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State of the Manufacturing Industry Report

Navigating Tariffs, Cost Pressure & Opportunity in 2026

IndustryWeek

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2026 STATE OF THE INDUSTRY REPORT

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INTRODUCTION

Manufacturers in the United States may be mortgaging their futures – avoiding investments today that could take costs out of their businesses long term. It's the sort of decision making that yields future competitiveness and innovation to foreign rivals or forward-looking domestic producers.

There are many potential whys for investment delays – tariff uncertainty, concerns over the state of the economy, rising costs, regulations – but the results are the same. Companies are delaying spending in hopes that conditions will improve rather than investing in cost-takeout strategies that could boost their performances, new research suggests.

Endeavor Business Intelligence, conducting research for EFESO Management Consultants, surveyed 150 middle-market-to-large manufacturers to study how companies are taking costs out of operations. More than cost cutting, cost takeout is a disciplined approach that could include budget cuts paired with strategic investments that lower costs in the future. Respondents relied on an average of four cost take-out tactics to meet their goals, indicating that no method is a silver bullet.

Eighty four percent rate manufacturing processes and 91% rate reducing product capabilities or features as extremely or very important to their cost takeout efforts. Yet only 31% report engaging in value engineering or product redesign to reduce cost.

Macroeconomic challenges	Total n=150
Rising cost for inputs (raw materials, components / subcomponent)	13%
Rising cost for energy	10%
Trade policy uncertainty / tariffs	15%
Rapidly advancing technology / AI	9%
Market-based demands for environmental., sustainability, & gov. measures	12%
Supply chain disruptions	7%
Cybersecurity risks	7%
Domestic economic uncertainty	12%
Interest rates / cost of cash	7%
Skilled labor shortages / shrinking workforce	7%

MAJOR FINDINGS

Design to Value Critical

Manufacturers that focus these strategic investments far enough upstream, engineering their manufacturing processes and products, will realize the most sustainable results. Trying to make changes to a machine once it's running will only go so far because about 80 percent of cost is predetermined in the engineering process. Product and process engineering sets the baseline for cost of finished goods. Most other cost takeout measures result in incremental rather than transformational change. This is not lost on respondents—84% rate manufacturing processes and 91% rate reducing product capabilities or features as extremely or very important to their cost takeout efforts. But investments in these areas are being delayed by a significant minority—29% are delaying new product development projects and 28% are delaying asset modernization projects.

Just 31% of manufacturers report engaging in value engineering or product redesign to reduce cost. Manufacturers that fall down on design to value will face higher cost structures than their more forward-looking competitors, not just in 2025 and 2026 but going forward.

TAKEAWAY: ***For 2025, a minority reported engaging in immediate and drastic measures like plant shutdowns (15%) or layoffs (29%). But overall, manufacturers are making fewer investments in projects that will lower costs long-term. A primary driver—tariffs—were respondents' No. 1 macroeconomic concern, with domestic economic uncertainty lagging by a few percentage points.***

Cost Takeout in 2025

Tariffs are hitting manufacturing supply chains. National Association of Manufacturing data projected in Q1 2025 a 5.5% raw material increase and manufactured goods price increases of 3.6%.

While manufacturing input costs are being driven upward, energy prices are remarkable. Demand for electricity is increasing, thanks to the power requirements of artificial intelligence (AI) data centers, driving up the cost for a kilowatt hour of electricity. It's not surprising 43% report investing in energy efficiency upgrades. Demand for power from AI data centers is projected to grow from 5% of overall demand in 2025 to 12% in by 2030. This is one reason energy costs are rising twice the rate of inflation and projected to increase further.

Cost Takeout Goals and Barriers

Business leaders say they're under extreme pressure to take out costs in response to business conditions. Nearly all (91%) say they face equal or more severe cost-reduction targets this year than in 2024 with more than half (51%) saying their goals are more aggressive in 2025. That all means that cost takeout has become a more critical strategic business objective than in less trying times.

