

A black and white photograph of a manufacturing facility. In the foreground, a large industrial robotic arm is mounted on a white circular base. It is positioned over a work area. In the background, several other similar robotic arms are visible, working on a production line. The factory has a high ceiling with visible structural beams and lighting fixtures.

Manufacturing Industry Update

January 28, 2021

Michael A. Coakley
Director
Kreischer Miller

Tony Girifalco
Executive Vice
President
DVIRC

**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

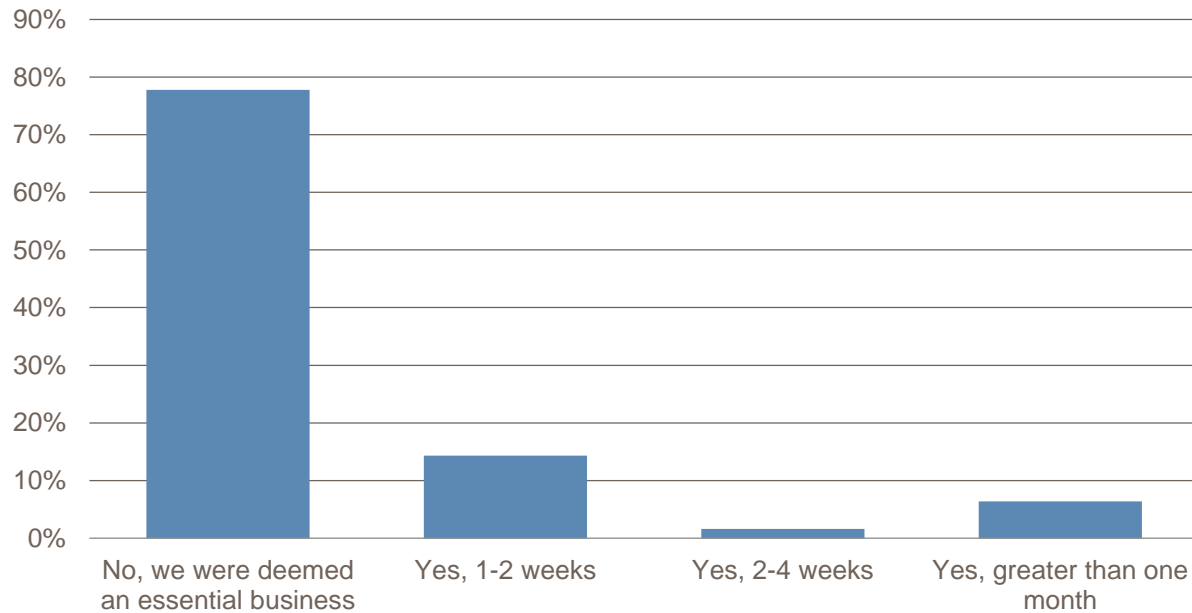
- Survey data was collected in October 2020
 - Six to seven months into the pandemic
- Middle market manufacturers and distributors in the Greater Philadelphia region
- 63 survey respondents



PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

Did your company experience a shutdown at any time during the pandemic thus far?



