



INSIGHTS FROM THE BDO MANUFACTURING PRACTICE

WHAT THE POST-COVID-19 WORLD COULD LOOK LIKE FOR MANUFACTURERS

Changing consumer behaviors and their impacts on manufacturers

A version of this article originally ran in the [June 2020 edition](#) of the *Manufacturing Leadership Journal*

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At this point in the COVID-19 crisis, it should be apparent to every company, consumer and industry that permanent changes are coming, if they aren't here already. It isn't enough to know that there will be a new normal—it's vital that businesses and consumers alike understand exactly *what* that new normal will look like, the impacts it will have and how they can adjust to changes that are taking place in the context of an oncoming downturn.

What changes are we seeing now and which ones are here to stay? We've identified some of the most major shifts in consumer behavior and broken down what they mean for manufacturers in both the near and long term.



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HOW THINGS ARE CHANGING

- ▶ **Avoiding large crowds.** Even before official shelter-in-place orders were implemented, many people were social distancing and avoiding areas and events with large crowds. Sporting events, concerts, conferences and other large gatherings have been cancelled or banned for the foreseeable future. In response, many of these events have gone virtual until it is safe to gather in close quarters with one another once more. *Expected Duration:* 12-18 months.
- ▶ **Increased spending on groceries.** As more people are staying home and many restaurants are closed, spending on groceries and household items has increased exponentially. While most food supply chains aren't in crisis, people are buying large amounts of food soon after it's stocked, leading to empty shelves in grocery stores. *Expected Duration:* 12-18 months.
- ▶ **Decreased spending on entertainment, beauty, transportation, and travel.** Due to both logistical issues and consumers tightening their belts, many industries are facing financial hardship. Most entertainment outside of the home is inaccessible. Beauty purchases have also decreased. The impact on the travel and transportation industries, especially airlines, has been debilitating as airline fleets around the world remain grounded. Boeing, for example, announced significant job cuts and production reductions due to COVID-19's impact. *Expected Duration:* 12-18 months.
- ▶ **Increased spending on at-home entertainment.** As people are unable to go out and find entertainment according to their usual preferences, they are replacing outside entertainment with streaming services, video games and board games. In particular, streaming services are doing well, with many platforms seeing an increase in sign-ups. Netflix alone saw [16 million new signups](#) in the first three months of 2020. *Expected Duration:* Over 18 months.
- ▶ **Increased spending on food delivery.** Online grocers and delivery services are in high demand as shopping hours and store capacities are restricted. Features like contactless delivery and easy-to-use apps have made these services popular throughout the pandemic. *Expected Duration:* Over 18 months.
- ▶ **Bulk-buying and stockpiling.** Increasing demand is outpacing supply, a situation that is exacerbated by consumers focusing on stockpiling and bulk-buying nonperishables in preparation for extended quarantines. Stores that offer bulk-buying and delivery are more successfully catering to current customer needs, helping them stay afloat during the pandemic. *Expected Duration:* Over 18 months.
- ▶ **Spending spikes when new information on COVID-19 is released.** [According to a study carried out by Nielsen](#), spending on health and cleaning supplies, such as hand sanitizer, medical masks, aerosol disinfectants and household maintenance masks, spike during major news releases relating to COVID-19. These spikes affect the ability of supply to meet demand, which can fluctuate severely. For example, suppliers of face masks were unable to meet demand during the first major COVID-19 news updates. *Expected Duration:* 12-18 months.
- ▶ **Consumers report that a vaccine would help them feel safer and restore their confidence.** This statement is supported by [a survey conducted by PYMNTS](#). It could take 12-18 months before a vaccine is ready for the general public. Consumers may be wary and spend accordingly until then. *Expected Duration:* 12-18 months.
- ▶ **Consumers are spending less physical cash.** Cashless spending is safer during the pandemic as it lessens the spread of the virus. Retailers that offer cashless options like PayPal, credit and debit card payments are in a more favorable position than retailers who rely mostly on cash transactions. *Expected Duration:* Over 18 months.

Digital solutions that enable social distancing are going to remain an important part of daily life.