TAKEAWAY: ***More than one-third of companies (35%) have set drastic cost takeout targets this year, meaning cuts greater than the 5% that can reasonably be achieved through efficiencies. And those targets are causing stress with a quarter of 2025 respondents citing overly-aggressive cost takeout goals as a barrier to success.***

Internal Challenges

Cost pressure, respondents say, is forcing the sorts of cost takeout efforts that cannibalize growth and reduce competitiveness, including:

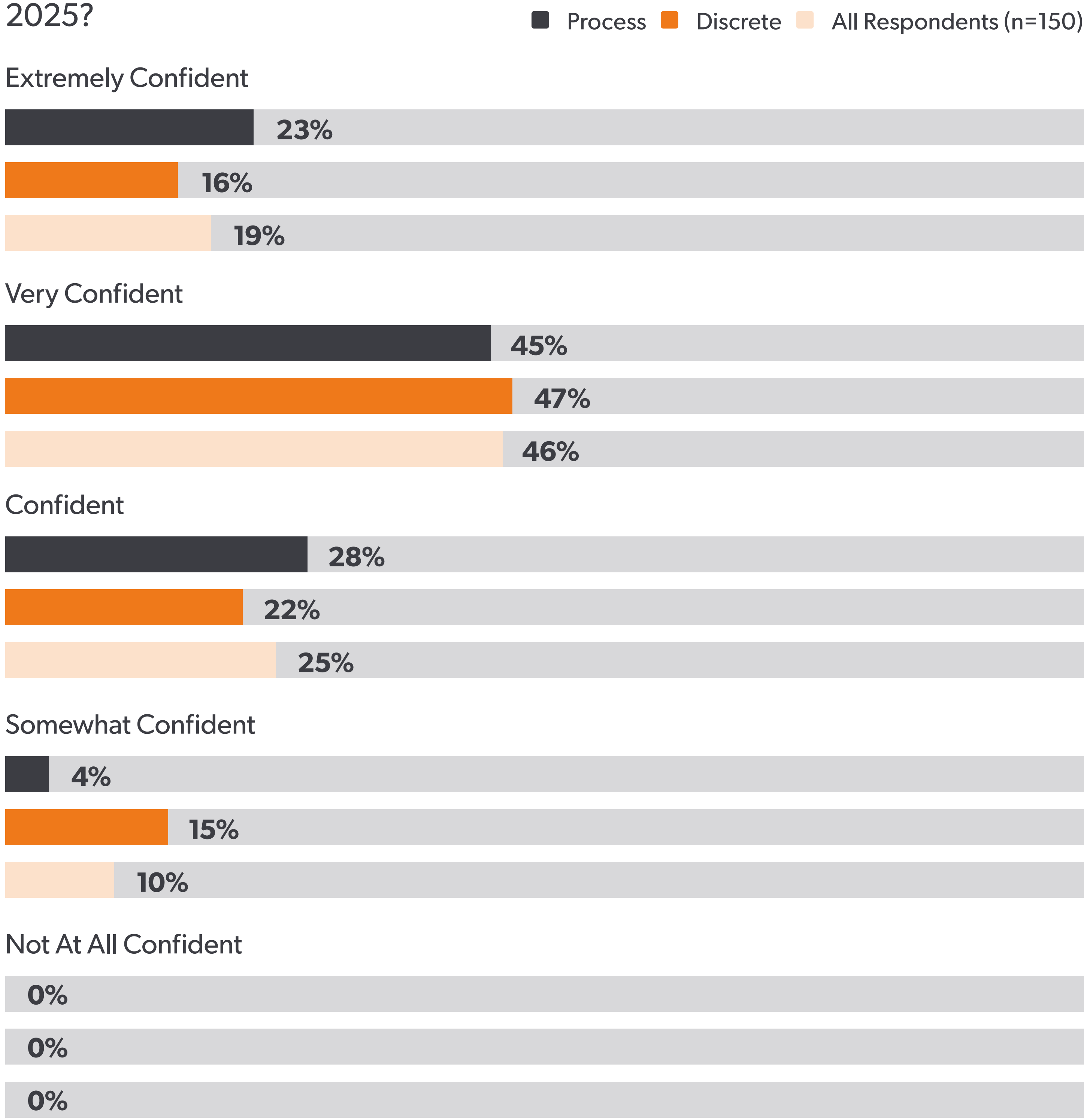
- Delaying capital investments and projects: Also delays new revenue and enables competitors to seize market opportunities
- Cutting maintenance budgets: Simply defers expense until later while creating quality and health, safety and environmental (HSE) risk
- Delaying product launches: Harms competitiveness with global and domestic rivals

Cost Takeout Success and Repercussions

The good news: Respondents are confident that they'll hit their cost targets (19% extremely confident, 46% very confident). The bad news: Respondents are confident that they'll hit their cost targets by delaying critical investments, harming future competitiveness.

