

# MANUFACTURING & SUPPLY CHAIN IN THE NEW NORMAL

*2019 Predictions from  
Manufacturing & Logistics Executives*



Presented by





# THE RESILIENT SUPPLY CHAIN

## Navigating Disruption Achieving Peak Performance

### *Manufacturing & Supply Chain in The New Normal* 2019 Predictions from Manufacturing & Logistics Executives

Economic volatility and uncertainty are the new normal. Instead of lamenting, manufacturers have a unique opportunity. There has never been a better time to stand out from the crowd with a superior customer experience amidst the chaos.

Not only has the Amazon Effect driven customers to expect customized product and service offerings with rapid response - creating a greater demand for local manufacturing - it has also made innovation a cultural norm. There is a trend towards near-sourcing, vertical integration and agile strategies to proactively address these elevated expectations as well as to meet customers' insatiable need for last minute changes.

With the rise of e-commerce, increasing transportation costs and global risks, sourcing experts are re-evaluating their global supply chains. Logistics is gaining in relevancy as transportation costs increase, sustainability efforts expand and managing inventory becomes a hot topic as accelerating cash flow becomes more relevant.

Drones, robotics, IOT, artificial Intelligence, big data predictive analytics and additive manufacturing are transforming entire industries while providing the tools to create a customer-centric, resilient supply chain. However, technology alone will achieve nothing. With a differentiated strategy and the right talent, the opportunities are endless.

We asked business owners and executives for their predictions for 2019. From aerospace and defense to food and beverage to building products, the perspectives may be different, but the outcome is the same: Opportunity Abounds.

Lisa Anderson  
President  
LMA Consulting Group



***“We need to connect the dots between what we are expert in and what our key customers want us to achieve.”***



**Steve Erickson**

*President - Corona Clipper, Inc. & UK Business Unit Group  
VP, Strategy - Venanpri Group*

There is lots of conversation about the shortage of talent and the tight labor market. We are having trouble finding good quality candidates as well. Perhaps even more importantly, I think we need to look at our competitiveness in today’s market with our team. As hard as talent is to find these days, maybe it is too easy to lose as well!

Even though I think the business world as a whole is getting better at strategic planning, at the end of the day, it is rare to make dramatic changes to strategy and see it work. We need to connect the dots between what we are expert in and what our key customers want us to achieve. Customers expect price concessions. However, price might not always be the answer. We need to stick with our differentiated strategy and keep tweaking the messaging and delivery system to keep it relevant and successful in today’s marketplace.

***“2019 will be a transition year” in many respects.***



**David A. Walker**

*Vice President, Finance & Operations - Health-Ade, LLC*

I believe 2019 will be a transition year, with the impact of a dysfunctional government and trade tariffs slowing down economic growth while inflation slowly creeps back into the financial picture. Higher interest rates will begin to affect business decisions and the second half of the year will be a marked change from the rapid growth of late 2018 (sans December’s roller coaster ride).

Food and beverage will continue to be a growth area, with fewer exports (due to counter trade tariffs) leading to a decrease in domestic food prices and hurting farmers. Beverage sales will continue to move away from soft sugary drinks into more health-conscious offerings and possibly the first of the cannabis products.

## ***“Executives making logistics decisions in 2019 should be aware and patient...”***



**Brian Reed**

*VP Global Supply Chain Optimization - GEODIS*

Executives making logistics decisions in 2019 should be aware and patient, especially in the US. We are coming down off some high rate increases. Locking in too early could mean getting stuck with higher pricing as it drops during the year. The global side definitely looks like this will happen. The US is showing signs, too. Executives should lock in capacity but only with flexibility should rate increase be lower in the next few months.

Study, study, study. There is a lot of cool tech (AI, blockchain etc) coming down the pipe. Many will be piloting in 2019 and just beyond. Operational solutions should be hitting full stride in 2020. Now is the time to be sure you understand what the technology is and how it could positively impact your world. If there does appear to be a positive impact conduct some small pilots with companies in that space and other partners.