**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

New challenges faced as a result of COVID-19

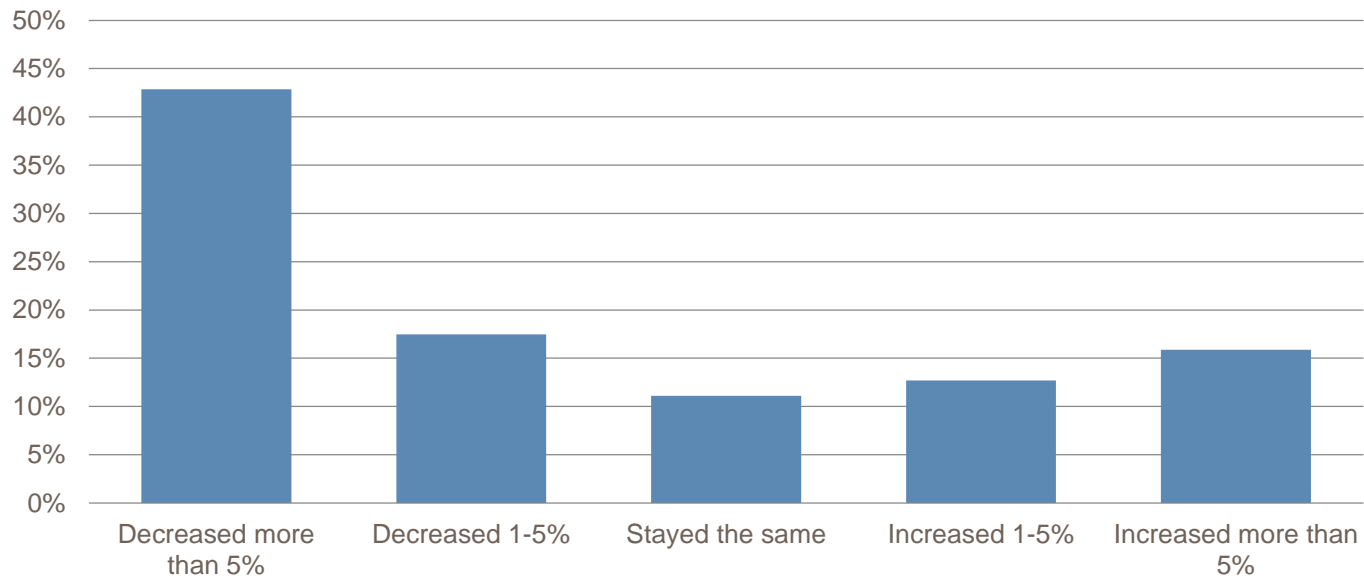


**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

How have your production/shipments fared during the pandemic as compared to the same time period last year?

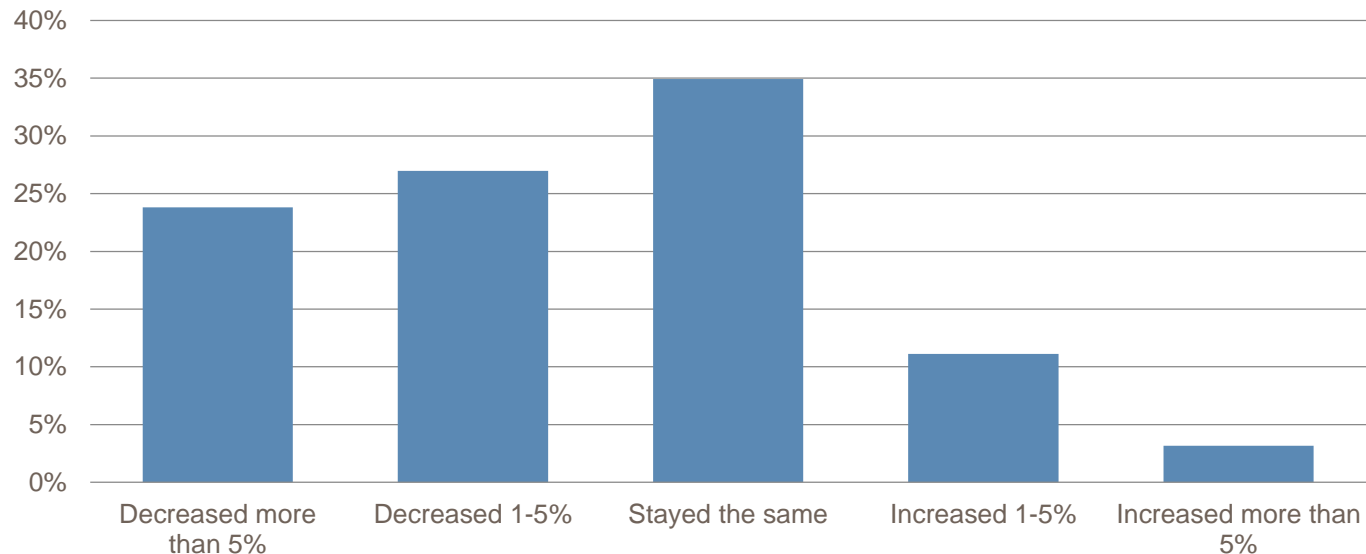


**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

As of the date of this survey, what are your employment levels compared to February 2020 (pre-pandemic)?

