Commercial Insights with Regions Bank

Episode 28: The Digital Transformation of Consumer Goods Manufacturing

Never before have consumer expectations been higher around speed and convenience. Yet the manufacturers of consumer goods face unprecedented challenges, such as ongoing supply chain disruption. To evolve, smart businesses are turning to digital transformation to solve a number of issues in the world of consumer packaged goods.

Episode Transcript

Erik Miner, Market Executive:
I think speed and convenience are driving how the manufacturers are working with their end users. Client experience is a big component of, are we meeting the needs? Are we doing it in a timely fashion? Do we have a low amount of defects? All that stuff, in today's world, is being measured.

Chris Blose, Host:
That's Erik Miner, a market executive for Regions in Indiana, describing what's driving changes in consumer goods manufacturing.

Welcome to Commercial Insights with Regions Bank. I'm your host, Chris Blose. And if you've listened to us in the past, you might pick up on some common threads in Erik's statement: The speed and convenience modern consumers expect. The importance of the client or customer experience. And underlying all of it, the acceleration of digital technology.

Erik and colleague Jim Anderson, a regional executive in Chicago, are here today to talk about the digital transformation of consumer goods manufacturing. With 45-plus years of experience between them, they've seen the evolution and adoption of tech — but they've never seen it happen more swiftly than in the recent past.

Jim and Erik, thank you so much for joining us today. You both work with people in the consumer goods manufacturing industry. What are you hearing in terms of trends or common themes?

Erik:
There are a couple of common themes that we're seeing across the industry, and I'll break it into a couple of different buckets, but the first is supply chain issues. You can't talk to a business owner and not talk about the inability to get either raw materials, anything that would be

associated with the input of a manufacturing process. Some of it's port access, some of it's just the inability to get the materials.So manufacturers, business owners, C-suite, they've had to figure out very quickly how to work through some of these challenges.

The other issue, the input cost of some of those raw materials. You can't pick up a paper today without touching the word inflation. So, that's a secondary component of the supply chain issue. And then, another major theme we're seeing is labor. Uh, you know, post COVID pandemic, there was a mass exodus from the workforce. This is something that's been affecting the industry for the last 18 to 24 months. So, business owners are having to get a lot smarter in terms of both retaining labor, attracting labor, and developing the labor force that they have today.

Jim Anderson, Regional Executive:
I'd also add to that, Erik, you know, a common theme is transportation issues. Whether it's the availability to get things transported on a timely basis or also the rising costs.

Chris:
Supply chain obviously is something that has come up again and again on this podcast. You can't avoid talking about it. How have businesses overcome that? If they have overcome that. Or, at least, what are some innovative ways that people have rethought their supply chain to try to avoid those issues that they've faced in the past couple years?

Erik:
So what we're seeing across the industry, there was a common term that was used back in the '80s, Just-in-Time inventory, where people were purchasing just enough inventory to work through maybe a week- to two-week cycle, production cycle. What we're seeing now is because the difficulty of getting the goods, either the raw materials, maybe assembled part, the lead times are becoming much longer, so we're seeing companies actually go farther out in the cycle to purchase more inventory, and they're warehousing it, essentially. And there's some common themes that we're seeing in the banking industry around line utilization, i.e. companies are using their working capital positions to purchase more inventory and we can see that on the balance sheets. It's a fairly consistent issue that we're seeing throughout the industry.

The second component on the supply side really talks about the way in which the partners, the B-to-B partners are working together. It's more in a real-time fashion where projections and proforma supply chains, they're really working together to come up with longer term cycles. And so, before it might of been maybe a nine-month cycle. Those cycles are now starting to extend *out to where we're seeing a 12-month, 18-month, and the suppliers are working, pretty much, hand in hand to make sure that they can meet those needs.*

Jim:
I'd add to that too, Erik, that the concept of sole sourcing was kind of developed in the '80s primarily by the auto manufacturers. And then, that carried out through a variety of other industries over time. And with the supply chain disruption, I think people have learned now that sole sourcing their raw materials or their products can lead to disruptions in their sales. And so, now you see a lot of companies that are dual sourcing product from multiple vendors just to avoid one vendor not being able to meet their needs and effectively shutting down their operations until they do get the product.

Chris:
That's interesting. Both of those are shifts, essentially, in the way people do business on a day-to-day basis. I'm curious, we hear a lot about digital acceleration. Does that play into either of those changes, where people are using new forms of technology either to work with suppliers or to do their buying for instance?

Jim:
I think similar to what Erik had talked about where the vendors and customers are sharing information. I think that sharing information is happening digitally. That's a key aspect of digital transformation is the ability of all these B-to-B people being able to coordinate things just leads to a more seamless supply chain, if you will.

Erik:
If you look at the way that, historically, it was usually big company to big company that were talking virtually or digitally. Now, you're seeing big companies who might have smaller suppliers saying, "We want to be communicated with this way." So you're seeing the creation of apps that are taken for order fulfillment. real time. So when people potentially are in the field, recognizing that they might need this part or material, all that's coming real time, right? And it's actually speeding up the process, and the other component of it is, the smaller companies, they have to have access to capital to be able to have the technology to be able to communicate with the larger companies.