## ***“Non-traditional sourcing countries will gain a foothold against China.”***



**Cindi Mullane**

*Senior Director, Supply Chain & Operations - Feit Electric  
Advisory Board Member - Apparel Manufacturing &  
Consumer Packaged Goods Industries*

Although tariffs are small to our economy as a whole, they are HUGE to specific segments of our international commerce. They have and could continue to have a very prolific effect on certain business segments that import from China. Any business offsets or mitigation that companies impacted by the tariffs might have by moving to other countries will take a significant amount of time to: First, identify/discover the opportunities; Second, identify gaps in the supply chain infrastructure; and, Third, bridge those gaps.

Non-traditional sourcing countries will continue to gain a foothold against China. It will be slow albeit steady creating new opportunities for businesses with patience for the infrastructure of these other countries to catch up.

The movement of ocean/freight into US ports will continue to be challenging with the domestic issues and restrictions: chassis shortage, infrastructure changes and port demand fluctuations.

***“Successful companies will cut business to make room for growth.”***



**Steven Bleistein**

*CEO and Founder - Relansa, Inc.*

*Global Business Advisor & Author of Rapid Organizational Change*

The dearth of qualified labor will continue to bedevil businesses throughout 2019. Successful companies won't allow the lack of people to limit their growth, nor will they turn to artificial intelligence and automation as a panpharmakon. Rather, they will ruthlessly cut business – even profitable business – to make room for growth. The only catch is that, to transition to a higher value, businesses require a higher level of individual capability among staff. My most successful

clients invest heavily in their best people for this reason and are not squeamish about firing people who don't learn and improve.

There will be a growth in the service business even for product companies. Companies who sell highly technical products used in complex product designs are part of a long supply chain leading to a final product or a highly distinct added ingredient in a final product offer. Their customers attach tremendous value to expertise in manufacturing, production, product improvement, streamlined manufacturing, and reduced risk of requirements failure upstream in a product lifecycle that my clients often give away gratis. Growth through services is one way that a product company can get a return on the expertise of its people and grow the business without having to add staff.

***“Forward-looking organizations can solve business challenges with AI.”***



**Luke Haylock**

*Global Director of New Product Development - Arconic (formerly Alcoa)*

Artificial intelligence (AI) promises to accelerate decision-making and time-to-market, reduce operational costs, predict failures before they happen and give you an edge over the competition. Forward-looking organizations can solve business challenges with AI, using it to move from descriptive data solutions to machine learning-based systems that predict what's going to happen.

For example, UCLA researchers have successfully demonstrated the application of a form of AI. Called the 'deep learning-based biosensing approach' this application detects herpes simplex virus (HSV) and has achieved a detection limit of 5 viruses per micro-liter - providing a clinically relevant level of sensitivity for HSV detection. AI will put powerful diagnostic and decision-making capabilities in the hands of anyone with a cell phone.

***“... expect to see more talk of tariffs, threats and waving of hands, all the while, those of us in exporting will be busy making deals, signing contracts and getting business done.”***



**Roy Paulson**  
CEO - Paulson Manufacturing

U.S.A. Manufacturers are thriving and will continue to thrive in the future. The world looks to the USA for innovative quality products. In fact, we set the bar. Beyond products, the world knows that the business deal will be fair and equitable. In other words, they trust us and trust does not come easy in this world.

Paulson Manufacturing is located in California. We source most of our raw materials in the USA. And, we are competitive worldwide. Our distribution channel is also our feedback channel. We learn what is going on in each country where we do business. We see that despite the high value of the USA Dollar, new tariffs and roadblocks to exporting, this is the best time possible to expand our exporting potential. Improvements generally occur amongst turmoil, hence the term auspicious. For example, our sales have doubled in China last year, and we expect them to double again this year. This is not without effort, by all parties involved. That is the key: all parties must be involved for the success to occur.

As a view looking forward in these auspicious times, expect to see more talk of tariffs, threats and waving of hands, all the while, those of us in exporting will be busy making deals, signing contracts and getting business done. We are forecasting 20% growth in exporting for 2019 and expect 25% growth in 2020.

