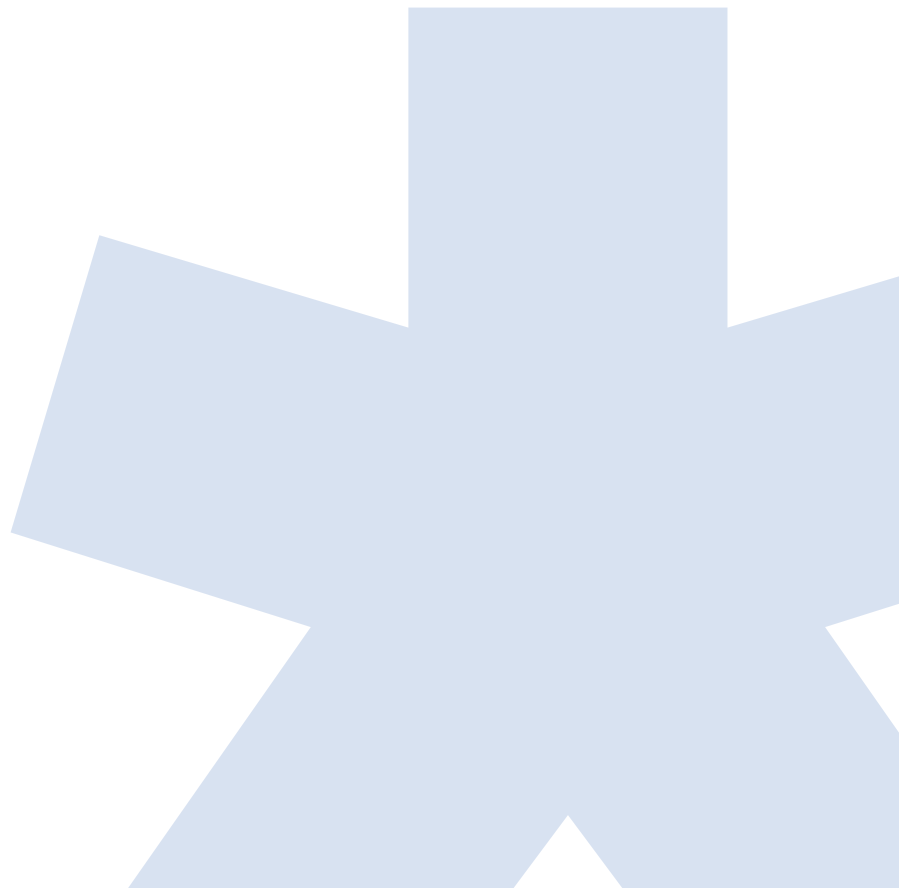




# COVID-19 Pulse Check: State of the EMEA Automotive & Manufacturing Industry

Christian Decker, Partner & Smart Manufacturing Lead, EMEA  
Andreas Fahr, Partner, EMEA

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Survey



# UNCERTAINTY AT THE EYE OF THE STORM

What the manufacturing industry is learning from the pandemic and what it's planning for the development of its customer business.

Few other industries have been hit as hard as the manufacturing industry has during the pandemic. Before COVID, the manufacturing industry, together with the automotive industry, was already facing its biggest restructuring in recent history. The fourth industrial revolution, the transition to alternative drivetrain technologies and the appearance of additional use concepts are just the tip of the iceberg.

Now, the entire industrial value chain is in question – anywhere where people have a hand in the process. This is especially true in the EMEA region where highly-qualified personnel play a decisive role in creating premium products that are competitive abroad.

But how are companies adapting to the limits on close contact with customers, partners and deliveries? Will they adapt their ecosystems to better react to the increased risks? Will they redirect and accelerate digitalization projects? Is there new impetus behind moves toward a more customer-centric value chain?

Recently, we conducted a survey of more than 40 top managers in the manufacturing industry in EMEA. The results show a wide range of opinions, especially about concrete steps that businesses could take to boost their resilience. There's much uncertainty around if, and how much, companies should adjust their operations to adapt to the pandemic.

