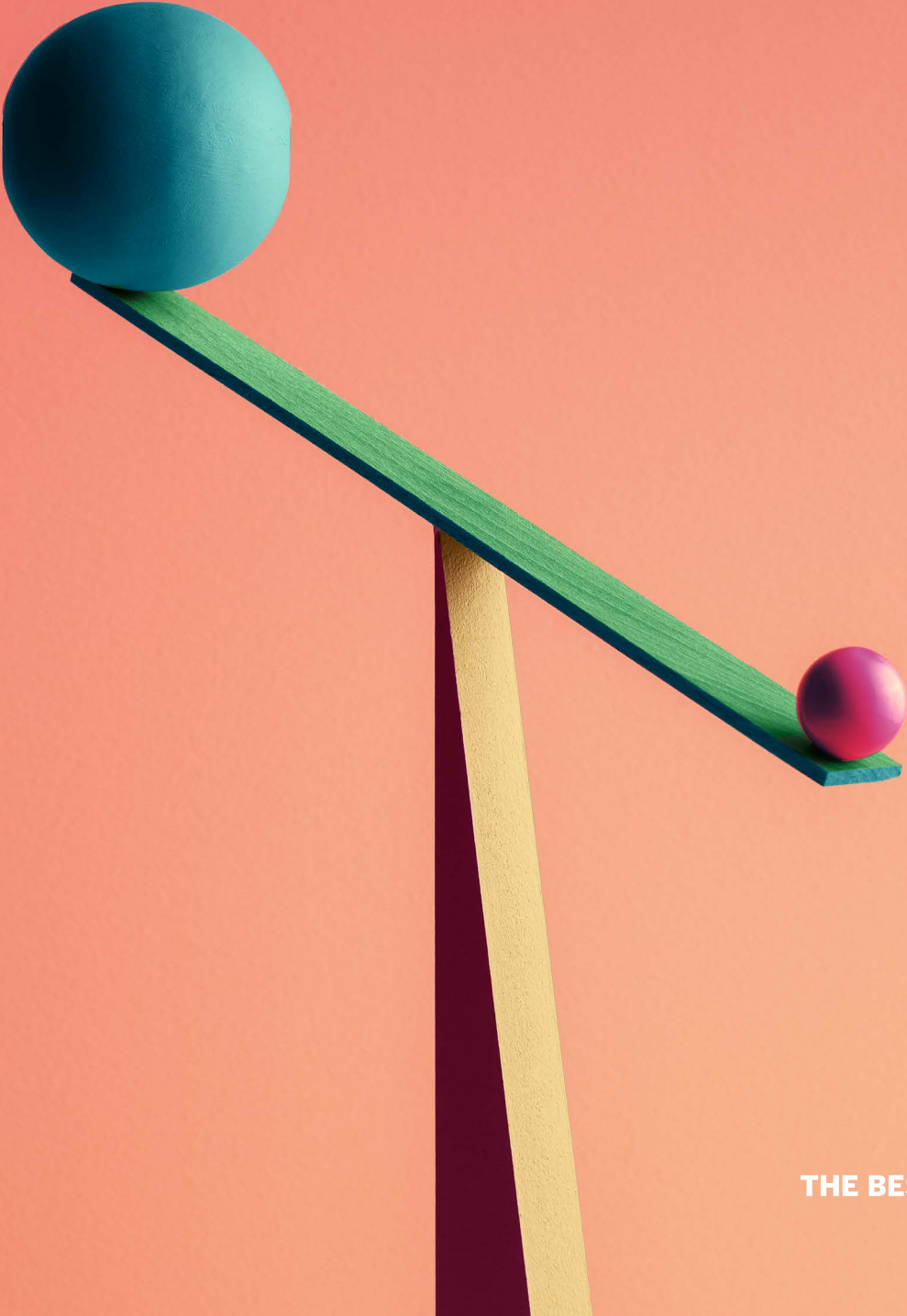


The Transformation Mindset: How Manufacturers Are Balancing Profitability and Efficiency with Sustainability



Midsized manufacturers are constantly evolving in the way in which they measure, manage, and improve their business processes, especially through digitalization. However, their objectives have largely stayed the same, with increasing efficiency, reducing costs, fending off competitors, and seeking new markets continuing to be top of mind. And these objectives are becoming more critical as manufacturers introduce new business models, such as equipment as a service.