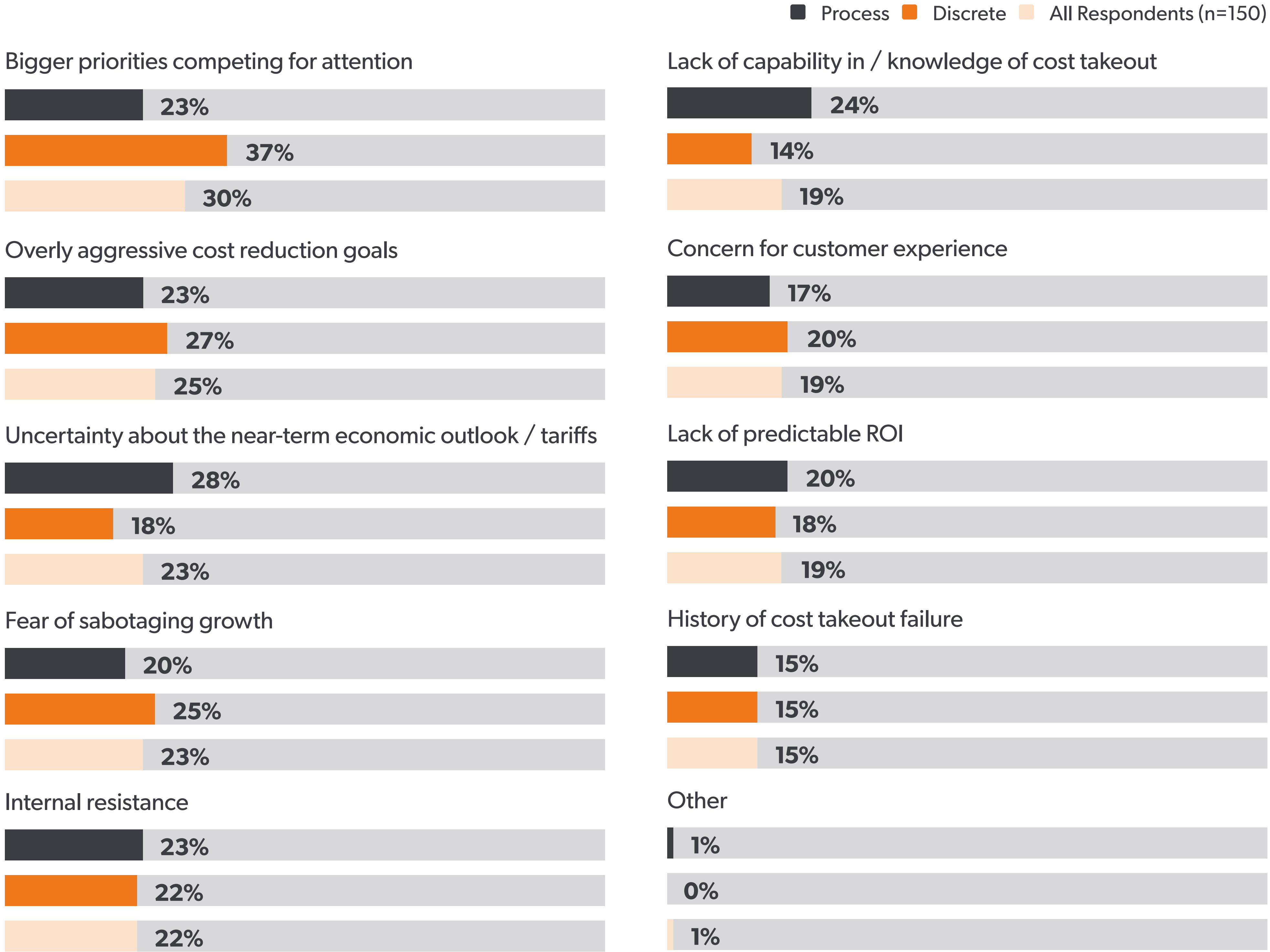
Success is not a given, and manufacturers report stiff headwinds. These include competing priorities, overly aggressive cost reduction goals, economic uncertainty and fear of sabotaging growth.

