs responding to the KPMG GMO survey categorise their growth strategies as 'aggressive' and more than one in six say their growth strategy is 'very aggressive'.

According to Doug Gates, KPMG's global chairman of industrial manufacturing: "There are fierce competitions being fought over every scrap of market share available and we will certainly see winners and losers. Maintaining the status quo will not drive growth. Manufacturers need to do something different in order to win market share in today's environment."

Preference for organic growth

Indeed, the survey shows that the responding CEOs do have plans to achieve their growth objectives through multiple channels. With a preference for organic growth over mergers and acquisitions (M&A) activity (61% versus 40%, respectively), most manufacturing CEOs say they will leverage the opportunities in entering new markets and making changes to current service and product mixes.

Ninety-two percent of survey respondents are stepping up their focus on entering new markets over the next two years. Forty-three percent say their primary motivation for foreign investment is to capitalise on lower cost manufacturing opportunities and 34% say it is to gain access to new markets.

Ironically, while many Western manufacturers are talking about a 'sell to China' strategy, it is actually respondents from the emerging markets (India and China in particular) that are most likely to be investing in order to gain access to new markets. Forty-four percent of respondents from China and 47% of those from India said that gaining access to new markets was the primary reason behind their foreign investments.

Of the respondents indicating plans to change their product range, more than half (56%) say they will make significant investments to launch one or more new products into the market; 39% say they will invest to launch one or more new services.

Innovation and R&D investment

"Whether investing in incremental improvements for existing products or inventing entirely new products and services, what is clear is that manufacturers recognise an urgent need to increase their investment into innovation and research and development (R&D). Over the past three years KPMG has been tracking manufacturers' investment intentions. The KPMG data shows that, following a drop in R&D in 2014, investment expectations sky-rocketed in 2015 and seem set to continue to grow in 2016," said Gates.

More than one-in-five (21%) of all survey respondents said they expect to spend more than 10% of revenues on R&D over the next two years. Almost half (49%) say they will spend 6% of revenues or more (in the next two years).

Respondents to the survey are showing progression to an integrated manufacturing strategy and having a digital factory. Twenty-five percent of the CEOs responding say they have already invested in 3D printing and additive manufacturing technologies. An equal number say they have already invested in artificial intelligence and cognitive computing technologies.

Robotics

The survey shows that the use of robotics on the manufacturing floor is also likely to attract significant investment. In fact, almost two-fifths of survey respondents say they will definitely channel significant amounts of their R&D investments towards robotics over the next two years.

“Manufacturers are evolving into industry 4.0 and becoming more digital. Investments into new manufacturing technologies are a way to enhance agility, flexibility and speed to market when designing and launching new products and services – critical elements for manufacturing companies to win in the marketplace,” concluded Gates.

The tentative state of the domestic manufacturing sector, which is hampered by weak local demand, soft international trade and renewed cost pressures, is unlikely to recover significantly in the short to medium term.

According to Fred von Eckardstein, director and sector head of construction, industrial & automotive markets, KPMG in South Africa, a bold and brave industrial policy is long overdue. “Business, labour and government urgently need to form a strong bond to focus on skills development, jobs, growth and export markets. South Africa is facing the inevitable transition from a heavily weighted commodities economy to an export led manufacturing economy.

“Other countries, such as China, South Korea and Germany, have shown that an export-led manufacturing economy can thrive as long as the political framework promises stability, a skilled labour force remains competitive, and business is not only allowed but encouraged to transform the local economy.”