# INCREASED RESILIENCE THROUGH MORE FLEXIBLE ECOSYSTEMS?

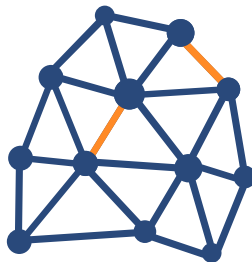
**Core result 1: Businesses are facing a growing need to adapt their supply chains. But only a few companies already have a plan to change their ecosystem.**

The uncertainties in the global value chain have grown significantly since the start of the coronavirus crisis. Manufacturing companies now know how vulnerable their processes are to external shocks. Managers have learned how good their development, purchasing, production, sales and after-sales processes are when faced with the new limitations posed by hygiene guidelines, lockdowns and border closures.

About two-thirds (68 per cent) of the experts surveyed concluded: "Managing supply chain disruptions is a key priority for us in the next 18 months." The remaining survey participants aren't yet ready to reach this conclusion.

**"MANAGING SUPPLY CHAIN DISRUPTIONS IS A KEY PRIORITY FOR US IN THE NEXT 18 MONTHS"**

**68 %**



All respondents know that the manufacturing sector has to find reliable ways of managing supply chain disruptions (such as compensating for trade limits or reductions in transport capacities).

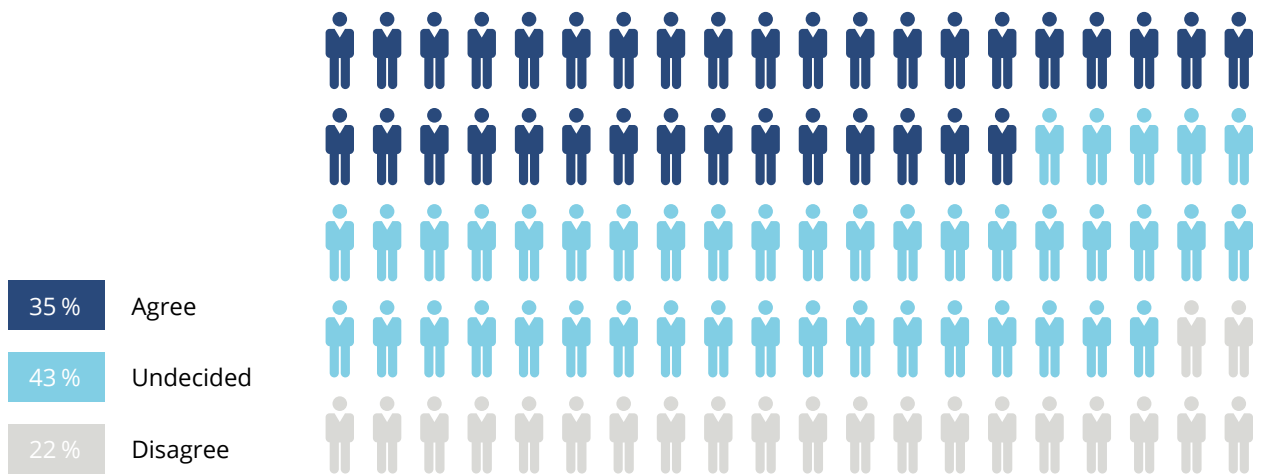
But is this also true for the execution? Is there equally significant agreement on how one should proceed practically? Our survey examined various ways in which manufacturing companies can expand their scope to make their ecosystem more resilient.

## The majority of respondents aren't planning on re-insourcing

We asked participants if they were considering bringing functions crucial to their corporate success back into their company.

One-third (35 per cent) of the respondents said that they could see themselves doing this, but the majority of respondents were undecided (43 per cent). The 22 per cent didn't see their company moving in this direction. Re-insourcing is only a real option for a minority of those surveyed.

### "I SEE THE NEED TO BRING FUNCTIONS BACK INTO THE COMPANY."

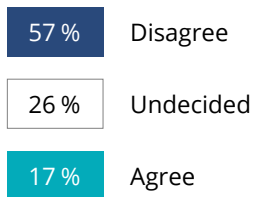


## Respondents expressed caution over M&A activity and consortia

Another way to bolster resilience could be through mergers and acquisitions. But respondents to our survey took a cautious stance.

In total, just 17 per cent agreed with the statement: “We will acquire or merge with other market players.” Yet, 26 per cent were of the exact opposite opinion. The remaining 57 per cent were unsure how M&A activity will develop as a result of the pandemic.