Now, a new survey from the SAP Insights research center shows that senior manufacturing leaders are adjusting their approach to operate more sustainably and mitigate risks more proactively. Respondents also revealed the priorities, opportunities, and threats that they're considering now and for the near future, as well as their transformation plans for improving their profitability and competitiveness.

Setting their sights on revenue

When naming their organizational priorities now and beyond the next 12 months, respondents reported revenue growth as their most critical organizational priority, most often supported by strategies centered around introducing new products and services (see Figure 1).

Our findings also suggest that sustainability is an emerging strategy for growing revenue among midsized manufacturers. In fact, it ranked among more traditional priorities, including expanding into new market segments, elevating brand recognition and reputation, improving the customer experience, establishing new partnerships, and introducing new business models.

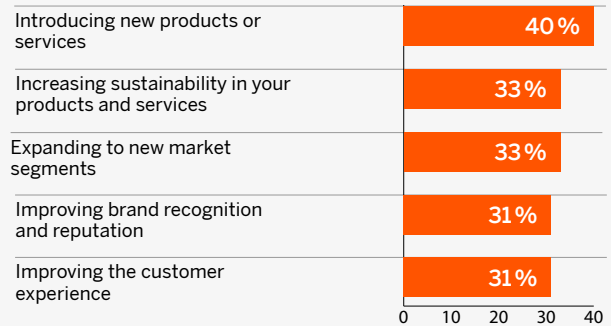
Sustainability Viewed as a Key to Revenue Growth

Our survey shows that sustainability has risen to the top ranks of the business-priority lineup. While their focus on revenue growth, higher efficiency, and risk mitigation has remained relatively unchanged, manufacturers are increasingly incorporating sustainability into their strategies.

This greater attention toward sustainability signals a significantly new approach to product and service innovation and brand recognition and reputation. Manufacturers are responding to intense pressure from customers, investors, regulators,

Figure 1
Top Three Priorities for Improving Revenue Growth

What are your organization's top three priorities to improve revenue growth?



The inclusion of sustainability among revenue growth strategies poses an interesting opportunity in a market where manufacturers are expected to do more than just sell products. Customers want value-added experiences and reliable outcomes from the products they purchase. By integrating sustainability into their service-based business models, manufacturers can provide benchmarking, predictive maintenance, and energy or water consumption analysis to help customers optimize product use while minimizing their impact on the environment.

partners, and stakeholders to operate supply chains with ethical workplace practices, social accountability, and environmental responsibility. Meanwhile, they are prioritizing sustainability in their efforts to run more efficiently and leveraging conventional methods such as cost control improvements and process automation.

The bottom line: Sustainability is now an essential element alongside the bedrock activities of growing revenue, increasing efficiency, and sparking innovation.

Finding new sources of efficiency improvement

When it comes to improving efficiency, increased process automation was ranked highest by surveyed executives. However, respondents recognize that their operational processes must become more sustainable. In addition, emphasis on supplier and partner networks indicates a growing desire to pivot away from linear supply chains and toward collaborative supplier networks.

While business leaders in our survey recognize that increasing the amount of automation is key to boosting operational efficiency, they also value cost control, spend management, and sustainable operational processes, as well as reliable supply chains, as key strategies (see Figure 2).

Manufacturers should consider Industry 4.0 capabilities that enable supply chain organizations to improve the automation, monitoring, and analysis of their operations, making every step smart enough to enable them to make sense of detected changes and respond appropriately in real time.