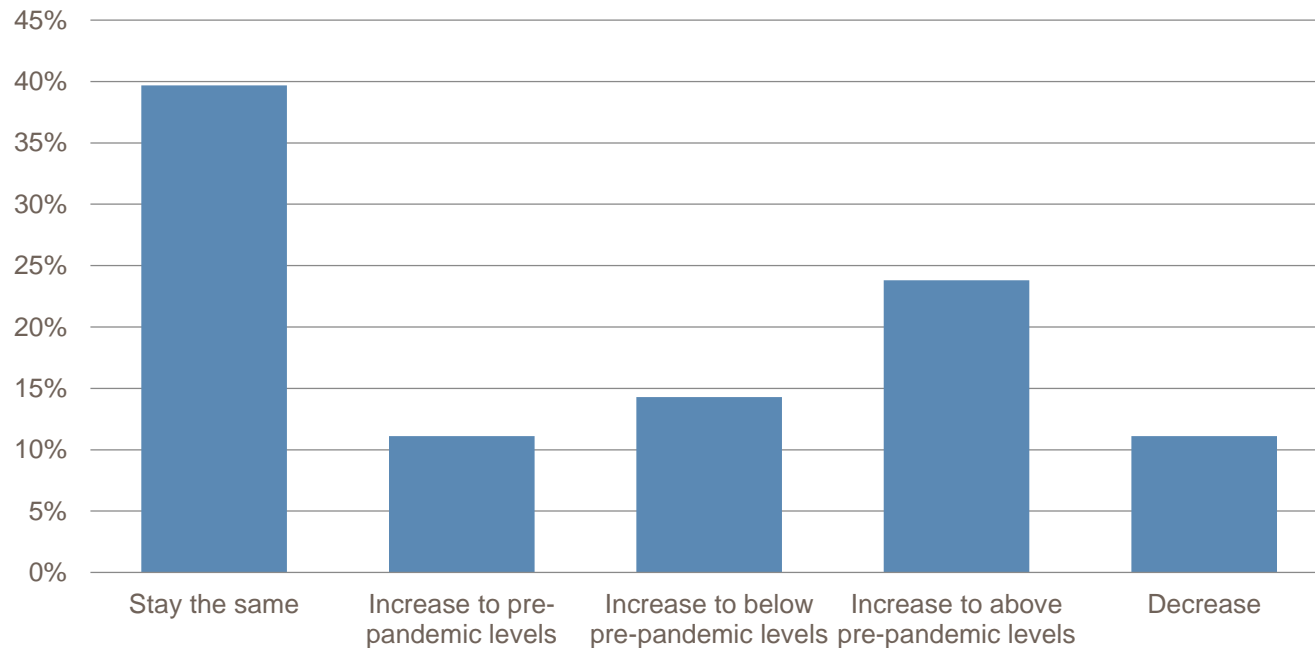


**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

Do you expect your employment levels to change over the next six months?

