

Life Advanced
Markets

TARGET MARKETING:

Manufacturing Industry

2021: 3Q - 4Q

MANUFACTURING

Industry The Manufacturing sector is composed of establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products.¹ This includes establishments which process materials or which contract with other establishments to process their materials for them.

At the end of 1Q 2021, the Bureau of Labor Statistics reported 12.3 million people employed in the manufacturing sector, with a 5.2% industry unemployment rate, and 708,000 job openings.

Trends and concerns for companies in the manufacturing sector also affect companies in related industries, such as construction companies which use their products, and retail companies which bring them to market.

Trends Nearly \$400 billion in proposed infrastructure spending will potentially impact the manufacturing sector. This includes money for electric vehicle investments, semiconductor manufacturing and research, rural and clean energy manufacturing, and investments for dislocated workers and apprenticeship programs.²

By 2025, the number of connected devices in the automation sector is expected to increase by a factor of 50. In the U.S., about 35% of manufacturers use and collect data from smart sensors to enhance their manufacturing processes.³

Concerns 97% of manufacturing firms report an awareness of the **aging of the manufacturing workforce** – 78% say they are very or somewhat concerned about it, and 97% are concerned over the **loss of institutional and technical knowledge**.⁴

In response, 37% of manufacturers project that they will **increase their spending** in Human Resources and Talent Development to better recruit, develop, and retain the workforce they will require.⁵

Manufacturers have identified supply chain stability as a critical factor for the recovery of the manufacturing industry. Even if demand picks up, supply chain issues could slow down the recovery for the industry as a whole.

Slowing mergers & acquisitions activity has hit the manufacturing industry harder than others. This decreased demand may cause downward pressure on earnings multiples for manufacturers due, below the relatively higher multiples that had been consistent over the last few years.⁶



¹ North American Industry Classification System.

² Fact Sheet: The American Jobs Plan, 3/31/21, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/>.

³ Internet-of-Things (IoT) Market in Manufacturing – Growth, Trends, COVID-19 Impact, and Forecasts (2021 - 2026), Mordor Intelligence.

⁴ The Aging of the American Workforce: Challenges and Best Practices, July 2019, The Manufacturing Institute.

⁵ 2021 BDO Manufacturing CFO Outlook Survey.

⁶ Pepperdine University, Pepperdine Digital Commons, Pepperdine Private Capital Markets Report, 5-2-2020, 2020 Private Capital Markets Report, Craig R. Everett.

ISSUE	OPPORTUNITY
<p>Labor skill gap – the manufacturing workforce is aging, and their intellectual and technical knowledge are not being replaced.</p>	<p>Employee retention plans: A commonly used solution is to create a talent development system (e.g., in-house training, internships, and apprenticeships) to develop new skilled employees. It is very important that companies are able to retain these employees after committing money to their training.</p>
<p>Efficiencies created by the increased implementation of Internet of Things (IoT) technologies have necessitated a change to more tech-related job skills. Companies need to adapt or risk losing out to competitors.</p>	<p>Business succession/estate planning: When leaving the business, owners should consider providing an easily accessible source of funds their successors can leverage for the cash necessary to adapt. Life insurance may be an appropriate option.</p> <p>Key employee compensation: Plans need to adapt to changing needs and the increasing prevalence of technology-centric executives.</p>
<p>The reliability of the supply chain will continue to be a major driver of the success of manufacturing companies as they work to get their products into the hands of retailers and consumers.</p>	<p>Key employee compensation: Plans need to consider what is necessary to recruit and retain employees with strengths in supply-chain management.</p>
<p>Merger & acquisition activity for manufacturing companies has lagged behind other industries.</p>	<p>Business continuation bonus plan: Provides incentives for key employees to remain with companies following a transition of ownership, maximizing a company’s potential value and appeal to outside buyers.</p> <p>Nonqualified deferred compensation: Avoid NQDC plans with “change of control” triggering language. Buyers are less likely to make an acquisition if key employees are able to access their NQDC balances when the transaction occurs.</p>

Life Insurance death benefit is generally income-tax-free when passed on to beneficiaries.

Fixed index universal life insurance requires qualification through health and financial underwriting.

ADDITIONAL TALKING POINTS:

- **There are a growing number of U.S. universities now offering logistics and supply-chain management** as an undergraduate major or master's program. Employers may need to consider key employee compensation plans that are appealing to younger key employees, e.g., those with younger children, new homes, etc.
 - A key employee bonus plan may be better suited for younger employees as opposed to nonqualified deferred compensation plans.
- **Current financial decisions manufacturers are facing:** The 2017 Tax Act included a number of provisions relating to immediate expensing of certain assets and bonus depreciation. Manufacturers, more than most other industries, will benefit from these provisions. For example, the act expands expensing of Sec. 179 property – allowing taxpayers to immediately expense up to \$1 million of the cost of certain depreciable assets acquired and placed in service in the tax year. Sec. 179 property includes equipment and other assets that are often substantial expenses for manufacturers. These provisions may be repealed by the new administration as they seek additional tax revenue. Even without a repeal, many of these new laws are set to end at the end of 2025 or 2026.

Manufacturers may want to take advantage of these tax laws while they are available and that may require contributing substantial cash flow towards the purchase of new equipment, or adding debt as they finance these purchases.

- **The Internet of Things** is just one element of what is being referred to as the Fourth Industrial Revolution, or Industry 4.0. Other critical elements include big data, advanced robotics, cloud computing, and additive manufacturing (e.g., 3D printing of parts). Manufacturers are facing the challenge of keeping up with these advances. The need for additional capital to pay for new technologies may lead to more private equity deals.
 - In order to maintain the flexibility to enter into such deals, business owners may want to consider alternatives to offering key employees stock or stock options. These may include plans such as phantom stock plans or stock appreciation rights plans informally funded with cash value life insurance.

RESOURCES: Click these links to learn more.

- National Association of Manufacturers
- Alliance for American Manufacturing



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