Sothe rate and the change, or the velocity, that we're seeing within the marketplace around the acceptance of communication via technology, it's impressive. And it's not gonna change,It's only gonna happen faster.

Jim:
to the extent that a smaller business isn't investing in it, it's really going to limit their capabilities if they're trying to have a larger customer relationship with a larger customer.

Chris:
For companies that haven’t invested in this or even thought about it much in the past, what’s next. It is getting buy-in at the top? Finding the right expertise?

Jim:
Well, it's critical. The adoption of digital technology has to be accepted by the entire organization. I think when it was originally introduced, it was considered to be an IT only kind of responsibility. Today, I think it starts from the C-suite down. And so, for larger businesses, they obviously can have a digital technology group, if you will. You know, they have capital in order to fund that.

But when you get down into the smaller businesses, that's where it really becomes a problem. what we see with most of our smaller customers, is the first step is to go outside to a consulting group, have them come in, evaluate your business from top to bottom, and make recommendations on where you can introduce digital technology into your business model, and then how to go about that.

Erik:
Yeah and I think you're even seeing it extending down into the other professional services. So if you see the accounting firms, the accounting firms recognize that the small businesses don't have, potentially, the expertise or capital to be able to invest in that sort of technology. So they're coming up with ways to help bridge the gaps, as well. So you've got groups who are specializing. It could be manufacturing, could be supply side, it could be transportation from a logistics side. So that expertise, it sort of sits on top of what the companies are trying to do and as a result of that, then they're investing in those third party vendor relationships.

Chris:
So, knowing that there is this shift toward technology and that it's expected and it's accepted, how are companies using that technology or new approaches to meet customer expectations? This is a customer field ultimately and a consumer field. So, consumer behavior has changed over the past couple years, particularly around speed and convenience. Tell me a little bit about

how people in the manufacturing field are dealing with those increased expectations around speed and convenience?

Erik:
I think speed and convenience are driving how the manufacturers are working with their end users. Client experience is a big component of, are we meeting the needs? Are we doing it in a timely fashion? Do we have a low amount of defects? All that stuff, in today's world, is being measured. And there's accountability metrics that are associated with all facets of the manufacturing business. It's not just, can you supply this part and does it work? And so, you're seeing the relationship between the end user and the manufacturer ... that gap has gotten a lot closer.

And I think, ultimately, what's occurring in the marketplace is, because of the access to information and the real-time component of the information, the manufacturers are actually able to make changes quicker and meeting the expectation and needs that are set by the end users.

Jim:
Yeah, Erik, I think there was a study done in 2021 that showed 60 percent of digital technology related costs are being spent to improve customer satisfaction or the customer experience. I think that's largely being driven in the B-to-C market, just because of the vast number of online sites that are out there. When you're a consumer and you're looking to buy something, the website that is most attractive to you, that is most user friendly, is usually the one that you're gonna end up buying the product from. And so, that's where a lot of the customer experience is really being focused on, the end user as opposed to, just B-to-B.

Erik:
Yeah, Jim, that's actually a really good point because if you think about B to C, the clients are telling the manufacturers how they want to be interacted with. So this whole concept of multi-channel, Could it be a store? Is it an app? Is it an online presence? Is it a centralized hub? So all that has morphed over the last 10, 12, 15 years as client experience opportunities have changed. So the key is to be able to know how your client wants to be interacted with and to be able to meet those needs.

Chris:
Well I'm curious about the process of bringing a product to market, right? We've seen new opportunities for manufacturers to develop new products here in the past few years. So has the

process changed through technology of how you take an idea and turn it into something that can actually go to market?

Jim:
Yeah, definitely. I think the initial introduction of digital transformation and technology was really in the auto space, when you're talking about building a prototype, which would take tons of time and cost to develop a physical prototype, and eventually then was transformed over to the computer. And now that has kind of rolled out and continued in other industries, as well. So it's allowing people or companies to develop products digitally and then share that with their potential customers or with their suppliers. That improves the efficiency in terms of the time for them to go from development to go to market. That shortens it considerably from where it used to be.

Erik:
Yeah and I think if you even look at some of the new,, consultative approaches that manufacturing uses, most recently being the agile process where you're delivering incremental improvements in a very quick fashion as compared to, again, 1980s automotive manufacturing. It took years. It was very linear. They wanted to deliver the whole product. So even the advisory groups that are supporting these industries are saying, "Hey, look. This is something that you need to accelerate." And you need to have input constantly as you're moving through the process.

Chris:
We've talked about advisories, we've talked about consultancies, we've talked about finding that partner to supplement the expertise that you may not have internally. Are you seeing companies actually hire some of that expertise internally too, as they seethe field moving into more of a tech driven direction?

Erik:
Yeah.I think Jim hit it right on the head. If you go back, 20, 25 years, this was an IT function. You're now seeing mid-size companies recognize they need a technology backbone that's within the business, and there are specific degrees now that are available. You're seeing the opportunity for people to build these groups out and the technology wasn't just B to B. You're now talking about in the manufacturing process, you know, with robotics, which is just another form of technology. You're seeing it, sort of, leak its way through with respect to the manufacturing process.

