Managing in the new normal: Financial and operational considerations for manufacturers post COVID-19

New safety, sanitation and hygiene procedures are all part of the “new normal” for manufacturers as plants begin to reopen after shutting down due to COVID-19. These necessary changes bring forth added expenses, coupled with lower anticipated volumes which can result in tight liquidity even if sales demand strengthens. Manufacturers need to not only focus on operational improvement but also look at their balance sheet to find ways improve their cash flow despite the challenging operating environment.

Across the board pressure on cash and liquidity may occur due to:

Lower volumes

Reduced demand and **sales volumes** as a result of degraded customer confidence and recessionary economic conditions.

Potentially significant mix changes as products are aligned to the “new normal.”

Higher cost to manufacture

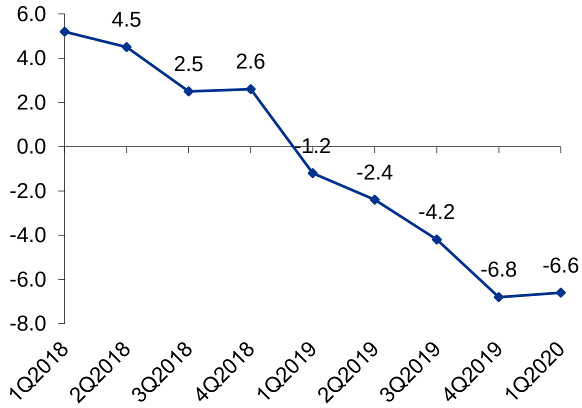
Production efficiency reductions may occur as a result of social distancing measures impacting handling and process execution, operator impairment due to personal protective equipment (PPE) requirements, and/or increased numbers of shifts to promote lower plant densities.

Increased overhead due to higher maintenance, repair and operations (MRO) expenditures for PPE, increased staff to administer safety measures, and/or increased cleaning activities.

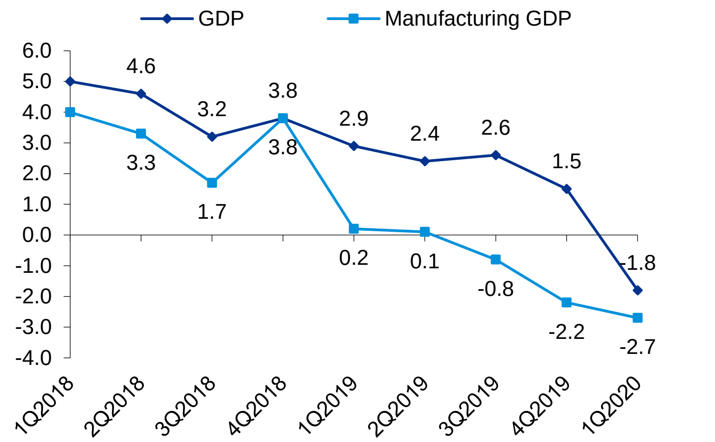
Cost of quality increases due to increased part handling, higher turnover/absenteeism, and/or process changes impacting control plan implementation.

Higher one-time costs supporting the purchase of additional packaging to support part movement and staging, additional quality detection requirements, and/or production part approval process (PPAP) creating revised process flows.

Manufacturing Production Index (MPI) (%y-o-y)



Thailand GDP and Manufacturing GDP growth (% y-o-y)



Thailand's Industrial sector has slowed down since 2019 as a result of reduced domestic export and global demand. During the crisis in the first quarter of 2020, the Manufacturing Production Index (MPI) contracted by 6.6 percent, the majority from a consequence of the COVID-19 contraction in domestic and external demand, manufacturing production and private investment.

Thailand's GDP contracted by 1.8 percent in Q1 of 2020, mainly due to the impact of COVID-19. According to the Office of the National Economic and Social Development Board (NESDB), it is expected that Thailand's GDP would contract by 5.0 to 6.0 percent this year.

Manufacturing scene in Thailand transits to a new normal amid uncertainty caused from COVID-19

The pandemic reflects the **issue on production process and shorten the supply route**. The reliance on a single production base will create risk of procurement in the supply chain. Manufacturers would consider to diversify the production base to be more flexible.

The concept of social distancing will be implied for production plants and workers. There will be **increasing use of robots and automation** in industrial plants particularly Blockchain, IoTs, Additive Manufacturing and Artificial Intelligence.