While manufacturers have long understood the importance of digitalization, they still desire increased flexibility to adapt to change, especially as customer demand, market dynamics, and resource and labor availability evolve. In fact, 43% of respondents cited an increase in flexibility and adaptability to change as a leading focus in their process-improvement efforts – and in most cases, efficiency is a guiding factor.

This mindset toward innovation is reflected in our respondents' digital-adoption priorities. Almost three-quarters (73%) of the top 15 technologies regarded as most important for future improvements are directly associated with digitalization. They include cloud computing, business process intelligence, automated business intelligence (BI) dashboards, data management, the Internet of Things, robotic process automation, conversational artificial intelligence, machine learning, and virtual reality and augmented reality (see Figure 3 for a list of the top five priorities).

Figure 2
Top Three Priorities for Improving Efficiency

What are your organization's top three priorities to improve efficiency?

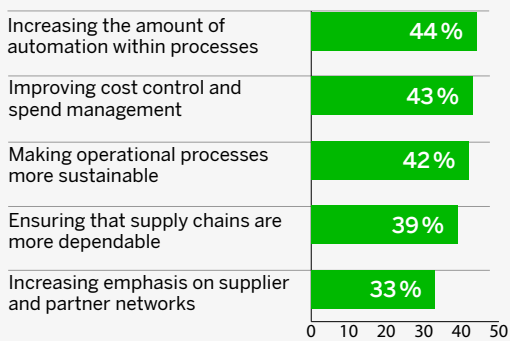
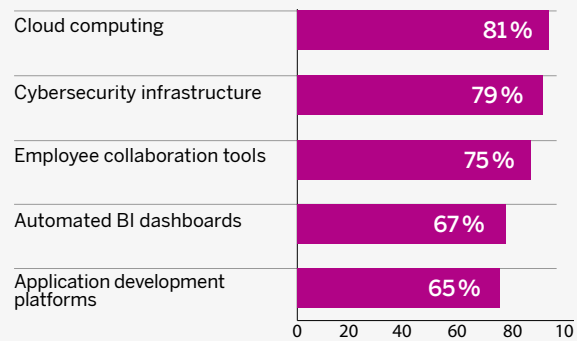


Figure 3
Top Priorities for Technology Adoption

What technologies are important to improving manufacturing processes?



Manufacturers are responding to intense pressure from customers, investors, regulators, partners, and stakeholders to operate supply chains with ethical workplace practices, social accountability, and **environmental responsibility**.

Mitigating risk through a new lens

It's no longer enough for midsize manufacturers to think about traditional risk areas, such as thwarting existing competitors and protecting against new market entrants. Instead, these factors have been pushed aside by threats rooted in current crises, such as supply chain fragility, cyberattacks, resource and talent shortages, and the rising risk of damaged brand reputation (see Figure 4).

By increasing their attention on more current risks, manufacturers acknowledge that their business is changing far more rapidly than in the past. For example, growing reliance on process automation is compelling executives to strengthen their cybersecurity capabilities. Furthermore, any delay in responding to the barrage of recent supply chain disruptions and talent and resource

shortages can permanently impact brand reputation. As a result, businesses must be vigilant, responding actively and proactively to those risks as well as focusing increasingly on sustainability, talent development and retention, and a continuous flow of the right supply levels.

In terms of longer-term global risks, manufacturers place their fear of economic stagnation well ahead of cybersecurity breakdown, employment crises, and worldwide shortages of natural resources. Executives expect their business operations to be impacted by the ripple effects of an expanding landscape of economic and societal concerns, which will only exacerbate and extend current-day challenges (see Figure 5).

Figure 4
Top Priorities for Reducing Risk

What are your organization's top priorities to reduce risk?

