What Successful Manufacturing Firms Know about Managed Cloud Services

A Frost & Sullivan Executive Brief
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The US manufacturing industry is enjoying resurgence. According to the US Bureau of Labor Statistics, US manufacturing jobs increased by 2.3 percent in the first six months of 2018—according to the Bureau of Labor Statistics, the greatest increase since February 1995.\(^1\) Yet, many newly built and refurbished factories don’t look much like those of the old rust belt. To compete with low-priced offshore facilities, “smart factories” leverage innovative solutions including:

- **Predictive analytics**: The use of analytics has gone beyond sensors designed to manage and monitor production lines. Today, manufacturers leverage data to improve the quality and consistency of products, as well as adjust capacity to meet demand.

- **Rapid prototyping**: To keep pace with customer demands for variety and customization, manufacturers are becoming more agile, building capabilities to quickly produce small quantities on demand—often via new technologies such as 3D printing.

- **Virtual/augmented reality**: By integrating three-dimensional computer-generated images into the physical environment, manufacturers can more easily diagnose problems and test new products and production lines—faster, less expensively, and with less risk to workers.

Yet, it’s too soon to declare victory. Changing government policies related to tariffs, trade deals, and taxes can severely impact availability and cost of raw materials, as well as distribution channels for finished goods. Transforming cumbersome, labor-intensive manufacturing processes into agile workflows is necessary to meet rapidly changing customer demands.

### Challenges Facing the Manufacturing Industry

As they transform to compete in the digital era, manufacturing firms are turning to their IT leaders to address a growing number of urgent business challenges. These include:

**Cost control**

Whether they are managing existing plants or “reshoring” manufacturing jobs, companies must keep costs competitive with low-cost options in other countries. Investments in next-generation technologies and software must deliver high returns in productivity and efficiency to maintain the margins shareholders demand.

**Process improvement**

Manufacturing firms must continually optimize their operational processes, as a way to reduce costs, increase productivity, and improve quality. Via intelligent supply chain platforms and data analytics, firms can tightly manage the flow of materials, scaling production to meet demand, and reducing time to deliver finished goods.

**Increased agility**

Customer demands for variety and customization in products call for shorter supply chain lifecycles and flexible manufacturing operations. Manufacturers may need to refit production lines to support multiple products.

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Security and compliance
Unlike standalone plants of the past, “smart factories” are directly connected to the internet, public cloud data centers, and suppliers and vendors. This creates new data access points that must be guarded from unauthorized users. Manufacturers need to protect their operations with physical and cyber-security steps that comply with all requirements for workplace safety, data privacy, and materials handling.

Customer satisfaction
With the internet serving up a wide range of choices in every product category, customers have become increasingly demanding and price-conscious. To gain and retain customers, manufacturers must be prepared to meet customization requests—related to product, delivery date, packaging, or financing, for example—all at a competitive price.

Are Managed Cloud Services the Answer?
As with all industries, manufacturers are basing their digital strategies on the cloud. The do-it-yourself hosted cloud offers scalability, infrastructure efficiency, and budget-friendly utility pricing for “cloud-native” applications. But implementing an effective cloud strategy that meets all their needs can be challenging for resource-constrained IT leaders, especially in the high-stakes consumer products industry.

For many manufacturers, the answer is managed cloud services, subscription-based services in which a third-party expert hosts and manages cloud infrastructure and/or applications on behalf of clients. Unlike IT outsourcing, managed cloud services creates a partnership between the organization and the service provider: the provider contributes cloud technology, infrastructure, and expertise; and the enterprise retains oversight capabilities to ensure that business goals are met. According to Frost & Sullivan research, 61% of all US businesses have adopted managed cloud services, driven by a need to ensure optimal function of business applications within a secure environment. Manufacturing firms outpace the market in managed cloud service adoption, with 67% of US manufacturers currently using the services.

IT Leaders from Manufacturing Firms Find Value in Managed Cloud Services
Among manufacturing firms that use managed cloud services, more than four-fifths (81%) consider such services an essential part of their IT strategy. Their reasoning is clear: managed cloud services—especially for critical SAP and Oracle workloads—address their top business challenges and help them remain competitive. IT leaders from manufacturing firms say managed cloud services enabled them to realize the following benefits:

• Improve security and compliance reporting for SAP and Oracle—IT leaders in manufacturing firms cite security and compliance at the top of the list of benefits gained from managed cloud services. Manufacturers with supply chain partners and facilities worldwide require their managed service provider to offer consistent services via global data centers connected by a secure network. Eighty-five percent of manufacturing IT leaders say their managed services provider enhances the security, visibility, and compliance of their ERP applications.
• **Manage costs, ease budget**—Among IT leaders of manufacturing firms, 73% cite the ability to better manage costs for SAP and Oracle workloads, thanks to predictable, subscription-based pricing. In addition, 68% cite reduction of capital expenditures as a top benefit of managed cloud services; and 49% say they expected lower staffing costs.

• **Enhance app availability and operational productivity**—Enterprise resource planning (ERP) platforms such as SAP and Oracle serve as the operations engine of a manufacturing business. Eighty-three percent of IT leaders in manufacturing firms said a top benefit derived from managed cloud services was improved business continuity and disaster recovery for SAP and Oracle workloads. Seventy-eight percent said managed cloud services enhanced the performance of their SAP and Oracle apps; and 76% said the services enable them to efficiently deliver services and applications (including next-generation technologies) to employees and partners.

• **Attract and retain customers**—For IT leaders in the competitive manufacturing industry, responding to fast-changing customer demands is a priority. Among manufacturing IT leaders, 80% said managed cloud services have improved their ability to provide better service to customers.

• **Support agility and speed to market**—Manufacturing firms must continually be prepared to adjust their supply chain and processes based on market conditions, customer preferences, and government policies. By leveraging cloud automation and next-generation technologies (such as artificial intelligence), managed services providers that are strong partners of SAP and Oracle can shorten time to upgrade applications (cited as an important benefit by 68% of manufacturing IT leaders); and increase speed to market for new products (cited by 63% of respondents).

• **Support process improvement**—The need to gain a competitive edge through process improvement was noted by 63% of manufacturing IT leaders, who said managed services enable them to refocus staff from IT maintenance activities to higher value work.

### Isn’t it Time for Your Manufacturing Business to Adopt Managed Cloud Services?

The manufacturing industry is undergoing a rapid transformation, with firms adopting next-generation technologies that allow them to become more agile, efficient, and cost-effective. That’s where the right managed cloud services partner can help.

Asked about the greatest value his company gained from managed cloud services, an IT director from a global manufacturing firm said, “Managed cloud services drives speed to market and frees up internal IT resources to focus on competitive edge applications.”

Perhaps it’s time to follow the lead of some of the most successful firms in your industry and engage with an expert managed cloud services provider. Your customers, employees, partners, and shareholders will thank you.

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