

Q&A with Accenture's John Ferreira

John Ferreira is the managing director for Accenture's Management Consulting Manufacturing Practice in North America. Consulting sat down with him to discuss the state of manufacturing right now.

Consulting: What are some of the most important forces driving change in the manufacturing sector (in North America)?

JF: Manufacturing is at a new inflection point. Manufacturing's traditional focus on cost efficiency and quality has become table stakes; the real opportunity now is for the manufacturing function to enable revenue growth and competitive advantage by driving operationally excellent capabilities that the marketing, sales and new product teams can exploit—that is, aligning manufacturing capabilities to drive customer specific value creation.

Consulting: What are three or four of the most important challenges manufacturing companies currently confront?

JF: There are multiple challenges, but a few of the most critical that we are observing include:

1) Managing the migration of the manufacturing and supply operation to increasingly support more highly customized products with shorter production runs. This is accelerating customer expectation in many consumer and business-to-business markets. More customized products will increasingly demand more modular manufacturing approaches, increased use of extreme forms of delayed product differentiation (possibly including post-purchase differentiation using a network of partner add-ons), improved management synchronization of supply with closer monitoring of product life cycles. Traditional manufacturing, with production lines, and even entire factories, dedicated to turning out one specific product, works well for a high volume product (ideally, with stable demand)—it's automated, fast, inexpensive, but rigid and typically expensive to change.

2) Creating a more agile production environment that can thrive in an environment of increasing ambiguity regarding many "traditionally basic" drivers such as production volume, SKU mix, customer order quantities, ship-to points, etc. Becoming more agile will require the re-invigoration of "classic" inside-the-four-walls capabilities—turbo charging continuous improvement programs—all aimed at driving agility and flexibility while maintaining low cost and high quality.

3) Acquiring enough talent with the "right" skill mix to both operate in this new, more technically challenging environment and at the same time to creatively improve operations. In a number of industries there is a "talent war" underway for everyone from engineers to skilled, flexible operators.

4) Ensuring visibility across the network. Managing a dynamic global manufacturing and supply network poses another significant challenge for manufacturers: It requires much better visibility into their own operations, as well as their partners' and logistics providers' operations. As a matter of practice, companies often do not know exactly where their products or components are, especially in countries with poor infrastructure. This makes it difficult to tell customers when to expect delivery. Yet customers are becoming less tolerant of excuses like "the container is stuck somewhere in the port." Improved visibility allows companies to sense and respond more quickly and to more accurately respond to customer needs.

Consulting: What are some of the most notable trends within in the industry in terms of strategy and processes?

JF: Most manufacturers are exploring multiple strategies to address their challenges, but a few of the more notable trends that we see are:

1) Shifting from fixed to variable costs. A number of companies have begun to adopt new manufacturing models, shifting many production support processes and some production activities to partners or suppliers. Adopting differentiated models and processes that allow for more variable cost management of all production support provides manufacturers with both an improved cost profile and the requisite flexibility needed in today's new operating environment.

2) Reducing complexity of the overall "manufacturing system". Many manufacturers have to manage more critical partners and suppliers today and integrate their partner/supplier activities into their own systems and processes—creating new risks and often impeding agility and responsiveness. The complexity of managing many far-flung partners and suppliers in a synchronized manner can overwhelm even the best and result in significant delivery delays, quality issues and missed revenue opportunities. It also can tarnish a manufacturer's brand. It is becoming critical for many manufacturers to reduce the complexity of the end-to-end manufacturing—the value delivery system is a priority.

3) Rebalancing regional manufacturing and supply to better match regional demand location. In the past, global sourcing and location decisions centered on chasing low-cost labor, as long as quality was acceptable. But the real, total cost of managing extensive manufacturing networks has risen. Many manufacturers moved too much production capacity off-shore to places quite distant from the centers of demand—driving up costs with more complex network management, and reducing their agility in responding to customer needs. Recent research we've conducted found that 61 percent of executives realize they need to rebalance their existing manufacturing and supply footprint to better match with the demand location.

Consulting: What sorts of expertise and projects will clients demand in the coming 24 months?

JF: Clients are looking for a multitude of capabilities from overall manufacturing strategy and network/system design to guidance on how to take their operations excellence to the next level and deploy new technical capabilities, such as predictive metrics, and turn the wealth of data being generated both within the factory and across the network into insight that helps them sense and respond better to the market.

Additionally, manufacturers are seeking new, creative models to manage a broad range of costs, such as commodities, labor, transportation and changes in currency valuation, and are seeking to turn suppliers into "value-added" partners while reducing overall risks.

Consulting: What sorts of services, expertise, skills and projects are manufacturing companies seeking from their consulting partners?

JF: At Accenture, we find that clients place a high value on partners and service providers who understand how all the seemingly disparate parts of the "manufacturing system" integrate together and understand how to help them transform operations to support corporate growth agendas.

Clients also place a high value on working with service providers who offer both creative approaches to solving their specific competitive operational issues and are able to team with them across their network to actually build-out an improved end-to-end system with the requisite, subject matter expertise.