As the pandemic continues, we are seeing several major trends emerge. The first is an increased use of digital tools and technologies. In a world where human contact could be potentially deadly, it's important that people get as much physical distance between one another as possible. According to a [study](#) from the Harvard School of Public Health, social distancing may be necessary through 2022 to prevent a resurgence of COVID-19, which means digital solutions that help enable social distancing are going to remain an important part of daily life.

Second, consumers are spending less, a trend which we can expect to continue as unemployment numbers rise. While some

industries such as the at-home entertainment industry are seeing gains, most industries are suffering due to a lack of consumer confidence in the market and a need to save money during the sudden economic downturn.

Third, consumers are increasingly buying long-lasting goods in bulk. This situation presents a challenge to just-in-time inventory strategies. Companies that produce perishable goods could also see drops in demand that make it necessary to consider pivoting product offerings.

Let's take a deeper dive into the trends we expect to outlast the pandemic and how they'll affect the manufacturing industry:

LASTING TRENDS AND THEIR IMPACT ON MANUFACTURERS

Supply chain realignment

COVID-19 and the last several years of trade turbulence have demonstrated the issues inherent to supply networks heavily concentrated in one country or region. Many manufacturers were already considering diversifying the physical locations of their supplier base in order to minimize the impact of a country-wide or region-wide crisis, but some manufacturers may go a step further.

Manufacturers in certain sectors—including medical device, electronic component, auto, aerospace and defense and others that depend heavily on China—may move parts of their supply chains out of China to the U.S. or other countries. It may be less risky in the long run for manufacturers to move supply chains out of China to an area where the U.S. is less likely to become embroiled in geopolitical turbulence or trade wars.

In addition to reevaluating their supply chain footprint, there are several other steps manufacturers can take to minimize current and future supply chain disruptions.

- ▶ **Monitor demand shifts.** Maintain a daily pulse of customer demand shifts to obtain an updated view of finished goods and inventory needs.
- ▶ **Communicate with key suppliers.** Share information frequently to delay, increase or cancel inbound supply orders as needed to align inventory investments with customer demand. Understand the contractual implications of changes to orders.
- ▶ **Mitigate supplier risks.** To address immediate risk, manufacturers should identify which Tier 1 suppliers are experiencing production slowdowns and look for alternatives—especially to those that provide critical materials or goods—and then evaluate issues with Tier 2 and Tier 3 suppliers.
- ▶ **Increase supply chain transparency and visibility.** Implementing technologies such as cargo-tracking, cloud-based GPS, and RFID can help increase visibility into nearly every part of the supply chain. Real-time transparency can help companies more quickly react to the unexpected.

- ▶ **Review your insurance coverage.** Make sure you understand the extent of your insurance coverage. Pay close attention to whether your policy contains a Communicable Disease Exclusion.

E-commerce acceleration

As the pandemic continues, consumers have shifted almost entirely to shopping online. Even once the outbreak ends, the potential for continued social distancing practices could prevent brick-and-mortar stores from seeing pre-pandemic levels of in-store traffic. Many businesses with large store footprints and anemic e-commerce channels were already suffering before the pandemic and may go out of business before this all ends. Businesses that already have or that can build out their e-commerce capabilities, however, will be able to capitalize on the accelerated shift towards online shopping.

For manufacturers, this represents both a threat and opportunity. Manufacturers with a significant retail customer base may not see demand return to pre-pandemic levels and may even lose customers altogether to financial insolvency. Manufacturers of essential goods may want to focus marketing dollars on selling to distributors and wholesalers to offset some of those anticipated losses. Manufacturers of consumer discretionary goods may want to target retailers with superior digital sales channels.

Rather than relying on their distributors' e-commerce savvy, some manufacturers may consider bypassing the middleman to sell direct to consumers if they don't do so already, or beefing up their existing digital presence if they already have one. A DTC model may allow them to cut costs and improve efficiency, especially if they have rapid delivery capabilities and can minimize shipping times. It also presents an opportunity to get closer to the customer, leveraging customer data to deepen existing relationships, develop new products or break into new markets.

Increased reliance on automation

Automation minimizes the need for human interaction, making it a useful tool for maintaining social distancing and preventing the spread of infection. Manufacturers that already have automation in their factories will be more easily able to maintain social distancing best practices and can reallocate human capital to other parts of the business.