How confident are you that your company will hit its cost takeout targets for 2025?



TAKEAWAY: ***Nearly half (44%) are concerned that delaying or deferring investments will reduce operational agility and scalability and increase costs. Half (50%) fear cost cutting will lead to customer attrition 41% fear supply chain instability and loss of innovation.***

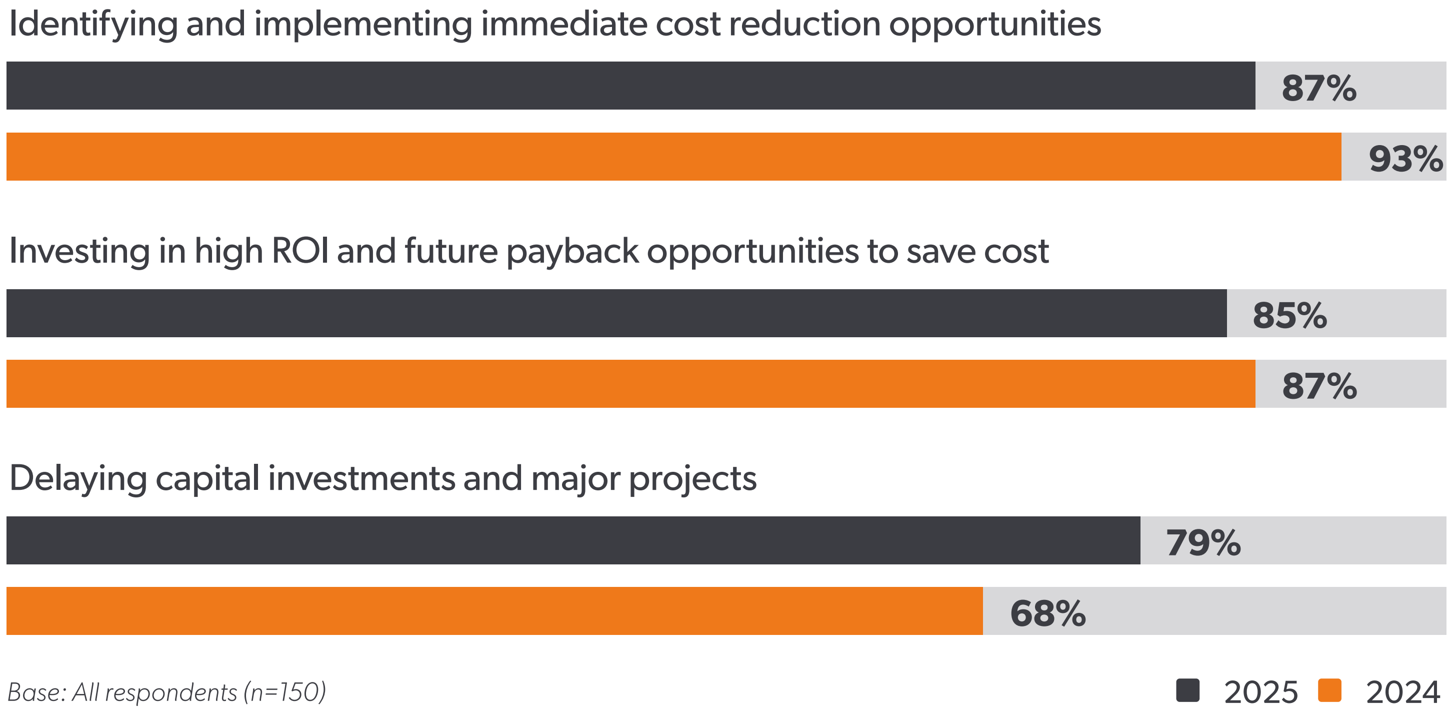
Which of the following are the two most significant barriers to your company's cost takeout success in 2025?



MEANINGFUL SHIFTS FROM 2024 TO 2025

Manufacturers shifted to a crisis footing this year, becoming less strategic and shorter term with cost takeout strategies. Companies are more likely to cut capital investments, reduce quality control spending and slash inventory levels. Just 31% of manufacturers report engaging in value engineering or product redesign to reduce cost. Manufacturers that fall down on design to value will face higher cost structures than their more forward-looking competitors, not just in 2025 and 2026 but going forward.