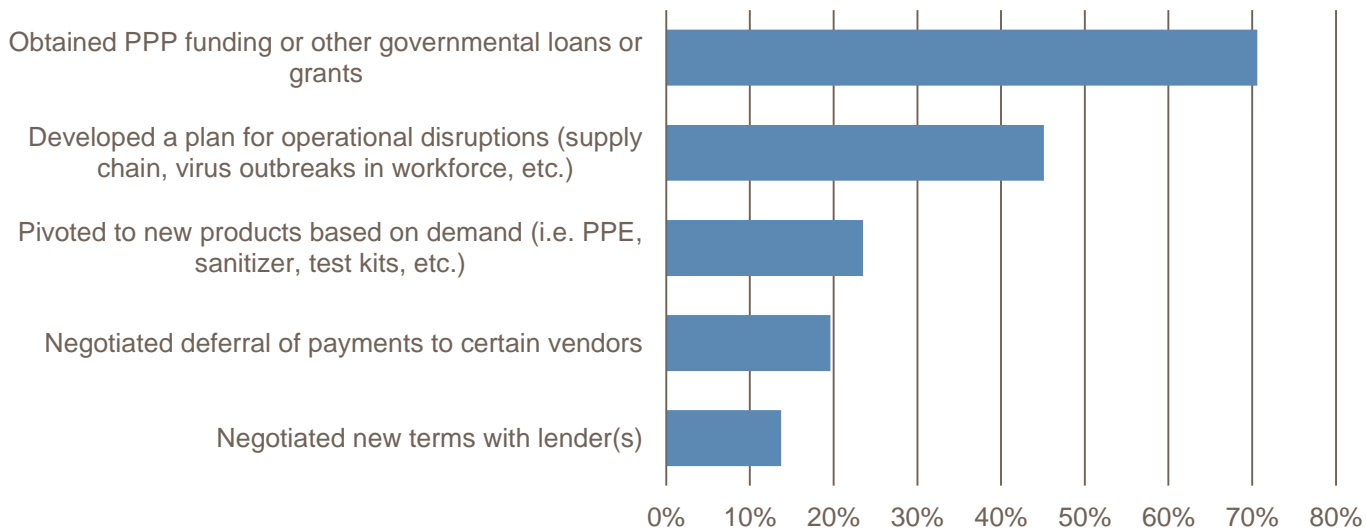


**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

Short-term measures put in place as a result of COVID-19?