Adaptive business model, resilience and agility concept will be more emphasized. There are four elements for manufacturers to consider including training workers to be ready to adapt, agile working process, adaptive organization structure, and taking full benefit from technology.

Increasing in alliances due to the implication of supply disrupted, cross-industry corporation leverages new opportunities, connection and supportive supply chain. Strengthen partnership migrates those uncertainty risks.

Source: Kasikorn Research Center, The office of industrial economics, Bank of Thailand, The World Economic Forum

Effectively balancing these production dynamics while simultaneously managing liquidity is critical

Entering the restart phase with a weakened balance sheet and lower cash reserves, the higher costs and lower volumes present a challenge for management teams and even more so with many working remotely. As a result of this, there is a need for significant capital management and resources to support critical product relaunches, which have increased risk of delay or cancellation.

What manufacturers should do to better position for financial and operational success

Manufacturers are going to operate differently and employees will need to learn new processes in order to adapt to the new normal. A flawless startup is necessary and a sustained focus is critical for keeping the plant open and averting a shutdown. OSHA has offered clear guidelines on preparing a workplace for COVID-19 which can offer the operational procedures companies should implement to reduce the risk of exposure to employees including workplace controls to implement and guidance on developing an infectious disease preparedness and response plan.

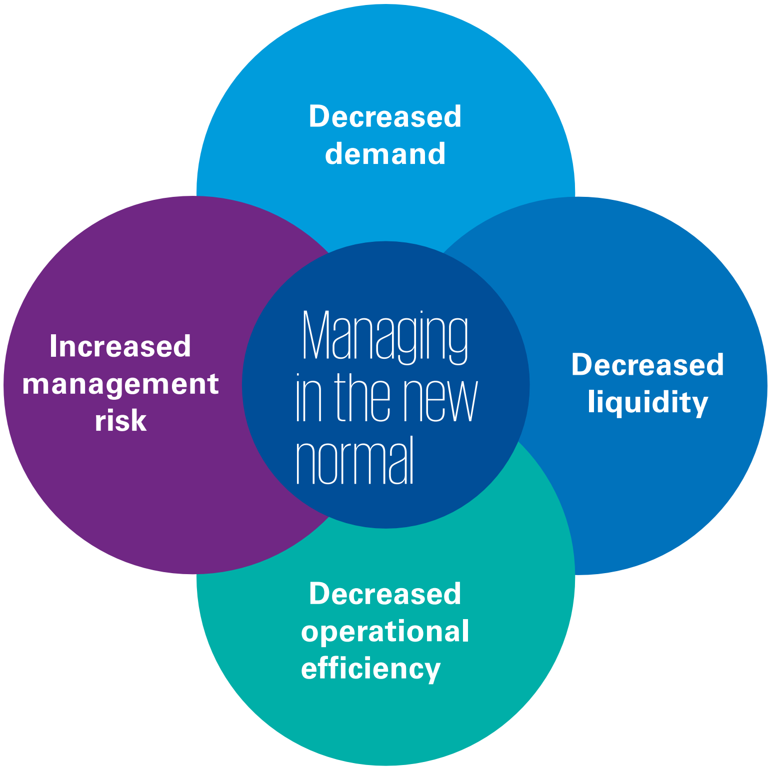
Understanding the increased cost structure, and the impact on future production and liquidity needs to be supported with real time insights and KPIs.

Cost reduction efforts: The focus on cost cutting and short-term cash conservation will need to continue well past the initial start-up until a new stable baseline operating model is achieved.

Cash and liquidity forecasting: A focus on detailed cash flow and liquidity forecasting under varying scenarios considering the higher, new normal operating cost structure will be critical to ensure sufficient liquidity to balance production and safety.

Focus on problem solving: KPIs and data should be utilized to prioritize improvement activities and minimize performance degradation.

Supply chain resilience: Re-examine supply chains and restructure flows and networks to build resilience and seek to avoid over-dependency on a particular supply base.



While the impact of managing in the new normal is costly; getting it wrong will be even more costly. Just one case of COVID-19 could force a plant to shutdown. An approach that creates the safest environment for employees while finding ways to innovate and improve processes can create an environment that sets your plant up for success today and into the new normal.

Why KPMG

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