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Enabling Organizational Resilience in Industrials and Manufacturing

Overcoming Structural Value Chain Challenges

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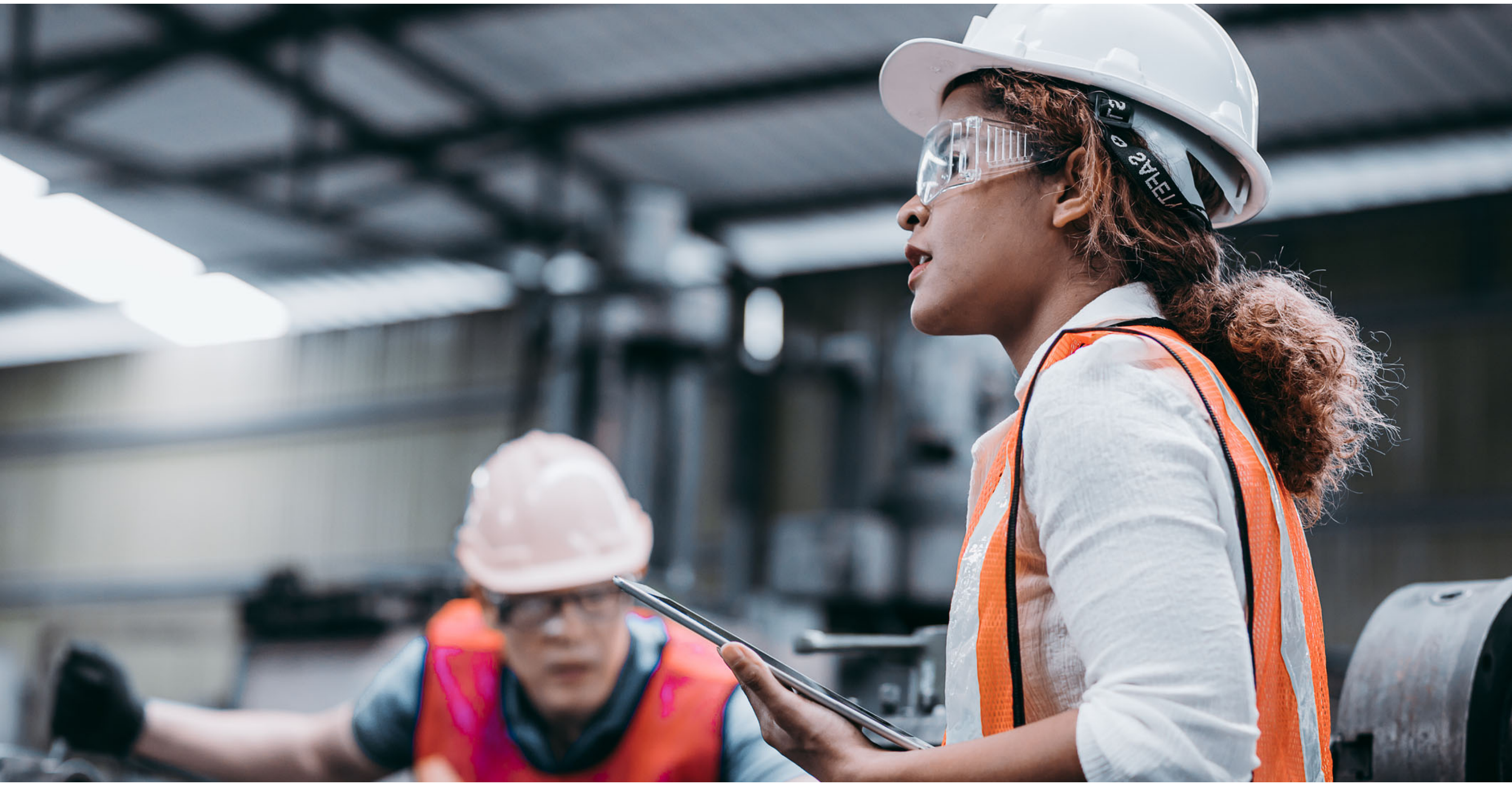

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Organizational resilience can be elusive for industrial and manufacturing companies due, at least in part, to realities related to where they fall in the value chain. The vast majority of these organizations operate in a business-to-business (B2B) model that requires they work across complicated, interwoven supply chains, often multiple degrees removed from the end user or customer. Their freedom to evolve the way they manufacture or deliver products is extremely limited, as they are beholden to the wants and needs (pricing, engineering design, geographical location, etc.) of their customer or the end customer.

At the same time, many of these companies have significant upfront capital and sunk costs tied up in their legacy products, so making major changes requires creative thinking, an appetite for risk and potentially capital investment.