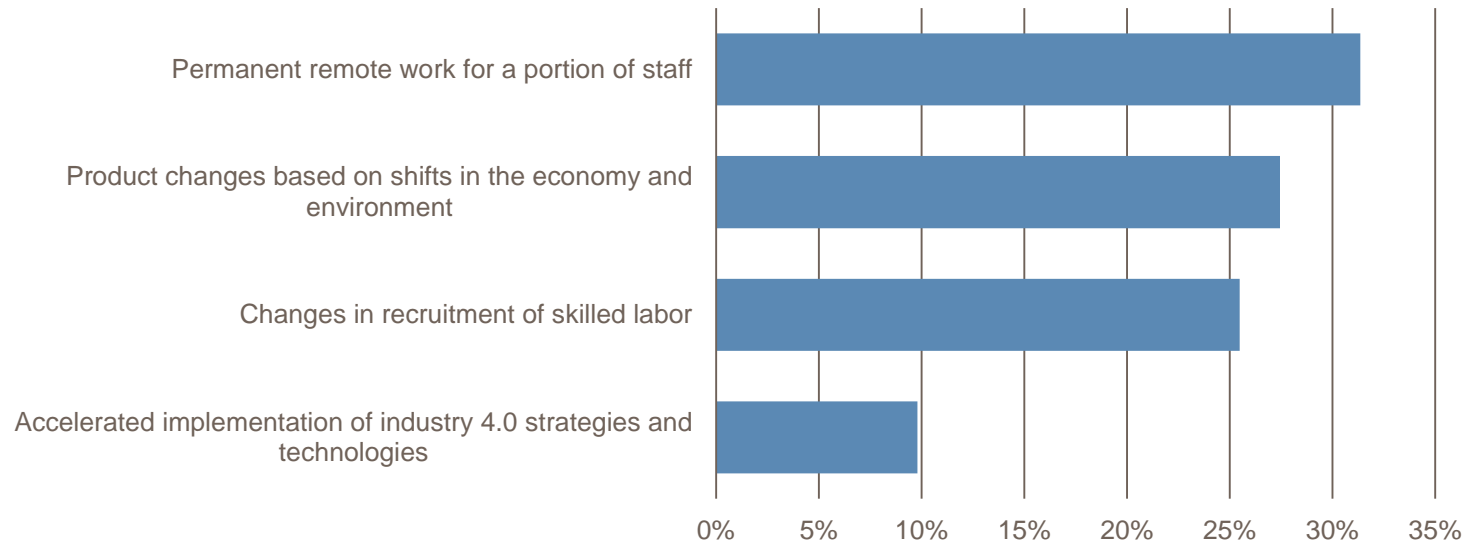


**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

Long-term plans developed in response to the pandemic

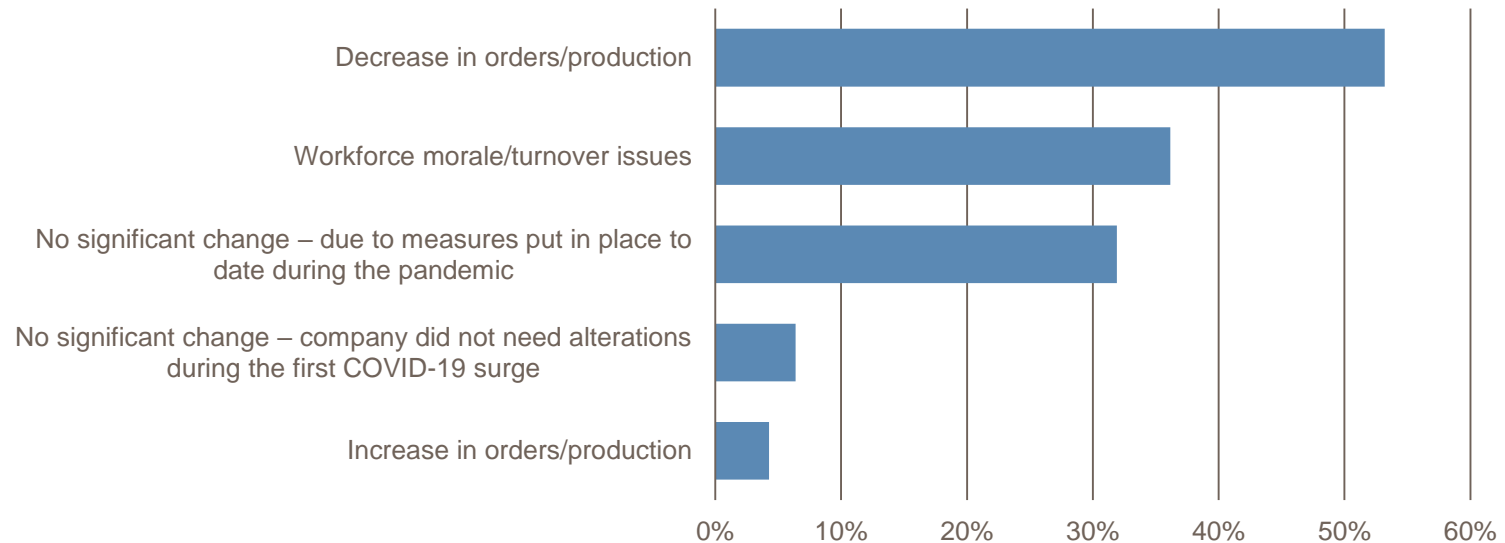


**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

How would your company be affected by another COVID-19 surge?