### “WE WILL ACQUIRE OR MERGE WITH OTHER MARKET PLAYERS.”



Thus, most respondents said acquisitions wouldn't be an appropriate step for making their supply chains more resilient. We asked if, instead, they were thinking about creating more consortia. This time, the undecided group was especially large. Just over three-quarters (77 per cent) of those polled couldn't currently say if they will put more emphasis on working in consortia or not. Just one in eleven respondents said that they are prioritizing the concept. The remainder said they don't see the pandemic as a reason to further expand collaborations.

Let's summarize: Most respondents confirm that the pressure to act in the supply chains has increased, and that it will – or indeed, must – lead to significant changes in their business ecosystems. But, a minority assumes that they will create structural changes, and numerous participants remain undecided.

Perhaps the need for change lies at the process level.

### “CROSS-LEVERAGING SUPPLY CHAINS THROUGH CONSORTIA IS PRIORITY ON OUR AGENDA.”



## MORE LEGROOM AT THE PROCESS LEVEL?

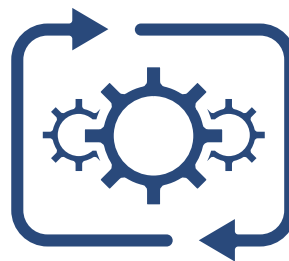
**Core result 2:** Manufacturers still have plenty of choice to drive process optimization. Nevertheless, few see the need to adjust their digital roadmap because of COVID-19.

### Manufacturing leaders are keenly aware of the affects of the pandemic

In total, 87 per cent of respondents agreed with the statement: "Business processes were significantly affected by, and during, COVID-19." No respondents thought that the pandemic had no effect on their business.

Many survey respondents provided us with detailed explanations of what processes the pandemic had hit the hardest. The spectrum of affected tasks covers almost the entire value chain. It starts with sales and engineering, moves on to procurement, manufacturing and assembly and then on to shipping and operations. Within the subsequent service business, all tasks that are part of lifecycle management were also mentioned. Essentially, every function along the value chain is affected in places where, in traditional process structures, employees, partners and customers need to interact, especially physically.

87 %



"BUSINESS PROCESSES WERE SIGNIFICANTLY AFFECTED BY, AND DURING, COVID-19."

## Potential scenarios

The external shocks created by the pandemic have imposed large-scale limitations on manufacturing businesses. But how do companies approach these operational challenges?

The quickest way to remove a strong dependency on physical interactions is to automate the transfer of data that's needed to correctly execute processes. Some survey participants mentioned, for example, the use of Augmented Reality (AR) solutions for maintaining production equipment, possibly through the use of Virtual Reality (VR) goggles.

The goal is to enable the customer's machine operators to perform specific maintenance. Factory employees are provided additional information, such as equipment designs, through VR goggles. This creates significant opportunities to leverage the knowledge of a service force without making it necessary for employees to visit the customer's plant.

Connecting predictive maintenance concepts can further boost the added value of this kind of automation. One solution uses sensors to send the basic parameters of a machine, or vehicle, during its operation over a secure connection to the manufacturer's service department. It monitors the data in real-time and identifies any anomalies as they occur, limiting the number of repairs needed. The system can use machine learning and artificial intelligence to continually improve its forecasting abilities. From the customer's point of view, this lowers the likelihood of downtime, which can quickly grow into a real problem during border closings or travel limitations.



## Differing maturities

These kinds of scenarios are not new. The protagonists of the fourth industrial revolution have been vigorously forcing these developments for years. And the focus is not just the shop floor.

Automation and virtualization programs have been targeting all levels of the industrial value chain for some time, including, for example, engineering and product development.

The ongoing coronavirus crisis has provided valuable proof of how well various development partners can collaborate with each other without being tied to a specific location. Comprehensive integration platforms that can be used remotely are already available in many places.

Despite this, many cases remain of employees who rely on their office workplace, since it's the only location where the system allows them to sufficiently meet compliance and security requirements.

The overall situation is complicated. The maturity of digital solutions continues to vary significantly, both within companies as well as between partners. Many places need to further expand their management and planning systems.

