



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.



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



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



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.

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.

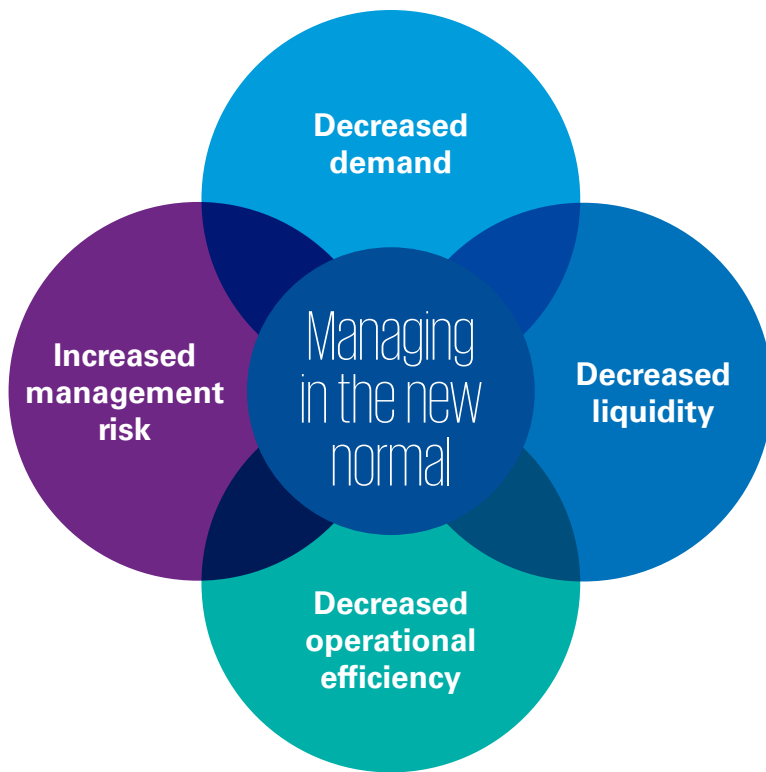


Focus on problem solving: KPIs and data should be utilized to prioritize improvement activities and minimize performance degradation.



Raise the bar and implement layered audits: Standard work must be redeveloped and adhered to, and conformance to all procedures will need to be monitored more closely. Increase the number of layered audits and interactions by leadership with plant floor operators to assure performance degradation is minimized and safety/cleaning protocols are strictly adhered to.





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.

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Contact us

Phil Isom
Partner, Head of Corporate Finance and Restructuring
 pisom@kpmg.com

Doug Olander
Managing Director
 dolander@kpmg.com

Vince Pavlak
Partner
 vpavlak@kpmg.com

Keith Updike
Managing Director
 kupdike@kpmg.com

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