**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

KM COVID-19 Impact Survey

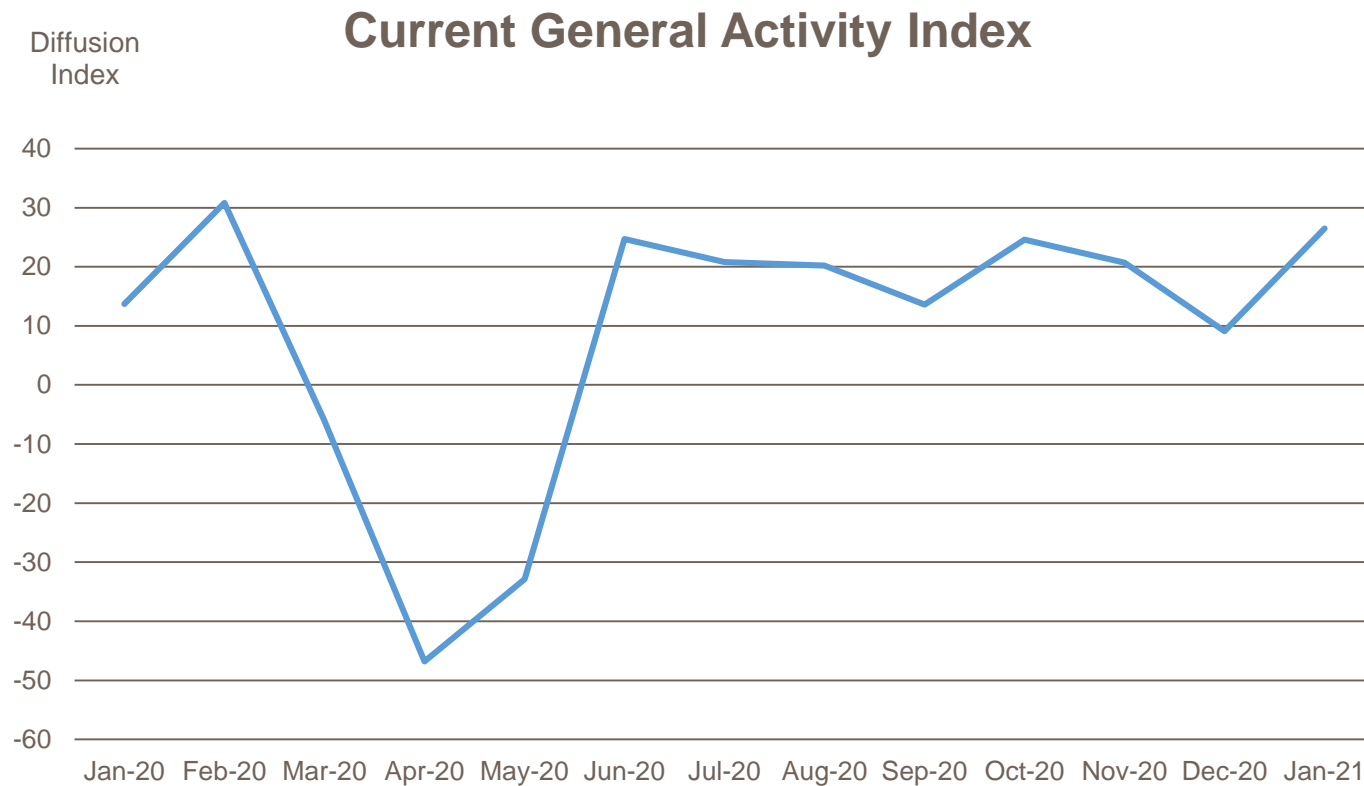
Strategic initiatives wish list

- Get better at e-commerce and digital marketing
- Replace or update ERP system
- Leverage existing systems for data analysis
- Automation of back office functions
- Automation of manufacturing operations



PEOPLE | IDEAS | SOLUTIONS

Philly Fed MFG Business Outlook Survey



Source: Federal Reserve Bank of Philadelphia, Manufacturing Business Outlook Survey

Contact the Presenter



Michael A. Coakley
Director, Audit & Accounting and
Manufacturing Industry Group Leader
mcoakley@kmco.com

Mike has a wide range of experience providing business advisory services, audit and accounting, and tax services to a variety of privately-held businesses across many industries, including manufacturing and distribution, construction, professional services and not-for-profit organizations. He also helps businesses improve performance and efficiencies by conducting operational reviews and analyses of business transactions, and has assisted his clients with acquisition, divestment and other transitional activities.

As the Manufacturing Industry group leader, Mike has worked with a large number of diverse manufacturing companies, including those in metal fabrication, machining and grinding, fiberglass and plastics, textiles, automotive equipment, and household/consumer products.

**Kreischer
Miller**

PEOPLE | IDEAS | SOLUTIONS

About Kreischer Miller

Kreischer Miller is an accounting, tax, and business advisory firm that has been serving clients since 1975. We've built our firm to respond to the unique needs of growth-oriented private companies, helping you smoothly transition through growth phases, business cycles, and ownership changes. The companies we work with need to be able to quickly adapt and respond to changing market opportunities and challenges. That's why our focus is on being responsive, decisive, and forward-thinking. We're up to the challenge—always looking at the road ahead, not in the rear-view mirror.

Learn more at www.kmco.com.



PEOPLE | IDEAS | SOLUTIONS



Helping Manufacturers Grow Profitably Since 1988

Manufacturing Industry Update

January 28, 2021

Overview

National/International Perspective

- ITR Economics
- Deloitte
- McKinsey

State Perspective

Regional Perspective

- DVIRC Survey & Activity Levels
- Recommendations



If you can keep your head when all about you are losing theirs...Yours is the Earth and everything in it!