For example, in a traditional paradigm, if a B2B packaging manufacturer that makes plastic bottles wants to innovate to find a more sustainable solution to plastics, it can only do so with the support of its core customers — most likely business-to-consumer (B2C) beverage companies that sell directly to the end consumer and, in reality, the end customer themselves. Without that support, the manufacturer runs the risk of losing significant market share to competitors that can create the product the company wants or needs.

Comparatively, a large consumer-facing conglomerate like Coca-Cola or Pepsi, for example, has much more latitude, capital and resources to try new things, innovate and take strategic risks.

In many industrial and manufacturing companies, leaders have engineered their business to compete in its current place in the value chain with operational and, most likely, cost efficiency. As industry trends and macroeconomic variables continue to dictate significant change, these organizations often struggle to work outside of the box that has kept them competitive for years.

The problem is that many industrial and manufacturing companies have built their strategies around a place in the value chain that has been defined for them by downstream participants closer to the end user. They typically evolve toward competing almost single-mindedly on the operational efficiency with which they can perform those jobs. This drives them toward focus, standardization and scale economies and away from agility. So, when disruption comes — as it inevitably will — they are extremely vulnerable.

Apart from their place in the value chain, some of the drivers spurring industrial and manufacturing companies to change their role in the value chain include innovative new market entrants that are effectively changing the way that manufacturing is done and overseas pricing competition, as well as shifts in customer preferences for digital experiences and sustainability that are changing ecosystem dynamics.

The good news is that there are at least two opportunities for organizations to innovate and enhance their resilience in spite of the barriers to entry.

Solution 1: Changing Relationships With B2B Customers

To create new models and build resilience, industrial and manufacturing companies often need to change their relationships with their customers so that they are seen and treated as vital contributors and co-innovators rather than just a supplier of goods and materials.

The first and best step toward shifting this paradigm is for industrial and manufacturing companies to deepen their knowledge of their customers beyond the narrow set of issues on which most are currently focusing. Suppliers need to think more broadly and deeply about what their customers are trying to accomplish — their jobs to be done. If suppliers can find important and unsatisfied jobs to be done that they can solve for their customers, they have a greater chance to create a more meaningful and "stickier" relationship. One way this can be achieved is by broadening the set of stakeholders with which the supplier interacts within the customer organization.

For example, if the industrial or manufacturing company has traditionally worked with the procurement office, leaders might consider asking for face time with the product team or the customer experience department. In so doing, they stand to gain a more holistic and deeper understanding of the customer's current priorities as well as their future needs.

Suppliers and their customer may also find value in collaborative innovation. Are there opportunities for industrial and manufacturing companies to bring their customers into ongoing innovation projects? Incorporating the customer's perspective early in the process allows for a more productive feedback loop while also giving the customer some "skin in the game" when it comes to any potential new innovations. Businesses can achieve this by holding a joint design session or embedding some members of the supplier's team on the client site to learn and collaborate for a period of time.

What Are "Jobs to be Done"?

In essence, a customer's job to be done is the fundamental problem they are trying to solve to drive their business performance. The search for a solution to these problems drives them to purchase or engage with a particular product or service offering. These needs often revolve around a specific outcome the customer is trying to achieve and have complicated, multifaceted functional, emotional and social dimensions.

Solution 2: Moving Down the Value Chain

Even with better customer relationships, manufacturers may still be constrained from accessing new market opportunities. As such, they may need to consider how to identify new opportunities or jobs to be done that can help them to move to new, more attractive roles in the value chain. For example, a tier two auto supplier may want to move further down the value chain to take on a role in systems integration.

When leaders identify an opening in the market that their business might be able to fill, they open a new playing field in which their organization may potentially have more influence or be afforded more control. This shift may look like a tier two supplier identifying an opportunity to develop a final product that gets them closer to their customer or the end user. Or, businesses may evolve their models even more substantially by moving from a product-focused offering to one that is more service- or solution-oriented.

> **"Business leaders need more and better information about what's going on in their markets to successfully anticipate opportunities and threats that fall outside their immediate range of vision."**

Business leaders must go beyond improving their current products. They must ask themselves two sequential questions:

1. Is there a job to be done in the value chain?
2. What do we need to do to be able to meet that need?

The answer may be to adjust their go-to-market strategy, invest in building a new product or even expand into a tangential market they have not targeted before. Conceiving and executing these shifts requires open-mindedness, innovation and grit.

In Conclusion: Forward Movement Is Critical

The prospect of changing the way industrial and manufacturing companies have historically done business can be daunting. For many, however, the alternative to this type of transformation may mean the death of their business. In today's fast-paced economy, these organizations must be willing to evolve or face obsolescence.

To support this evolution, leaders should invest in their businesses' innovation programs and empower those tasked with leading the change with sufficient resources, executive support and guidance. Organizations that are patient, do their due diligence and take strategic risks will find the right footholds over time.

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