Top-two box: How important are these cost-cutting strategies to your company's cost takeout efforts?

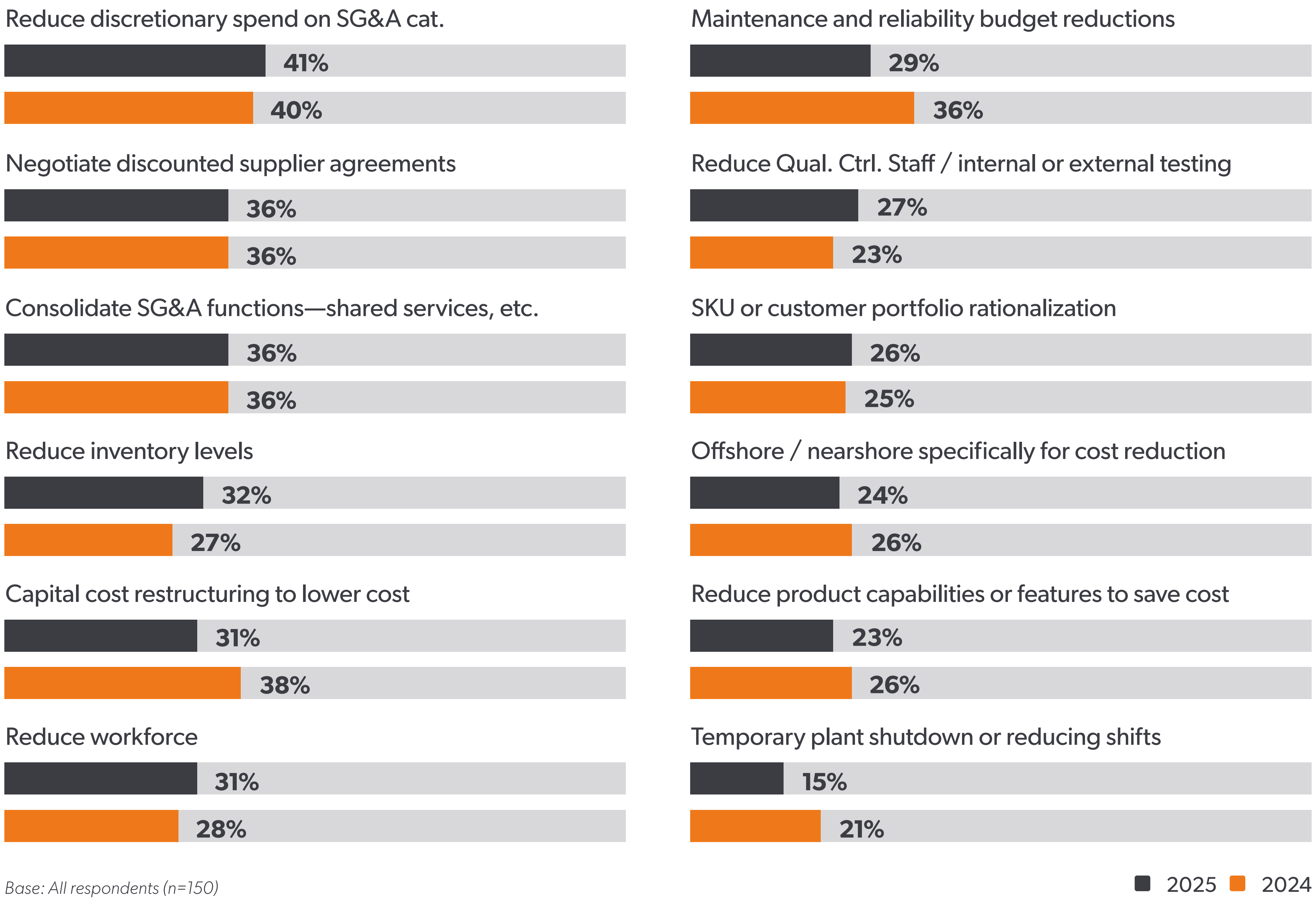


Base: All respondents (n=150)

Cost-management tactics show the shifting priorities.