As the survey progressed, we asked respondents if their experience during the pandemic led their companies to advance their digital transformation roadmaps.

## Stable Roadmap

We asked respondents, "Will COVID-19 re-define your company's digital roadmap?"

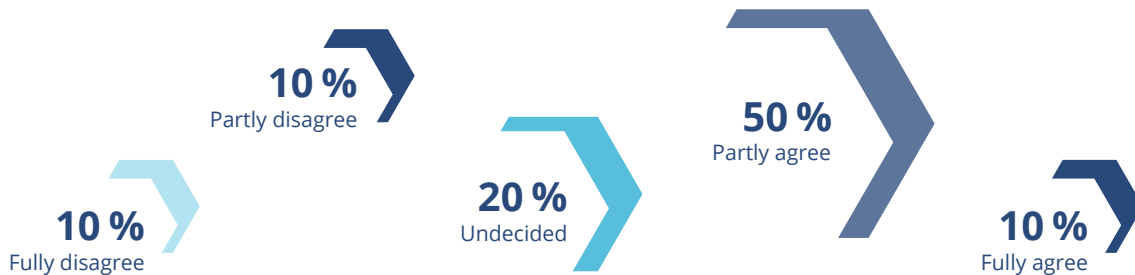
Three out of five of those surveyed agreed. But most only partially. Only one in ten admitted that their company had a long way to go. The remaining 40 per cent saw little – and some even no – reason for change.

The majority of respondents felt their basic roadmap was sufficient to combat the effects of the pandemic. This was confirmed by the responses to the question: "Given the impact of COVID-19, what are the guiding principles for your digital roadmap going forward? Please rank the following criteria." Here, the selection was based on the following criteria: Operational Risk, Customer Experience, Time to Value and Speed as well as Revenue and Cost Efficiency.

This can also be seen in the ranking. While revenue landed in third place, cost efficiency led the field. However, it's important to note that customer experience, operational risk, time to value and speed weren't been dropped, but they aren't the priority right now.

This backdrop makes it clear why the majority of those surveyed only see a moderate need to update their roadmaps. Many respondents see an increased weighting of cost efficiency and revenue as sufficient without altering the substantive direction of their roadmaps. It's a question of re-balancing the various criteria.

## "WILL COVID-19 RE-DEFINE YOUR COMPANY'S DIGITAL ROADMAP?"



The first four criteria reflect the key substantive guidelines that roadmaps from past years oriented themselves on. Cost Efficiency and Revenue show the economic background that feeds into the definition.

However, during the pandemic, these values have shifted significantly. Both business factors have clearly moved to the forefront and now affect the current roadmap discussion more actively than they did pre-pandemic.

The good performance of the customer experience & relations criteria shows that the respondents recognise the importance of this balance. It's only surpassed by cost efficiency. Customer experience and relations is the most important criteria under the more substantive factors by far.

But how much of an affect does this finding have on business?



1. Cost Efficiency



2. Customer Experience



3. Revenue



4. Time to Value & Speed



5. Operational Risk



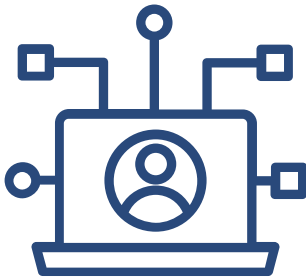
# ADAPTATION IN CUSTOMER BUSINESS?

**Core result 3:** The pandemic pushes the virtualization of the customer business. This creates new requirements. But companies assess their adaptability very differently.

“The shift from ‘physical’ to ‘virtual’ during COVID-19 is going to have a long-term effect on customer needs.” In total, 92 per cent of those surveyed agreed with this statement. It received the highest value in the entire survey by far. With little exception, experts agreed that the virtualization push of the past months would change customer needs for the long-term.

**“THE SHIFT FROM ‘PHYSICAL’ TO ‘VIRTUAL’ DURING COVID-19 IS GOING TO HAVE A LONG-TERM EFFECT ON CUSTOMER NEEDS.”**

**92 %**



But what exactly is driving the change? Nearly nine out of ten of those surveyed of those surveyed (89 per cent) said the most important point is “the desire for a more digital customer engagement.” This is especially about offering customers additional opportunities in designing the products they ask for.

