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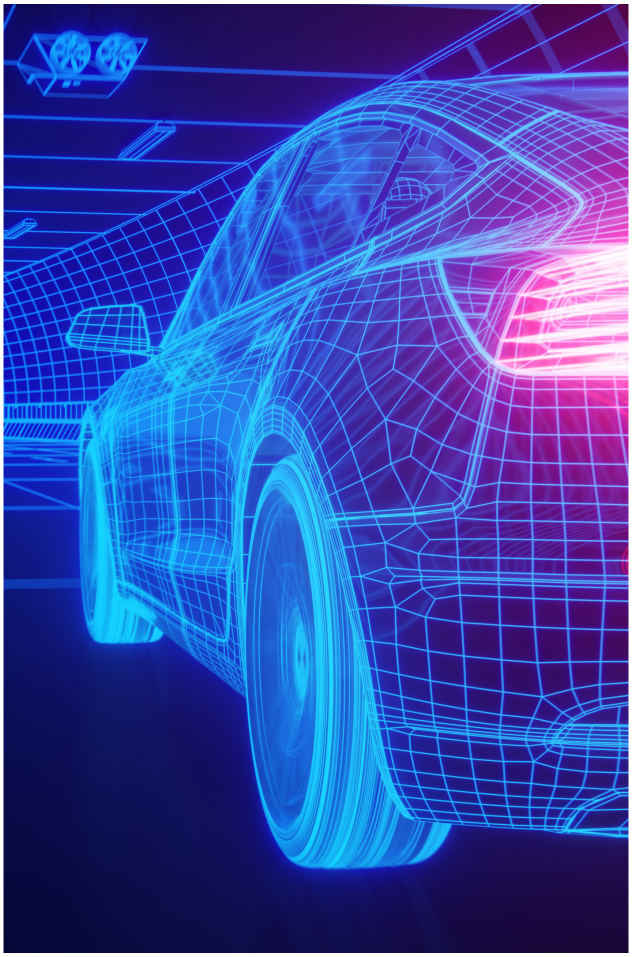
The Road Ahead for Manufacturing and Automotive Companies: A Focus on Resilience

The ongoing pandemic has highlighted the need for companies across all industries to adapt to rapidly evolving and challenging conditions. The effects on manufacturing and automotive companies have been myriad, and the pandemic is not yet over. And given COVID-19's lessons, other ongoing industry trends, and the potential for more disruption in the year ahead, one thing has become clear for 2021: Manufacturing and automotive companies must invest in building greater resilience.



COVID-19's Impact

The disruptions from COVID-19 to manufacturing and automotive operations have manifested in many ways.

Although manufacturing and automotive companies have learned much during the pandemic, it is more difficult to implement social distancing and teleworking schemes in production environments than it is in office settings and other workplace types. Manufacturing workforces have been upended by lockdowns, and employers have at times struggled to adapt to a new reality. That in turn has tested global supply chains, although the worst fears of manufacturers early in the pandemic have not been realized.

Consumer confidence, meanwhile, has been fraught as the economy has struggled. With significant uncertainty about the speed and nature of the recovery, consumers are deferring major purchases and looking to build savings or, in some cases, pay off debt.

All of this has contributed to a significant drop in manufacturing and automotive revenues this year. And these worrisome trends will not disappear in 2021 — instead, they will likely persist and could become even more prominent amid potential resurgences of the coronavirus.

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Broader Trends At Play

The pandemic aside, manufacturing and automotive companies must also contend with other long-term industry shifts, some of which will require them to reinvent themselves or rethink critical decisions:

- **Environmental, social, and governance (ESG)** issues have come to the fore in 2020, in large part due to the Black Lives Matter movement gaining traction and more visibility into the environmental impact of commercial operations. Shareholders, employees, customers, and some state and local governments are demanding that businesses — including manufacturers and automakers — take public stances on racial injustice and ensure their workforces and leadership ranks are diverse. Continued calls for greater adoption of green technologies have also prompted automakers to accelerate investments in electric vehicles and carbon neutrality in manufacturing.