Jim:
And to go back to what Erik said when we started it. It really depends upon the size of the company. The smaller businesses, they just don't have the capital available to hire people or staff a department.

The other issue depends upon the ownership or C-suite, you know, if you're still a first generation company and ownership is not used to technology, they're not likely to embrace it. And, as a result, the whole organization doesn't embrace it. Soif you've got people at the top that understand the need for it, they don't necessarily need to understand all the technology specifics, but know enough that it's important to their business model.

I think the first step is really to discuss that with your partners, whether it's your lender or accountant. Talk to consultants and have them come in and give you an idea on what you need to do. It could be one person, or multiple people, or maybe you should just outsource it because that's a variable cost.

Chris:
So, Erik, I think earlier in the conversation you brought the labor market as being a concern, as well. And since we're talking about possibly hiring new people, I'd love to dive a little bit deeper into the labor market. Where are you seeing the challenges, and how are people responding to those challenges?

Erik:
Labor has proven to be one of the most difficult challenges for companies right now. You've got two competing interests. You've got new labor force who's coming into the market, and then you've got a large population of labor who is exiting the market. The baby boomers are aging. They're aging in place and they are slowly but surely moving into retirement and the seasoning part of their careers.

The younger labor force it's interesting. You can read a lot of statistics about the number of people, the quality of life, work and life balance. There's a lot of issues that are affecting that demographic. We don't have enough input, enough people coming into the marketplace, to supplement what is existing at this point. So, I think that's one issue.

And then I think the secondary issue is all around development and training of both your existing workforce, as well as the new workforce that's entering the market. We're short on construction labor. We are just now figuring out how to develop and train and put systems in place and the *programs that will help develop those folks. That's really important when you look at a manufacturing business, especially if you look at things like CNCs, or vertical milling machines. Those all require specialized skills that have to be taught, and it's not a two-week program, it's a one year program.*

So I think it's getting better, but it's still a long way to go.

Jim:
And I think it depends upon who you're talking about. If you're talking about unskilled, hourly workers, they're likely to change jobs just based upon the difference in their hourly pay. That's a big focus for them. If you're talking about administrative, skilled people, and specifically technology based people, it's the younger workforce that you're really focusing on. And so, what's really important to them?

Since COVID, I think, you see a lot of people are looking to have the flexibility to work from home at least two or three days a week. And so, if you don't have that flexibility, once again, going back to the ownership or the C-suite, if they're kind of old school and believe that people need to be in the office five days a week. Well, I think it's gonna be more difficult to attract people in the technology field since they are younger and they are looking for more flexibility.

They're also looking for more vacation time. You know, I think a week of vacation is much more valuable today than it ever has been.I've been in the industry almost 35 years and when I first started out, I think I had two weeks of vacation. You know, now I think it's up to four, but I never really use it. But, the younger generation, they use their vacation time. I mean, it's very important to them, and I think that's another way that you can attract talent.

Chris:
So you both have mentioned a lot of very important trends. A lot of challenges, but also, possibly opportunities for owners, for decision makers in, this space. If you had to give one bit of advice on where to focus their time, their effort for what's coming in the future, what would it be?

Erik:
I would surround myself with competent, thoughtful partners and making sure that you're asking for advice, guidance, and education with respect to where the industry's going, potential technology, solutions. Thatadvisory type role will pay significant dividends because those advisors are getting the opportunity to see it across a larger platform.

Most C-suite owners are fairly tunnel-visioned with respect to their business. And if you can step back for a moment and get good advice, I think ultimately that will help manage where things are going down the road. 'Cause there's common themes, right? Supply chain, labor, excess in materials, inflation, general capital costs are increasing, right? And it's just one of those things where, I think, as much information as you can absorb to be able to react quickly, that will put the business in a much better position to perform over the long term.

Jim:
I think you hit the nail on the head, Erik. I mean, the key really to me, is not to be stubborn. I think a lot of owners or CEOS, or CFOs, or COOs feel that they know their business better than anybody else and they don't need a perspective, a fresh look from an outside provider, especially if they have to pay for it when you go out and hire a consulting group. But it's kind of, penny wise, pound foolish in my eyes. I think it makes a lot of sense to incur those costs and prepare yourself for the future, 'cause it's only gonna accelerate from here going forward and, technology can just pass you by, literally, in a month or so.

Chris:
The idea that technology can pass you by is nothing new. The idea that it can pass you by so swifty, though, is a new reality faced by leaders in consumer goods manufacturing and elsewhere.

So if you take one bit of advice away from Jim Anderson and Erik Miner today, let it be this: Know the tech landscape in your industry. And if you don't know it personally, make sure you have a partner, an employee or a team who does. Because in all the challenges and opportunities you face today, from labor to supply chain, tech has a role to play.

Thank you to Jim and Erik for speaking with us today, and thank you for listening. Get related resources for your business and listen to future episodes at regions.com/commercialpodcast. And subscribe to this podcast on your favorite podcast service.

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