- Capital cost restructuring fell in popularity.
- Reliance on offshoring or nearshoring almost flatlined year-over-year.
- Cuts to maintenance and quality control staffs and external testing dropped, implying that 2024 cuts delivered suboptimal results, so companies restored their budgets.

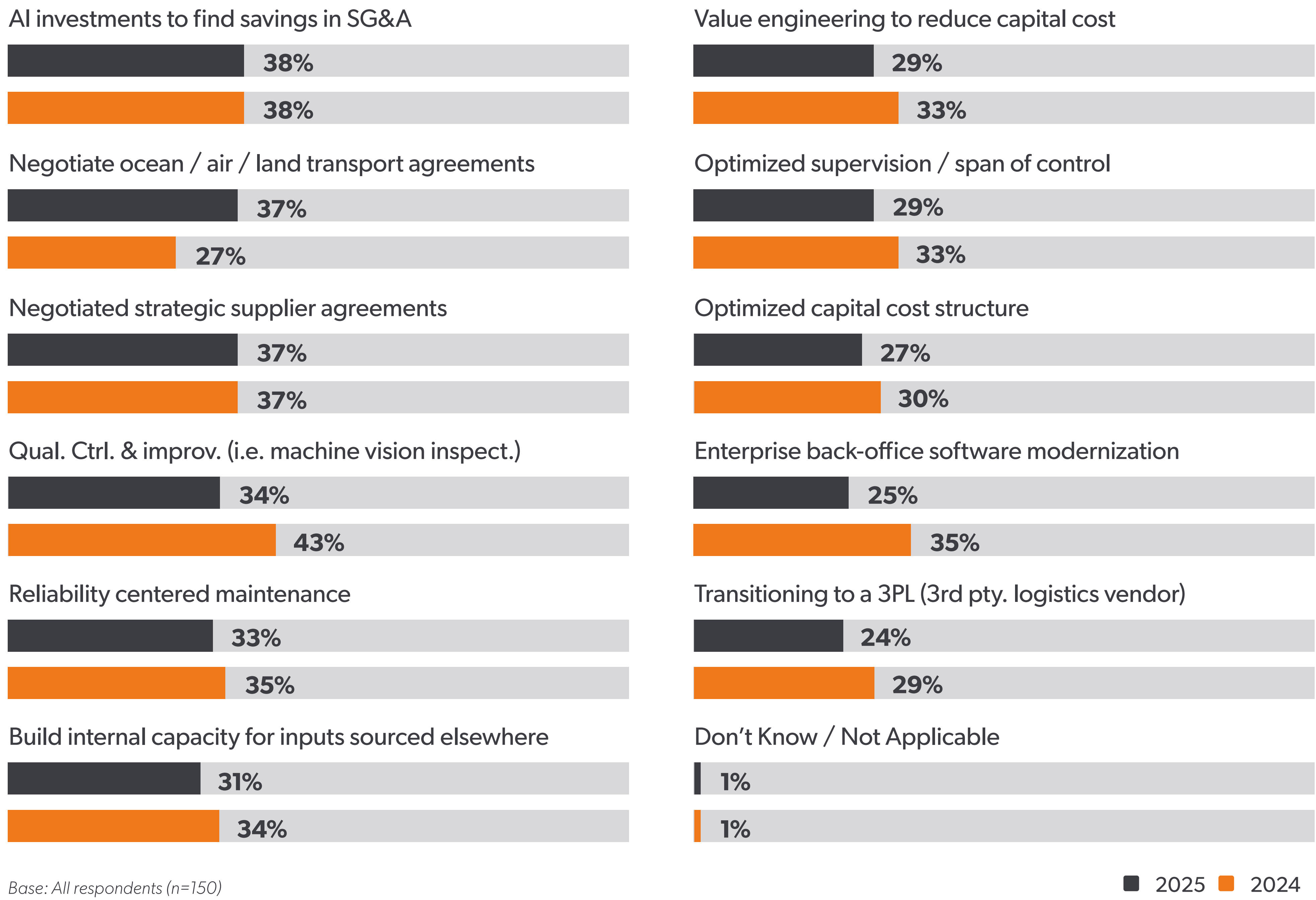
Which of these specific cost-cutting tactics were / are part of your cost takeout efforts?



