EXECUTIVE BRIEF

Digital technologies help manufacturers combat rampant inflation

Four common inflation-induced pain points and how modern, cloud-based ERP solutions help manufacturers cope

Recent inflation spikes are causing manufacturers worldwide to face potential threats to profitability and risks to customer relationships. To prevent negative pricing-related fall out, manufacturers should take a broad view of their costs, product portfolio, and margin strategies. This will help put today's economic volatility in perspective, avoid panicked responses, and reinforce the continued need for investments in digitalization. Managed carefully, the current inflation challenges can become need-driven opportunities that embrace innovation and automation. Inflation countermeasures, such as adding product value or moving distribution hubs closer to customers, can offer long-term benefits that will continue to serve manufacturers and their customers even after the temporary inflationary price pains subside.

To successfully execute these measures, manufacturers can turn to modern software technology with advanced problem-solving abilities. Modern solutions help manufacturers to analyze the potential impact of inflation and gain insight into ways to better control waste, boost productivity, and increase value-add services—an important tactic in easing customer resistance to new pricing. The strategic combination of cost-cuts and value-enhancements will be essential, giving manufacturers powerful inflation-fighting insights and creating differentiators that will long outlast cyclical economic ebbs and flows.

Four common inflation-related pain points and suggested coping mechanisms

Statistica reports that the inflation rate in the European Union (EU) passed 10% (as of September 2022), with prices rising fastest in Estonia, which had an inflation rate of over 24%. By contrast, the inflation rate in France was 6.2%, the lowest in the EU at the time. The current rate of inflation in the EU is at the highest it's ever been—its prior peak was 4.4% in July 2008. Before recent inflation spikes, price rises in the EU had kept at relatively low levels, with the inflation rate remaining below 3% between January 2012 and August 2021.

US inflation has been hovering around 8%, the highest level in the last 40 years. Global supply chain disruption, the war in the Ukraine, trade tariffs, and high transportation costs are all contributing factors to widespread, climbing inflation. High costs of raw materials are universally felt by manufacturers in all industries and regions. According to a January 2022, **PwC Pulse Survey**, 73% of manufacturers say they'll need to increase prices of their goods and services to protect both gross and profit margins.

The related operational pressures—such as the cost of shipping goods—are hard to avoid. These challenges impact vulnerable start-ups as well as established enterprise-size organizations. Fortunately, for each major pain point, coping mechanisms and countermeasures are available for forward-thinking manufacturers willing to embrace modern, cloud-based technology.

1. Chip shortages and disruption

The ubiquitous nature of microprocessors—and the disruption caused by the recent shortage—shows how interconnected manufacturers, suppliers, and consumers are today, thanks to e-commerce and Internet of Things (IoT) capabilities. Many products have high tech elements. Even industrial and business-to-business (B2B) components often feature chips, sensors, and smart capabilities, making them vulnerable to shortages and related inflationary spikes and price volatility.

Even **with a possible end in sight** for the current chip shortage, some manufacturers, particularly automakers, are still hedging their bets by launching their own foundries for chip production. But it still may take years until the entrance of new suppliers helps balance supply and demand and stabilizes pricing.

Pricing and thin margins

Manufacturers that use cost-based pricing will be highly impacted by rising costs and will likely find it difficult to increase their go-to-market prices enough to compensate. Shrinking margins will be the result, putting profitability at risk. These manufacturers will need to address pricing as a big-picture issue—with raw materials, product reliability, speed of delivery, and value-add services as ways to justify increasing prices to customers.

Manufacturers can better cope with chip shortages and resulting costs hikes by deploying modern, cloud-based supply chain solutions, which will help:

Improve visibility—With full upstream and downstream visibility, manufacturers can receive notice of shipment delays, allowing the procurement team to form and execute alternative plans.

Forge partnerships—Creating strategic partnerships with suppliers is another way manufacturers can mitigate the risks of the chip shortage. Modern, cloud-based supply chain solutions support collaboration by providing portals and tools for securely sharing data.