The second most important driver of virtualization lies in sales and marketing. Two-thirds of the respondents were certain that their customers want more choice in how they communicate with them.

Nearly 40 per cent of respondents felt that “desire for more digital experiences” would become increasingly important in a post-pandemic world. This is essentially about usability improvements – a need that isn’t just limited to end consumers. Usability is constantly being pushed to the next level, with developments like outfitting production equipment with intuitive dashboards that can be operated without expert skills.

**Digital Customer Engagement: 89 %**

**Sales & Marketing Channels: 66 %**

**Digital Experiences: 40 %**

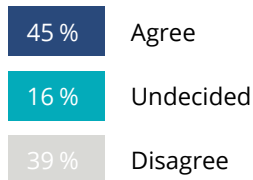
## Adaptability varies

A majority of those surveyed assumed that the changes in customer needs will affect the entire value chain. We wanted to know, against this background, how well industry is prepared to react quickly and sufficiently to new customer needs. The answers to this question varied widely.

While almost half (45 per cent) of the respondents see their sector as well or very well prepared, a nearly equivalent group (39 per cent) reached the exact opposite conclusion. Another sixth (16 per cent) still doesn't know how well or poorly they are prepared.

So, more than half of the survey participants expressed doubt that their company is adaptable enough. Many respondents based this on internal resistance to change, an insufficient understanding of customer-orientation and a change happening at too slow a pace. Processes haven't been adjusted enough. Many places still use the waterfall model to manage process and decision-making paths.

### „MANUFACTURING COMPANIES ARE WELL PLACED TO ADJUST TO RAPIDLY CHANGING CUSTOMER NEEDS.“



# CONCLUSION & RECOMMENDATIONS

The pandemic has laid bare the progress (or lack thereof) that manufacturing companies in the EMEA region have made in their much-needed transformation process. From the skills and abilities allowing them to meet growing customer expectations, to the ability of their employees to collaborate virtually, the sector has had to adapt quickly to continue to succeed.

Our research has found that manufacturing and automotive companies are having various degrees of success meeting these demands. Many respondents admitted that they weren't fully prepared to meet the need for virtual customer interaction.

In addition, those surveyed assumed the fundamental trend toward change would continue in their markets, and possibly become more acute. Many of the respondents also had no doubt that they will face other external shocks in the future that will have a similar impact to COVID-19.

Against this backdrop, it is clear that "continuing as before" is impossible. There will be major changes to the way we work. To remain relevant from a customer point of view, companies must systematically adjust to the demands of the virtual world and actively push the necessary changes.

In summary, we recommend that businesses:

## 1. Establish holistic customer understanding

Both digital and virtual customer interaction continues to increase and will become one of the most important forms of interaction. Having a holistic understanding of the customer relationship life cycle and aligning all value creation processes will be essential. Only those who know their customers across all touchpoints will be able to place them at the center of their products and services. Manufacturers can then maintain their market shares as both digital and virtual requirements increase more and more.

## 2. Switch to a digital operating model free of functional thinking

Businesses need to establish cross-functional collaboration in all areas of the value chain - which calls for a new operating model. The aim is to bring employees and partners together, allowing them to share their knowledge, skills and resources to continually adapt the company's products and services based on customer needs and market requirements.

For example, when a use-based leasing model needs to be created, product management would meet with experts from financial services, legal and IT to collaborate on a solution, breaking down barriers and silos between teams.

The path to this type of operating model is leading to the increasing dissolution of boundaries between enterprise IT

and business. Digital expertise - in all business areas - will continue to grow in importance, with software continuing to be a differentiating part of a business's portfolio of products and services

## 3. Rethink supplier management

It's becoming harder for major companies to manage all areas of their value chains on their own. Market volatility, and the rapid pace of innovation, leave managers with no other choice than to redesign their supplier management. There's no doubt that classic customer/supplier relationships will remain valid. But supplier management also needs the flexibility and scalability that often only comes with partnering with external experts. In sourcing these partners, cost, while important, shouldn't be the decisive factor. It's about an optimal mix of price and quality on the one side and sustainable solutions and services on the other. Sourcing must develop a deeper understanding of which factors make up its company's core business to find the perfect partner for the business.

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