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MANUFACTURING & LOGISTICS

Changes in manufacturing will endure

Executives at Bastian Solutions and VonLehman CPA & Advisory Firm discuss how the pandemic has made manufacturers stronger as they anticipate a post-pandemic world.

Q: What broad changes in manufacturing have you seen because of the pandemic?

ALI LOTFALIAN: From supply chain issues, to economic and budgeting uncertainty, to retaining and recruiting a workforce, Hoosier manufacturers have had to innovate to ride-out the pandemic. Most realized that improved communication was essential. Whether this was daily communication with key suppliers or internal communication of the latest safety protocols, communication was of the utmost importance and continues

to be so. We are also seeing much consideration given to changing of supply chain partners and an increased trend toward automation—not just for manufacturing processes, but also for managerial purposes. Another change is accelerated implementation of, or improvement to, e-commerce platforms. This is in part due to companies shifting their sales strategy due to the inability to travel.

What the manufacturing world can truly take pride in is that the focus has been on their employees, safety and pivoting in whatever way necessary

to keep things going. The majority of manufacturers we speak to are optimistic as they continue to make changes as needed while they await an end to the pandemic.

Q: What challenges are manufacturers facing in terms of facilities and materials?

MARK COLZANI: A principal challenge is the unpredictable nature of our supply chain related to purchased components and raw materials. While some suppliers have maintained lead times similar to before the pandemic, several other suppliers have extended their lead times and missed deliveries. Most of our suppliers have been impacted by COVID, requiring the development of solid supplier partnerships and creative solutions to overcome these challenges. Our manufacturing planning process has been a key area of focus. With the inconsistency of our suppliers, our planning process has transitioned to be more dynamic and flexible. The transition has caused some operational burdens, but it has increased the nimbleness of our manufacturing operation.

ALI LOTFALIAN: The fact that most manufacturing jobs are on-site and cannot be carried out remotely presented a number of challenges, including how companies could make sure their biggest asset—their employees—felt safe coming to the facility. Other challenges were supply chain bottlenecks and slowed economic activity that reduced demand for many products in the U.S. and globally.

Luckily, the facilities and materials challenges that clients faced at the onset of the pandemic have subsided. However, they still face the challenge of implementing and enforcing strict safety measures and/or operating more shifts with reduced headcounts and ensuring that steps are being taken for appropriate social distancing and contact tracing. It is a burden to keep up with the latest regulations, as requirements continue to change frequently. It becomes very challenging for manufacturing entities that operate in multiple states with different guidelines.

Q: How are manufacturers addressing labor challenges?

ALI LOTFALIAN: Since many manufacturing-related roles cannot be accomplished remotely, companies we talk to have seen an increase in employee absenteeism. From confirmed cases to exposures to the need to stay home because of school and daycare closures, manufacturers are certainly facing a challenge because they simply do not have enough people. As a result, we are seeing more companies utilize temporary staffing and adding shifts with less people on the floor at a given time to help decrease possible spreads. Even before the pandemic, most manufacturers we spoke to always

identified a talent shortage as a key barrier for them. The pandemic has elevated that barrier. Many manufacturers also cited increased unemployment benefits [earlier in the pandemic] as a possible deterrent to finding and keeping employees. We did see several entities give additional pay to plant and warehouse employees for their hard work and commitment during these unprecedented times. We also continue to see manufacturers exploring automation, robotics, and other technology trends to assist with their continued workforce challenges.

Q: How has the pandemic affected the onshoring trend?

ALI LOTFALIAN: Supply chain management and the related risk can be a very complicated area for companies to navigate. The pandemic, in combination with various tax and recent regulatory policies (including tariffs), has caused heightened supply chain concerns that are motivating companies to review the viability of onshoring. Companies need to weigh the benefits of having reliable domestic suppliers vs. reducing costs using labor from other countries. Although price matters, reliability and quality has become a big differentiator, and it is generating new business for some U.S. manufacturers.

We've also seen some manufacturers participate in mergers or acquisitions to help integrate and optimize their supply chain and to consolidate operations closer to home. A key

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question will be how the U.S. labor market will be able to handle an increase in volume from onshoring, as we continue to hear about the labor shortage while anticipating a demand for higher wages. Another relevant question is how the new federal administration will impact the onshoring trend.