National/International Perspective—ITR

ITR Economics Trends Report, January 2021

- The state of the economy is positive
- Implications of Democratic control of Senate on taxes and regulation will unfold
- Consumers and the industrial sector are poised for a 2021 of recovery and rise
- Areas dependent on travel and movement such as oil, gas, and aircraft remain very weak
- Expect 2022 to be a year of slowing growth

National/International Perspective—ITR

ITR Recommendations

- Invest in customer market research, as buying behaviors have shifted during the pandemic
- Steel Prices are likely to be higher this year. If steel is an input for your business, consider locking in prices or building your inventory of raw materials.
- Opportunities related to the reshoring of US manufacturing may also be found as companies look to mitigate supply chain vulnerabilities that were exposed by the pandemic
- “Growth is on the horizon; do not be left behind”

National/International Perspective

- Deloitte's Mid-year 2020 Industrial Outlook
 - “Manufacturers are at continued risk for disruption”
 - Industrial companies are getting their diversified “houses in order”
 - Current climate driving companies to build “digital muscle”
 - Companies are seeking more partnerships for digital momentum
 - Larger firms transitioning to renewable energy sources

Source: <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/manufacturing-industry-outlook.html>

National/International Perspective

- McKinsey: Industry 4.0: Reimagining manufacturing operations after COVID-19
 - Industry 4.0 technologies were already transforming manufacturers' operations before the pandemic. Now adoption is diverging between technology haves and have-nots.
 - A recent McKinsey survey of manufacturing and supply-chain professionals found that 93 percent plan to focus on resilience of their supply chain, and 90 percent plan to invest in talent for digitization.

Source: <https://www.mckinsey.com/business-functions/operations/our-insights/industry-40-reimagining-manufacturing-operations-after-covid-19>

Smart Manufacturing

- Industry 4.0, AMT, Digital Manufacturing, IIoT...
- *Smart Manufacturing—A Primer for Small Manufacturers*, March 2020
- Among the key “Takeaways”
 - Biggest hurdles are usually managerial & cultural, not technical
 - Get started. Start small. With the right approach, there will be immediate benefits from relatively small investments and risk. Waiting will not provide any advantage but will increase risks that competitors, or even customers, will take your business.

Source: <http://mforesight.org/download-reports/>

State Perspective

- Budget restored
- Still +/- \$2B shortfall
- Governor recently vetoed Virus Liability “Tort Reform Grab Bag” in December
- Various COVID-related bills in process
- Several bills of interest in process
- Governor’s Budget Address February 2

Industry Employment Projections

- 2018-2028 Long-Term Projections
 - PA L&I projects net increase of 11,986 jobs
 - 482 in Goods Producing, 11,395 in Services with majority in Health Care & Social Assistance
 - (142) in Manufacturing
 - Printing & Related industries and Communications Equipment hardest hit
 - Net increases in Chemical & Pharmaceutical
- Why is this Important?

Source: <https://www.workstats.dli.pa.gov/Products/employment-projections/Pages/LTIPMetropolitanAreaData.aspx>

PA Legislation Afoot

- 21st Century Mfg. Innovation & Reinvestment Deduction Act (Sen. Mensch)
- Tax credit for manufacturers to make PPE (Sen. Blake)
- Jobs Initiative Package (Sen. Mensch)
- Various COVID-related bills

Regional Perspective—DVIRC Survey

Impact of COVID on Manufacturing Firms

- 60% of firms saw YTD revenue decrease, though 54% project an increase in 2021 (and 77% are looking to hire additional staff in the next 6-12 months).
- Workforce and operations have also been negatively impacted by the pandemic (46% and 39%, respectively).
- Unaided, a noteworthy number of respondents (13) mentioned the negative impact of COVID-19 on employee morale and workplace culture, as well as difficulties related to working from home.

Regional Perspective—DVIRC Survey

Revenue growth and operational excellence are top business priorities for 2021, including “surviving/recovering from COVID-19”