***“As I look ahead to 2019 from a business and legal perspective, I have three major concerns.”***



**D. Brian Reider**  
Partner - Best Best & Krieger, LLP

As I look ahead to 2019 from a business and legal perspective, I have three major concerns. First, I think that there will be a continuing and accelerated effort to force all businesses to classify everyone as an employee regardless of their contractual relationship. There will be one or two outcomes: either payrolls will swell or businesses will, yet again, have to get more productivity from existing personnel. Second, energized by recent favorable court decisions, I think more attorneys will bring lawsuits for wage and hour penalties against not only companies, but against the company owners. This could create unprecedented personal liability exposure. Finally, I think the trend of business owners selling their businesses to retire or move out of California will continue. This will create a buyer's market which could be unfavorable to many sellers who may have waited too long.

## ***“Triple Digit Growth in E-commerce will continue throughout 2019.”***



**Thomas Gentle**

*Vice President, Supply Chain and Technical Operations - Nature's Bakery*

We continue to experience rapid growth in all channels, with retail business growing at double digits and e-commerce business at triple digits. This is a wonderful problem to have and speaks to the quality of our product as we have historically not invested significantly in marketing or advertising. On the other hand, we are grappling with tight labor markets coupled with rising material and transportation costs. As a result of these realities and the need to support accelerating growth, we are investing more into an already robust base of employee incentives to improve labor competitiveness. We are also adapting the physical supply chain network to buffer transportation cost increases and are investing in automation to partially offset the need for additional labor. Lastly, we are further differentiating our new products and packaging formats to respond to consumer snacking trends and increasingly specific retail and e-commerce go-to-market strategies.

## ***“We need to focus on keeping an open mind into improvement of all types of processes to enhance the value of products sold in the US.”***



**Bryan Dow**

*VP, Operations Manager - Dow Hydraulic Systems*

The “scare” over the last few years in aerospace and defense has been overseas companies taking many of the manufacturing jobs from the US because of their ability to offer a much cheaper product. Our customers are finding that there are many challenges with this myopic approach and strategy including communication, logistics, customer service, warranties, product and process quality, etc. If we can offer a better value (not necessarily a better price) for the product, we can maintain and even grow the business. If we keep focused on quality and improving customer service, efficiencies/margins and cash flow, we’ll gain a competitive advantage.

As aerospace and defense has and continues to grow, incumbent (overseas) suppliers have not been able to keep up, providing opportunities for us. In one of these (a high priority 737 application opportunity), as we visited with suppliers and walked their processes to research the opportunity, we found that they weren’t as efficient as anticipated and the pace was slower than desired. As a result, we insourced the parts and were able to eliminate weeks of lead time, creating more value. We need to focus on keeping an open mind into improvement of all types of processes to enhance the value of products sold in the US.

***“The logistics market in 2019 will continue to grow rapidly, regardless of recession fears.”***



**B.J. Patterson**

*CEO/President - Pacific Mountain Logistics, LLC*

The logistics market in 2019 will continue to grow rapidly, regardless of recession fears. The obstacles to growth will be labor and space.

Labor needs to be addressed a few ways. First and foremost is automation. This needs to be considered a real option, as there is no relief on the horizon to the labor challenge. The warehouse operator must think outside the box to get this done. Capital is readily available for these types of investments.

Second is space availability. Last year, it was reported that for the first time in a long-time net absorption exceeded delivery. This means that beneficial cargo owners (BCOs) need to work harder at inventory management and increased velocity to reduce storage requirements. Amazon has implemented several initiatives to force these habits on vendors. This includes severe penalties for failure to meet inventory turn objectives. Within the third-party logistics world, providers must work with their customers to increase cross-dock opportunities and be creative with how they store products. As Ecommerce continues its rapid growth cycle, warehouse space will be one of the most precious commodities in the logistics world, second only to truck drivers. It's a good time to be in our industry.

***“The most successful organizations will be those that focus on understanding their customers’ needs and, in turn, concentrate on forecasts.”***



**Diane L. Garcia, CSCP**

*Lorraine Consulting, LLC*

*LMA Associate*

In 2019, the most successful organizations will be those that focus on understanding their customers’ needs and, in turn, concentrate on forecasts. Digital supply chain transformations include data transparency. Such changes show how the latest technologies can improve demand accuracy. Companies like Boeing and Honeywell have included real time data and predictive analytics as strategic initiatives to improve their competitive edge.

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