Q: Can you offer examples of success stories you've seen in manufacturing over the last year?

MARK COLZANI: We provide our clients with automated material-handling and robotic systems to support their distribution and production efforts and are honored to have provided several solutions to clients whose work was deemed essential during the pandemic. These clients range from the medical to grocery industries. While manufacturing solutions for them, we faced several challenges, from supplier and raw material issues to internal COVID-related labor issues. Once implemented, these automated systems helped our clients get their essential products to consumers faster. While our part was relatively small in the overall pandemic, we were honored to play this role in helping provide goods to fulfill the everyday needs of the public.

ALI LOTFALIAN: One great success story involved a distributor we work with that was fully leveraged with its bank and on the cusp of not meeting payroll when its supply chain was disrupted by the coronavirus. When the owners received an opportunity to be a distributor for personal protective equipment—something they'd never done before—they decided to go for it, but still needed to make payroll. They used the cash value of several life insurance policies to cover the costs, enabling them to successfully distribute PPE to the State of Indiana and other customers, which allowed them to fully bounce back without letting any of their workforce go. Their story is not uncommon.

In general, we saw amazing resilience out of the manufacturing industry. Businesses quickly implemented safety policies and procedures to make essential employees feel as safe as possible. Manufacturers also found it necessary to cross-train employees, which will pay dividends well into the future.

Q: What types of support/programs have been helpful for manufacturers?

ALI LOTFALIAN: The Indiana Manufacturers Association has been an asset to manufacturers, going to bat for them on the Paycheck Protection Program and other HR-related issues. We've set up a COVID-19 Resource Center on the VonLehman website and sent out numerous email blasts on breaking developments. The Consolidated Appropriations Act of 2021 recently signed into law contains billions of dollars in additional stimulus funding. As a result,

manufacturers that might not have qualified previously to take employer retention credits will now be eligible to receive them. First- and second-draw PPP loans will also be critical along with various new tax provisions related to Net Operating Loss carrybacks and other tax credits and deferrals. Finally, companies that have innovated or changed the way they operate during the pandemic may be eligible for federal research & development credits.

Q: Quality in manufacturing is key. How can manufacturers keep this top of mind despite the ongoing challenges of COVID-19?

MARK COLZANI: As a Toyota business, quality is instilled as the foundation of our organization, and consistently reinforcing the quality mindset is something for which everyone is responsible. Quality for our clients drives our value proposition.

A key component of a successful quality system is the collection and monitoring of key performance indicators, such as safety incidents, customer defects

and on-time delivery. Continually recording the KPIs and plotting trendlines highlights areas where extra and enhanced processes can be incorporated to continue with our quality journey.

Q: What trends and technologies will manufacturers need to embrace to ensure long-term growth?

MARK COLZANI: Employee safety remains paramount. While the pandemic has highlighted and elevated workplace health concerns, successful manufacturers will always need to position employee safety at the forefront of decision making.

Incorporating automated material handling systems and robotics continues to increase operational efficiencies and improve manufacturing productivity. Rapidly emerging technologies in this field have led to more cost-effective and viable solutions in today's manufacturing arena.

At the micro level, monitoring part-production data and predicting machine maintenance utilizing Internet of Things is another notable trend making its way into the manufacturing landscape. IoT arms manufacturers with the ability to manage data on electronic dashboards via a business analytics platform and make informed, real-time decisions with high confidence.

Q: What changes caused by the pandemic will endure when it is over?

ALI LOTFALIAN: The way manufacturers operate will never be the same again. We anticipate several changes caused by the pandemic to become the "new norm." In the near term, look for inventories to grow as companies want to be prepared for the "next pandemic." Cash will continue to be king. Companies will continue hoarding cash in 2021 while 2020 weighs heavily on their mind and as they look ahead to potential tax changes with a new administration. Virtual meetings, less travel, working from home from time to time—we see all these trends continuing. Supply chains will have to be continually reviewed and tweaked for the weakest link. We expect continuous review of onshoring, which will create capital investment and generate new jobs for skilled workers. Internal training programs and talent management will play an important role to help with potential labor shortages. The pandemic has fast-tracked the desire to innovate and use new technology. Companies of all sizes will have to continue to evaluate and invest in e-commerce platforms to stay competitive. In short, manufacturers will have to continue to be flexible and adapt to the needs of their employees, customers, and vendors.●



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