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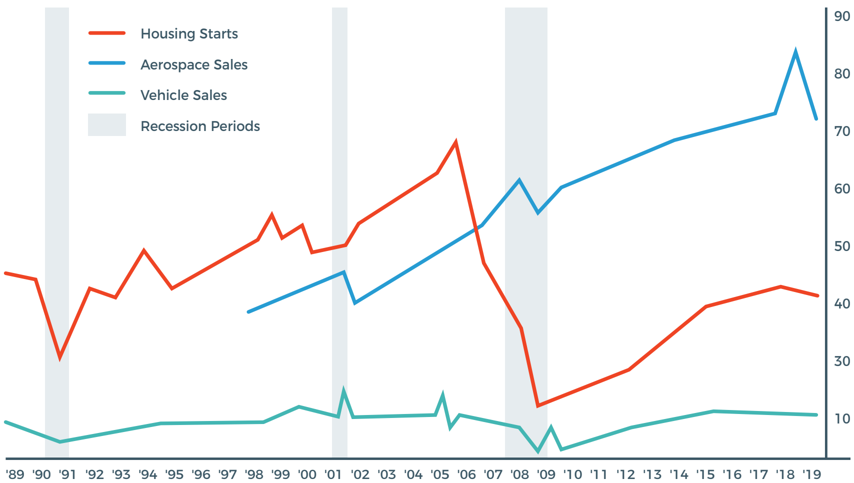
# Recession or No Recession, Scenario Planning Is Key to a Successful Recovery

Thoughtful, comprehensive scenario planning is key to your organization's ability to rapidly and profitably respond to whatever shifts in demand the economy throws your way.

Data and our direct client experience suggest that many U.S. manufacturers are already feeling the effects of an economic slowdown. Whether or not things will get worse before they get better is a topic of debate among many economists. However, the general consensus is that any impending recession will be mild and short lived, and history shows that companies are more likely to fail in the recovery than in the recession itself. To get ahead of whatever's to come, it's time to start planning for the upturn now.

U.S. MANUFACTURING TRENDS:

## Aerospace Down; Housing and Autos Stuck




*Global Economic*, Manufacturing & Market Perspectives, Huntington Private Bank, 2019.

Some sources, including Huntington Bank[1] and The Wall Street Journal[2], indicate that U.S. manufacturing output is down and weakening, most recently and sharply in the aerospace industry, while housing and automotive, appear to have plateaued. Other data paint a more varied picture. For example, the Institute for Trend Research tells us that even while housing is in decline and wholesale trade and production are in a slowing growth cycle, non-residential construction is expanding – notably in the manufacturing sector itself[3]. The upticks in some sectors could point to significant opportunity for increases in demand in the near future even while manufacturing PMI continues to fall and new orders are weakening overall. With indicators pointing in opposite directions, manufacturers must be prepared to respond to economic shifts in either direction.

## Plan on Everything. Be Ready for Anything.

Proper scenario planning is critical for preparing your business to act quickly in any situation. Without it, business leaders often respond with knee-jerk reactions—adding or cutting people and/or hours—which can be a costly mistake. Underestimate the upturn, and risk failing to meet demand. Overestimate, and you wind up with excessive inventory and no cashflow. The right plan, however, can translate into millions of dollars in profit and smarter business decisions that can improve EBITDA by 5-10%.

[1] *Global Economic*, Manufacturing & Market Perspectives, Huntington Private Bank, 2019.

[2] *U.S. Shoppers Splurge in Face of Global Headwinds.* The Wall Street Journal, 2019. https://www.wsj.com/articles/u-s-retail-sales-rose-0-7-in-july-11565872458

[3] ITR Economics, 2019.

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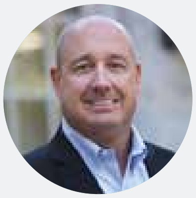
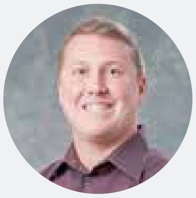
## Meet the TBM Supply Chain Experts



**KEN KOENMANN**

*Vice President, Technology and Supply Chain*



**BRIAN CROMER**

*Managing Director, Global Supply Chain Practice*

## Proven TBM Results

**NORTH AMERICAN BRICKS & ARCHITECTURAL STONE MANUFACTURER**

### Increased Capacity, Margin, and Ability to Meet Current and New Demand

- Created a limited scope capacity planning model with cost-minimization and profit-optimization scenarios to quantify expected benefit
- Used scenario planning to identify $4-6 million in savings opportunities
- Changed the production paradigm, resulting in distribution model changes, inventory reduction, and the closing of one facility

## Here are some actions you can take now to increase agility and ensure a rapid response, come what may:

**GET PERSPECTIVE FROM YOUR SALES TEAM.**
Salespeople are closest to your customers and have the best insight into expected demand. Get them thinking beyond the order form and considering strategic factors such as competitors' behaviors and potential shifts in customer base. When they start asking the right questions and delivering the right feedback, you'll be better positioned to accurately estimate demand and plan for what's to come.

**ANALYZE YOUR TRUE COST TO SERVE.**
The foundation of good scenario planning is quality data but first, you must know what to measure. Manufacturers can fall into the trap of looking only at freight and delivery, but you need a multidimensional approach, considering factors such as costs of labor and warehousing, material availability and lead times, and the difference in cost structure across plants. Once you have a handle on the full spectrum of cost drivers, you can begin to fill in the data gaps.

**ASK THE RIGHT "WHAT-IF" QUESTIONS.**
With a solid grasp on all of the cost variables, you can start to explore the impact of various decisions such as adding extra shifts, moving production to different locations, or even opening new plants. Thinking outside the box and considering alternatives to the way things have historically been handled may induce a bit of a cultural shift. However, it is essential to unlocking optimal solutions with the potential to dramatically improve your profitability.

**PLAN AHEAD FOR A WIDE RANGE OF SCENARIOS.**
You have to be ready for anything. Run the analytics based on various growth rates (1%, 2%, 5%, and 10% for example) as well as decline rates (-1%, -2%, and -5%). Then create multiple playbooks with strong action plans you can immediately execute on once actual demand levels become clear. The ability to scale up or down quickly is the key to avoiding bad business decisions that can cost you millions or alienate your customers.

## Seize Your Opportunity

Scenario planning sets the stage for effective network and inventory optimization decisions, S&OP processes, and sourcing strategy. And it's the key to achieving balance between cost-to-serve and service levels. With the right plans in place for any eventuality, your business will be ready to act confidently and swiftly to meet customers' needs and your profitability goals.

## SPEED WINS EVERY TIME

TBM specializes in operations and supply chain consulting for manufacturers and distributors. We push the pedal down in your operations to make you more agile and help you accelerate business performance 3–5x faster than your peers.

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