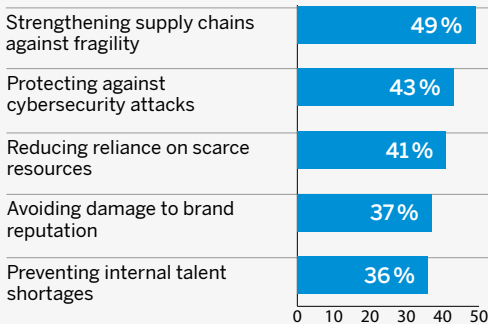
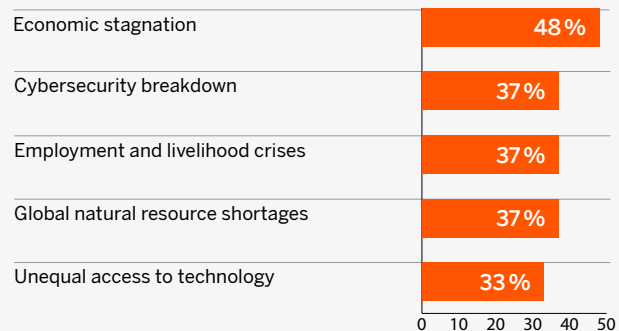


Figure 5
Future Global Risks for Which Organizations Must Prepare

For which of these future global risks will your organization need to prepare?



While manufacturers have long understood the importance of **digitalization**, it is more important than ever to enable increased flexibility to adapt to change, especially as customer demand, market dynamics, and resource and labor availability evolve.

Signaling a need for process improvement

Surveyed manufacturing leaders recognize that their organization's digital transformation is critical to help increase business performance today, better respond to future risks, and drive continuous growth. Nearly 90% see a positive relationship between their performance – in terms of competitiveness and profitability – and their organization's transformation.

Approximately three-quarters (71%) of respondents said that progress has been made, with digital transformation achieved in some or all areas as planned. However, the constant introduction of new industry risks and expectations are compelling 83% of respondents to consider their journey as not ending anytime soon. The survey findings also do not portend good things for companies that haven't already started transforming – most of them expect to make very little progress two years from now.

Looking ahead, 84% of participating leaders view technological innovation as their top priority in the next three to five years. Innovation around products and services (80%), sustainability (79%), business model transformation (77%), and digital experience (77%) also made the list. Only 25% of respondents consider technology innovation alone, indicating that a mix of innovation is generally needed to achieve manufacturing leaders' strategies.

This forward-looking trend indicates that manufacturers seek critical process improvements, such as developing quality standards and procedures, monitoring and optimizing production, simulating and augmenting production networks, and automating and controlling plants.

Recommendations

In a turbulent period of greater global risk, surveyed executives from midsize manufacturing businesses emphasize the importance of boosting revenue growth while increasing efficiency and mitigating risk. Underlying these fundamental initiatives is the need to offer sustainable products, services, and experiences. All of these imperatives will become increasingly essential to core strategies in coming years.

Manufacturers are keenly aware that transformation and innovation are critical for driving revenue. However, they still prioritize efficiency wherever possible. The industry rarely has the luxury of considerable profit margins. As a result, cost control and spend management remain perennial priorities, and the ability to source ethically and reduce carbon emissions are emerging as almost equally crucial factors.

While many technology changes are cost-prohibitive, manufacturers view any failure in embracing them as extremely risky. Midsize manufacturers should invest in Industry 4.0–related solutions and technologies as part of a platform for a flexible and collaborative supply chain network that addresses disruption with greater efficiency, speed, and profitability.

Ultimately, midsize manufacturers cannot afford to stand still. They must transform and innovate in ways that tackle the long-term health of their business – and that usually requires implementing strategies that intertwine sustainability across processes, operations, and organizational priorities. Doing so will result in better business performance today and a more competitive future.

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About This Research

The SAP Insights Midmarket Senior Executive Priority study collected data from 10,507 executives from companies with annual revenues of less than US\$1 billion across 41 markets and 28 industries. Respondents possessed the highest level of line-of-business responsibility and oversight, with titles ranging from director to chief officer. The surveys were conducted from September 2021 through December 2021, with a 10-minute online survey used to collect the data.