Base: All respondents (n=150)

TAKEAWAY: ***Concerningly, most categories of investments that reduce cost in the long term suffered year-over-year. Quality control and improvement and enterprise back-office modernization fell by 10 percentage points each. Negotiating transport agreements was an exception with a 10 percentage point increase — the tactic may be the quickest and easiest of the investment-focused approaches.***

Which of these specific investment-focused tactics were / are part of your company's cost takeout efforts?



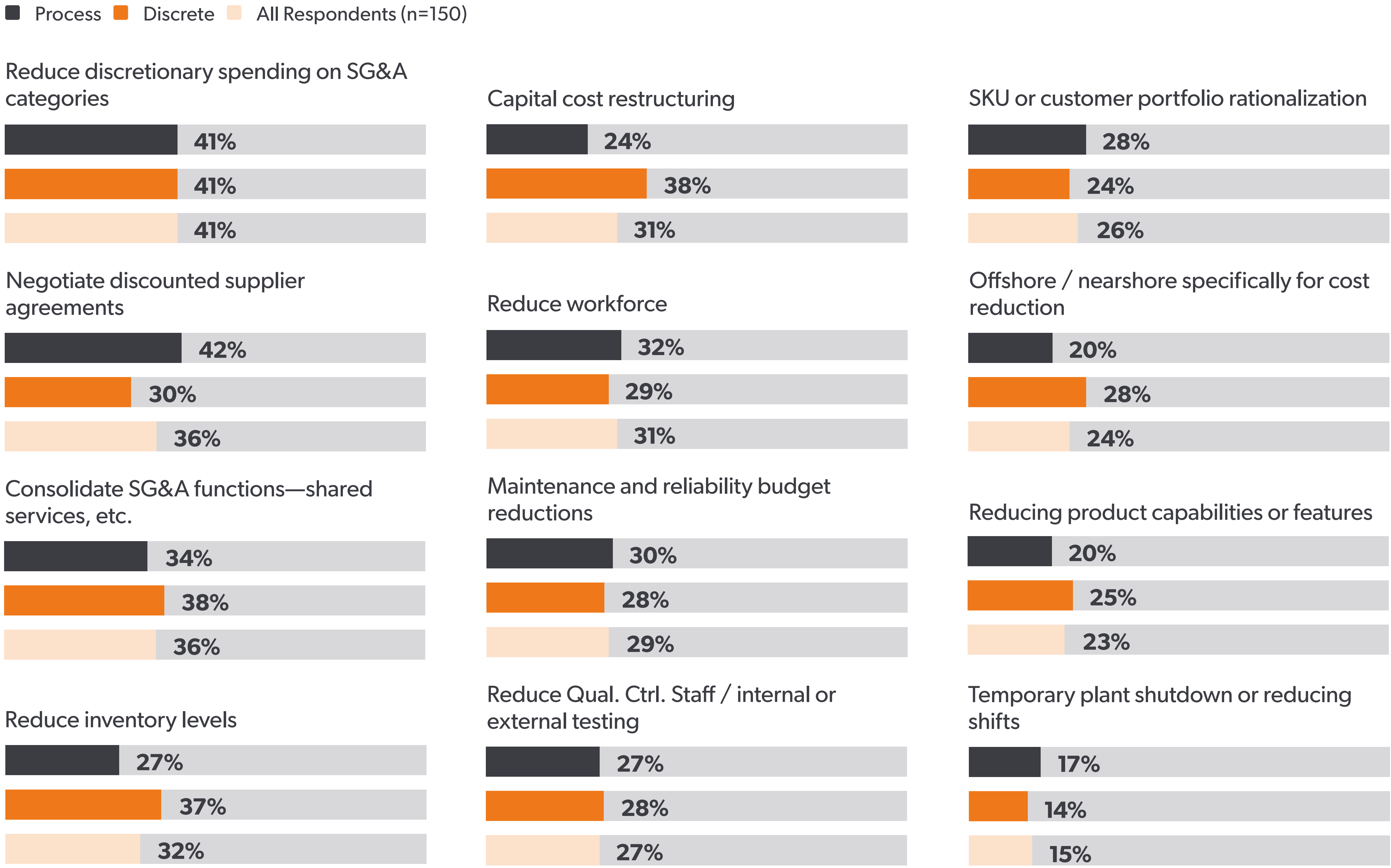
Base: All respondents (n=150)

PROCESS vs. DISCRETE

Process and discrete manufacturers became more similar in 2025 as pressure for cost takeout mounted – shifting focus to delaying tactics.