While it may not be possible for manufacturers to make new investments if they're experiencing financial distress, in the longrun manufacturers that prioritize automation will be able to lower costs, improve efficiencies, and reduce health risks in their workplace.

Consumer focus on saving

As the pandemic forces the U.S. economy into a recession, consumers are increasingly concerned about their financial stability, meaning that a save-don't-spend mentality will dominate for the foreseeable future. This mentality has been carried over to the business world; most companies are slashing capital expenses as part of a belt-tightening agenda. While the demand for "essential" goods—such as cleaning supplies and nonperishable grocery items—has actually increased, manufacturers of consumer discretionary goods and industrial products will likely continue to see demand decrease for some time.

To mitigate revenue losses, manufacturers should consider:

- ▶ **A short-term product pivot:** Consider limiting production to focus on products in highest demand or even pivoting to a new product better suited to the current economic landscape. The decision to pivot production should be based on data, not gut-feeling. Manufacturers should collect and analyze data on the performance of their products and/or services during the pandemic. Which have performed well and which are suffering? Has demand fluctuated significantly? Have supply chain disruptions made it difficult to produce sufficient supply to meet demand? What are the long-term implications for your business if these changes remain permanent post-COVID-19?
- ▶ **A short-term pricing pivot:** Manufacturers should also evaluate their liquidity and determine if they're able to apply a temporary discount or a flexible payment structure to help customers whose budgets have been slashed and to win market share from direct competitors. Everyone loves a good bargain.

Bulk-buying and stockpiling

As bulk-buying and stockpiling become more common and possibly a permanent fixture of consumer behavior, manufacturers may find that their current inventory strategies are ill-suited to present consumer needs. Manufacturers that only rely on just-in-time inventory, for example, will need to consider whether to shift to a just-in-case strategy. Just-in-case inventory strategies are ideal when there is a risk of running out of a product.

Manufacturers should evaluate their current inventory system and determine whether bulk-buying and stockpiling will outpace their supply. If these behaviors remain permanent, they will need to rework their stocking strategies to maintain adequate supply to keep up with demand. Consistent shortages could mean lost revenue for customers, which might motivate them to reconsider their supplier relationships. There is a silver lining, however:

Manufacturers will need to get comfortable operating in an environment of constant uncertainty and change.

Moving to a bulk sales model can reduce packaging costs—good news for most manufacturers, with the notable exception of packaging manufacturers.

Digitization of customer service

Even when the COVID-19 crisis abates, manufacturers with large customer service departments may consider shifting their staff to fully remote or investing in digital tools to automate customer service.

Using online forms, chatbots, or fully-remote customer support staff to answer customer questions and respond to complaints can lower costs and improve the customer experience, which is especially important for manufacturers that sell DTC and potentially have tens of thousands of customers. While some of these technologies require significant time and resources to integrate, manufacturers can start now with a simple contact form on their website for customer questions to help manage customer service during the pandemic. In the long-term, manufacturers might consider adopting more complex automated systems.

Additionally, manufacturers building out their DTC capabilities from scratch may go directly to a digital customer service model, which may be cheaper and more scalable than building out a whole department.

Resilience through recession

Even after the worst of the COVID-19 crisis abates, a recession is all but certain and a depression is not an impossibility. While it is impossible to predict how long it will take the economy to recover, manufacturers should operate under the assumption that it will be an extended downturn.

In order to weather the downturn, manufacturers should take a hard look at their customer base and identify at-risk customers along with their level of exposure to them. If their ability to safely drive revenue in the next two-to-four months is in question, they should take preemptive measures to mitigate potential losses. They must take actions to right-size their cost structure, ensuring they can remain liquid with the decline in revenues.

If the events of the past few months have been any indication, manufacturers will need to get comfortable operating in an environment of constant uncertainty and change. Manufacturers need to monitor these changes and determine the implications for their business strategy and their relationships with their suppliers and customers. With a combination of foresight, agility, and financial discipline, manufacturers will be able to navigate the oncoming downturn, adapt to shifts in customer behavior, and ultimately reenter growth mode.

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