Improve supply chain planning—Turning to modern supply chain planning solutions will help manufacturers become more strategic in planning purchases and optimizing shipping costs. Careful planning, enabled by forecasting, will help manufacturers better understand costs, risks, and options.

Think long-term—Accurate forecasting, supported by artificial intelligence (AI), will help manufacturers understand their long-term needs so they can confidently negotiate contracts with suppliers to guarantee availability. In some case, prices can be locked in, protecting the manufacturer from future price spikes.

2. High fuel costs and shipping

Fuel prices have climbed to startling, unprecedented levels, adding significantly to the costs of goods. Global political tensions, shifts in US drilling policies, environmental concerns, and escalating demand are among the factors contributing to a complex global situation. All regions are impacted, even ones with pipelines, fuel reserves, and relaxed sustainability mandates. While politicians continue policy debates, manufacturers must take actions to lessen the impact of fuel costs—or decide to pass costs on to customers.

Plan shipping strategies—Transportation costs of all types are impacted by inflation—from transatlantic container carriers to cargo planes and long-haul tractor trailers. Whether the shipments are perishable goods destined for retail shelves or components needed by manufacturers, the goods must reach their destinations as efficiently as possible, balancing speed and cost. This may require choosing new suppliers that are closer to the manufacturing plant. Software that provides end-to-end visibility and cost analysis is critical to proactive procurement strategies. Data supports making well-informed decisions based on facts, not fears or hunches.

Consider reshoring—Strategies for bringing plants back from emerging countries with low labor costs may require a fresh examination. The cost justifications have likely changed due to the disruption in shipping costs. When the savings achieved from low wages are eroded by high shipping costs, returning the production facilities to the home country is a logical step—if there is an available workforce. Cloud solutions support agile, rapid stand-up of new locations.

Establish hubs—Distribution hubs that are closer to the customer can also cut shipping costs. Assemble-on-demand strategies, too, can be set up so that the last step in assembly of accessories or kitting can be done in regional hubs. That way, the larger assembled goods, such as appliances or precision machinery, can travel shorter distances. Software that helps manage assembly and kitting is essential.

Outsource logistics—Turning to third-party logistics companies (3PLs) can help play a role in last-mile fulfillment. Outsourcing assembly, fulfillment, delivery, and set up often makes sense. Working with 3PLs, like any strategic collaborative partner, can best be managed via highly flexible cloud solutions that support sharing of data, while protecting security and data governance.

Control dispatch—Fleet costs also need to be examined by manufacturers. Unnecessary field service dispatches, redundant site inspections, and extra trips to customer locations for break-fix repairs or replacement parts can drive up overhead costs. Improving the first-time fix rate of the service department will yield substantial fleet savings. A modern solution for managing the service department will help ensure the right parts, tools, and technicians are dispatched the first time, reducing the need for repeat trips between the service center, parts depot, and customer location.

3. Customer experiences and alignment

Inflation is severely impacting consumers worldwide, influencing economic outlooks and spending. **Some expect a recession is on the horizon**—a prospect that's further discouraging investment. Whether a manufacturer should absorb price fluctuations or pass higher costs onto its customers is a classic dilemma. The food and beverage industry has long been shrinking packaging sizes and product value as a way of keeping prices stable. This can backfire as savvy consumers tend to notice when the number of servings in a package are reduced or ingredients are replaced.

Maintain quality—Manufacturers may be tempted to cut quality to save costs. For most mission-critical machinery, industrial equipment, and precision devices, shortcuts that impact performance reliability are unacceptable. Any product that has safety, security, or defense ramifications must be immune from quality cuts or specification changes that could influence overall performance or compliance with necessary mandates. Medical devices, generators, brake systems, and industrial pumps are among the goods that no one wants to see discounted because safety features were reduced to save money. This means the manufacturer that wants to reduce spending must turn to processes, not materials, as ways to trim overhead.

Meet regulations—For heavily regulated industries, cutting costs to curb the impact of inflation can be seen as a red flag. The aerospace and defense industry, for example, faces strict compliance mandates, and changing a product's bill of materials would require new certifications—which can be costly and time consuming. Manufacturers can turn to modern software to help manage and track quality control functions, including recording testing results, inspections, and compliance. Accurate record keeping is essential at times like this when trimming costs can lead to public concerns. Data and inspection documentation are important.