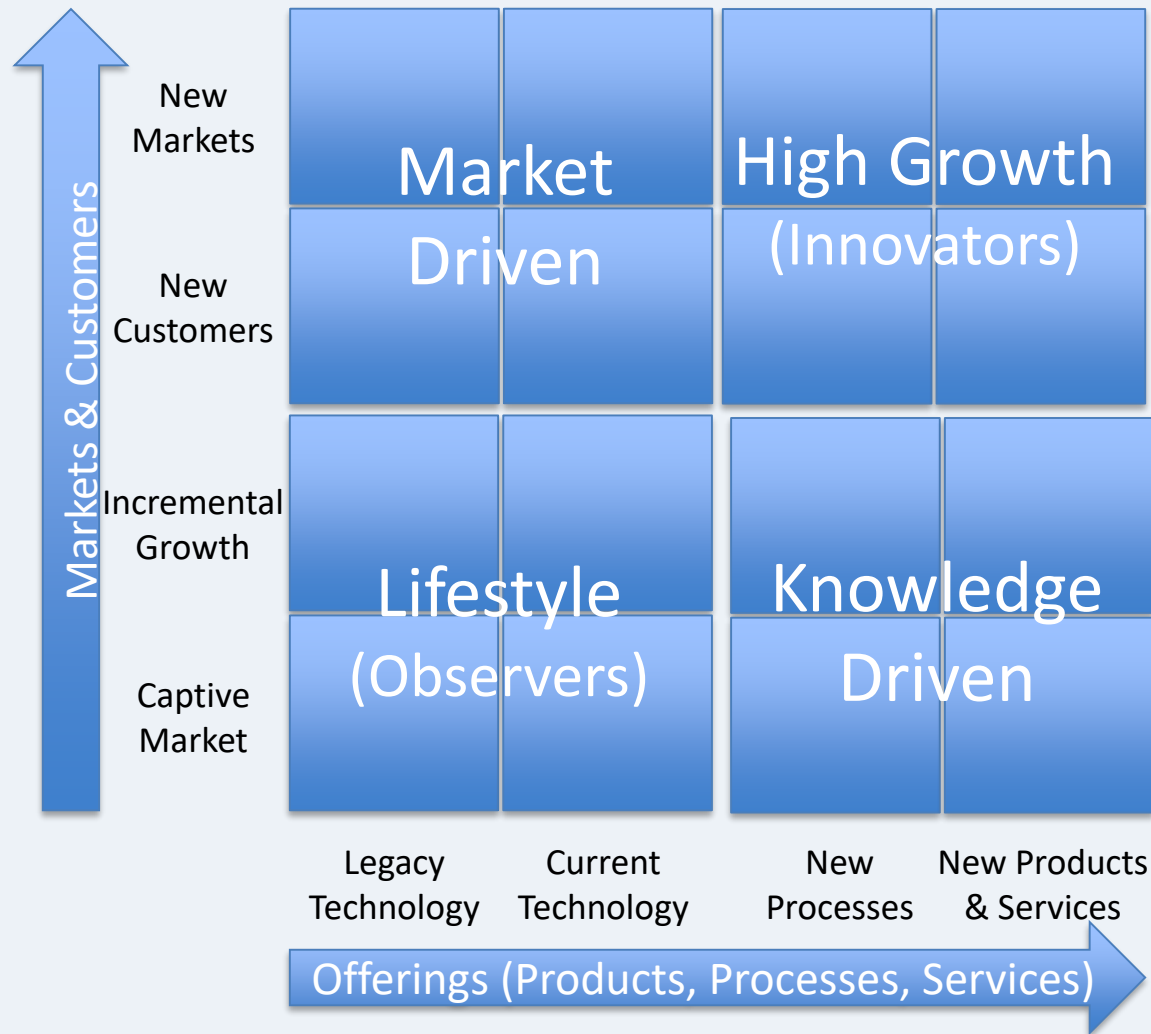
- Revenue growth is a top priority for 84% of suppliers surveyed, followed closely by operational excellence (69%).
- Other key areas for improvement include management/workforce development (66%) and sales support/market development (65%).
- Customer acquisition efforts were ranked as more important to sales growth than product development.

DVIRC Activity Levels

What are our clients investing in?

- Business Growth—new markets / new business
- Technology—Strong uptick in AMT: Cyber & Automation
- New suppliers to deal with the pandemic disruption
- Skill development at all levels in the workforce

Kinds of Companies



Recommendations—What's Ahead

- **Develop a Growth Strategy**
- **Invest in AMT—start small, scale**
- **Supply Chain Resilience**
- **Invest in Skill Development**
- **Review your market mix**
- **Don't stand still**
- **Be Grateful!**



Thank You!

- Questions / Comments

- Contact

Tony Girifalco, EVP

ajg@dvirc.org

www.dvirc.org