- **The mobility ecosystem** is seeing profound and rapid changes, including the rise of mobility-as-a-service (MaaS). As the nature of travel and transport continues to evolve, particularly in large cities, automakers will need to rethink existing business models and adapt to changing customer expectations.

- **The commercial insurance market** has become increasingly challenging. The pandemic has exacerbated existing pressures on insurers, including declining investment income and moderating underwriting profit. Double-digit rate increases have become commonplace across several lines in the second half of 2020. Insurers are also restricting coverage and key policy terms and conditions, frequently causing policyholders to absorb more risk, and closely scrutinizing claims.

Building More Resilient and Conscious Organizations

These trends undoubtedly will bring additional challenges for some manufacturing and automotive companies. But those that can meet them head on and focus on resilience could stand to reap competitive advantages in 2021 and beyond.

Resilience is not simply a catchphrase but rather a concept that should be applied across every element of an organization. For example:

- **Expanding product portfolios, investing in products that are less volatile, and exploring partnerships and joint ventures** can help build financial resilience. Organizations can also build more efficient risk financing structures by working with their advisors to more smartly allocate risk capital and explore the potential benefits of captives and other alternative risk approaches.

- **Investing in automation and focusing on diversity and inclusion** can help organizations build more resilient workforces and production lines. Greater use of technology can provide a cushion against future furloughs, while diversity can help organizations more closely mirror the communities they serve, enable the exchange of ideas, and foster innovation.

- **Analyzing existing supply chains**, including identifying potential points of failure, can provide valuable insights to help build more resilient ones. Avoiding single source procurement while simultaneously reducing the number of suppliers involved can reduce a supply chain's complexity and susceptibility to disruptive forces.

While these strategies can offer substantial benefits for manufacturing and auto companies, some should be pursued with caution.

Investing in technology, for example, can be especially appealing. Robots and cobots are not vulnerable to COVID-19 and other infectious diseases, and thus can help organizations substantially reduce their workplace safety risk. Additive — or 3D — printing, smart sensors, and artificial intelligence can also enable greater efficiency and improved product quality.

But every technological innovation carries potential risk. It's vital that companies consider how the adoption of emerging technologies can alter their risk profiles — for example, making them more susceptible to data breaches and outages. Working with their risk advisors, manufacturing and auto companies should assess and quantify their technology risks so they can effectively mitigate them through cyber insurance and other means.

Industrial Agility

A key to achieving true resilience is ensuring that your organization is agile, which means being able to anticipate potential problems on the horizon.

While organizations cannot predict the future, they can create risk forecasts and understand how various potential scenarios could affect them. How, for example, will my organization be affected by future waves of COVID-19 cases? And how could another disruptive force amid the pandemic impact our operations?

Organizations already do this for a variety of traditional perils, including natural catastrophes, but recent events have highlighted the importance of anticipating emerging threats as well. Organizations should expand their definition of risk beyond well-known threats. Scenario planning, financial stress tests, and other forecasting and modeling tools can also help companies better identify and assess newer threats and provide critical lead time as new and unfamiliar situations emerge.

Managing Insurance Programs

Even as organizations take steps to become more resilient, insurance will remain an essential risk mitigation tool. As they prepare for greater scrutiny and a more challenging underwriting process during 2021 renewals, risk professionals should work with their advisors to position their organizations to achieve optimal outcomes and better manage total cost of risk.

Among other steps, buyers should:

- Manage expectations for senior executives and boards. Stay in regular contact with brokers to ensure you are well-informed of application status and underwriters' concerns.
- Set a clear strategy ahead of renewal discussions. Agree on primary objective(s), which could include reducing premium expense, securing comprehensive coverage, or another goal. As you do this, also determine which objectives are essential and which are merely preferable.
- Involve senior leaders in negotiation processes. C-suite executives can provide additional, qualitative context beyond specific data and other quantitative information, which can better highlight how your risk is differentiated from that of your peers.
- Consider different approaches and solutions. As commercial insurance prices rise, consider altering your program structure or expanding relationships with specific insurers. Captives and parametric solutions can also offer valuable alternatives or complements to traditional coverage options.

This briefing was prepared by Marsh's Manufacturing and Automotive Industry Practice, with contributions from Oliver Wyman's Global Automotive Practice.

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