Manage product lifecycle—While quality and compliance on some products can't be sacrificed, there may be room in a manufacturer's product portfolio for an economical option—such as scaling back noncritical features. Manufacturers should take a closer look at the specifications of their products, evaluating if they have overcomplicated features or inadvertently named specialized parts that only one or two suppliers can deliver. Product lifecycle management solutions help manufacturers manage variables and analyze if features are purely aesthetic or comfort luxuries that can be changed as a cost savings. For example, the cushion for a forklift operator seat could be downgraded to a basic model without sacrificing safety, but the camera-functionality for backing up couldn't be disabled.

Manage warehouse inventory—Being strategic about warehouse inventory will enable manufacturers to better manage cash flow and control how much capital is tied up in inventory. As supply chain disruption has changed the way manufacturers think about just-in-time delivery, there must still be careful consideration before necessary stocks levels are greatly expanded (to cover every "just in case" scenario). Inventory planning software helps manufacturers understand the nuances of various strategies to pick the right course of action.

Offer configured choices—Giving customers options may help answer uncertainty about what comfort features or upgrades the market will be willing to sacrifice. This may increase the number of SKUs and add some complexity to capacity planning, but it may also help protect the customer relationship. Letting the customer feel responsible for choices, rather than forcing them on the customer, can help make "economy models" more palatable, while still offering the full-featured model for enterprises unwilling to cut-back on features.

4. Product innovation and value-add services

Manufacturers can turn to innovation to help alleviate the pressures caused by inflation and increased costs of goods—applying problem-solving skills to both operations and product design. When manufacturers escalate costs to a strategic issue, the best minds in the company can collaborate on out-of-the-box concepts. Manufacturers are problem solvers that often develop the most innovative solutions when the stakes are high and profitably is at stake. Current inflation rates pose that kind of situation. The challenge can be turned into an opportunity when technology is employed to help provide insight, document key decisions, and explore the ramifications of changes.

Automate processes—If a product can't be redesigned and the customer base is opposed to price increases, improving the productivity and efficiency of manufacturing and operational processes may be the best options for counteracting inflation. Automation is often the best means to achieving such improvements. This can range from adding robotics to the factory floor to eliminating redundant data entry and streamlining workflows. A modern enterprise resource planning (ERP) solution, deployed in the cloud, contains proven, built-in best practices and workflows that are highly efficient. Right "out of the box," the solution allows the manufacturer to start speeding operations and gaining efficiencies.

Add value—Another tactic is to make price increases more acceptable by increasing the value or services offered at the same time. This way, the customer sees features associated with the new pricing and feels more positive; value is critical for creating a positive customer experience. Technology can support greater value in many ways, from adding aftermarket service, warranties, and service agreements to personalizing product features, offering private labeling, and enhancing delivery and set up options. Technology helps manage these types of value-add services, making them easy for manufacturers to implement. Small added features can go a long way in building relationships—and loyalty—with customers.

Stand up new options—Another way manufacturers might confront inflation is by standing up new branches, new revenue streams, or new go-to-market models. Cloud solutions offer rapid deployment, making agile response possible. Two-tier systems, also supported by highly flexible ERP solutions, may provide a quick way to branch from an existing enterprise and its ERP system, yet take advantage of new, modern functionality.

Overcome volatility

Inflation has hit manufacturers hard in all parts of the world. **Economic experts predict** that volatility and high costs may be challenges that won't be resolved quickly. Manufacturers will benefit from examining their costs, supply chain processes, services, and product strategies to look for ways to counteract increased costs, while continuing to please customers and create positive experiences. Technology, such as modern ERP solutions deployed in the cloud, will help manufacturers make data-based decisions about cost and find innovative answers to inflation-induced issues. Being proactive and strategic about their responses to inflation allows manufacturers to tap into new differentiators and stand apart from the competition.

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