Process lags discrete manufacturing in adopting automation, likely because process respondents are 24% more likely to face challenges caused by disconnected systems. Due to the asset-centric nature of process, process respondents were 16% more likely to have used reliability-centered maintenance (RCM).

During 2025, which of these specific cost-cutting tactics are part of your cost takeout efforts?



TAKEAWAY: ***Process manufacturers were 12 percentage points more likely to defer capital maintenance, which may be tempered by their reliance on RCM. Basing maintenance decisions on operating conditions and likelihood of failure rather than operating hours enables some maintenance tasks to be dropped without increasing risk.***

Discrete manufacturers in 2024 were much more likely to rely on lean manufacturing/Six Sigma to take out cost.

TAKEAWAY: ***Discrete manufacturers have more suppliers and inputs from parts, components, assemblies and subassemblies, each with its own complex supply chain. That makes them much more likely to rank tariffs and trade policy as their No. 1 macroeconomic challenge (16 percentage points higher than process).***

Process manufacturers rely on multi-year projects for new production capacity, so discrete manufacturers were 12 percentage points more likely to delay capital infrastructure investments.

Please rank your company's top five macroeconomic challenges for calendar year 2025.

	Ranked first			Ranked in top five		
Macroeconomic challenges	**Total n=150**	**Discrete n=79**	**Process n=71**	**Total n=150**	**Discrete n=79**	**Process n=71**
Rising cost for inputs (raw materials, components / subcomponent)	13%	13%	14%	60%	57%	65%
Rising cost for energy	10%	10%	10%	53%	52%	54%
Trade policy uncertainty / tariffs	15%	22%	8%	50%	52%	48%
Rapidly advancing technology / AI	9%	9%	8%	50%	53%	46%
Market-based demands for environmental., sustainability, & gov. measures	12%	9%	15%	49%	47%	52%
Supply chain disruptions	7%	6%	7%	47%	51%	42%
Cybersecurity risks	7%	6%	8%	47%	52%	41%
Domestic economic uncertainty	12%	15%	8%	45%	44%	45%
Interest rates / cost of cash	7%	5%	10%	44%	42%	48%
Skilled labor shortages / shrinking workforce	7%	5%	10%	41%	35%	46%

Changing Picture in 2025

Discrete manufacturers were more likely than process manufacturers to engage in capital restructuring and to delay capital investments. Process manufacturers were more likely to negotiate discounted supplier agreements and delay a new factory build or relocation.

Differences in Technology and Automation Investment

While they lagged in automation in 2024, process manufacturers that report making technology and automation investments are more likely to invest in shop floor control and scheduling automation and process automation. Process manufacturers reported greater exposure to an aging workforce, placing a premium on replacing tribal knowledge with predictable, automated systems.

While both process and discrete manufacturers are accelerating digitalization, process manufacturers that report making technology and automation investments are more likely to have already implemented predictive maintenance and work order automation and connected equipment through the industrial Internet of Things (IoT). Discrete manufacturers are making investments in both of these areas to gain parity.

You indicated your company is investing in automation and robotics. In which of the following technologies / initiatives is your company investing?

	Currently implemented			2025 investment		
Importance scores	**Total n=63**	**Discrete n=33**	**Process n=30**	**Total n=63**	**Discrete n=33**	**Process n=30**
Predictive maintenance / work order automation	37%	30%	43%	46%	58%	33%
Process optimization (shop floor control, sch. opt., etc.)	35%	33%	37%	44%	36%	53%
Process control automation	33%	30%	37%	46%	39%	53%
Quality control (e.g., computer vision inspection)	37%	36%	37%	41%	39%	43%
Connecting equip. & systems w/sensors & Industrial IoT	49%	42%	57%	29%	36%	20%
Advanced and collaborative robots (Cobots)	37%	39%	33%	38%	39%	37%
Product design automation	35%	39%	30%	30%	27%	33%
Robotic warehouse automation	21%	21%	20%	43%	42%	43%
Asset simulation (e.g., digital twin)	22%	21%	23%	38%	42%	33%
Total smart factory design	27%	30%	23%	27%	27%	27%

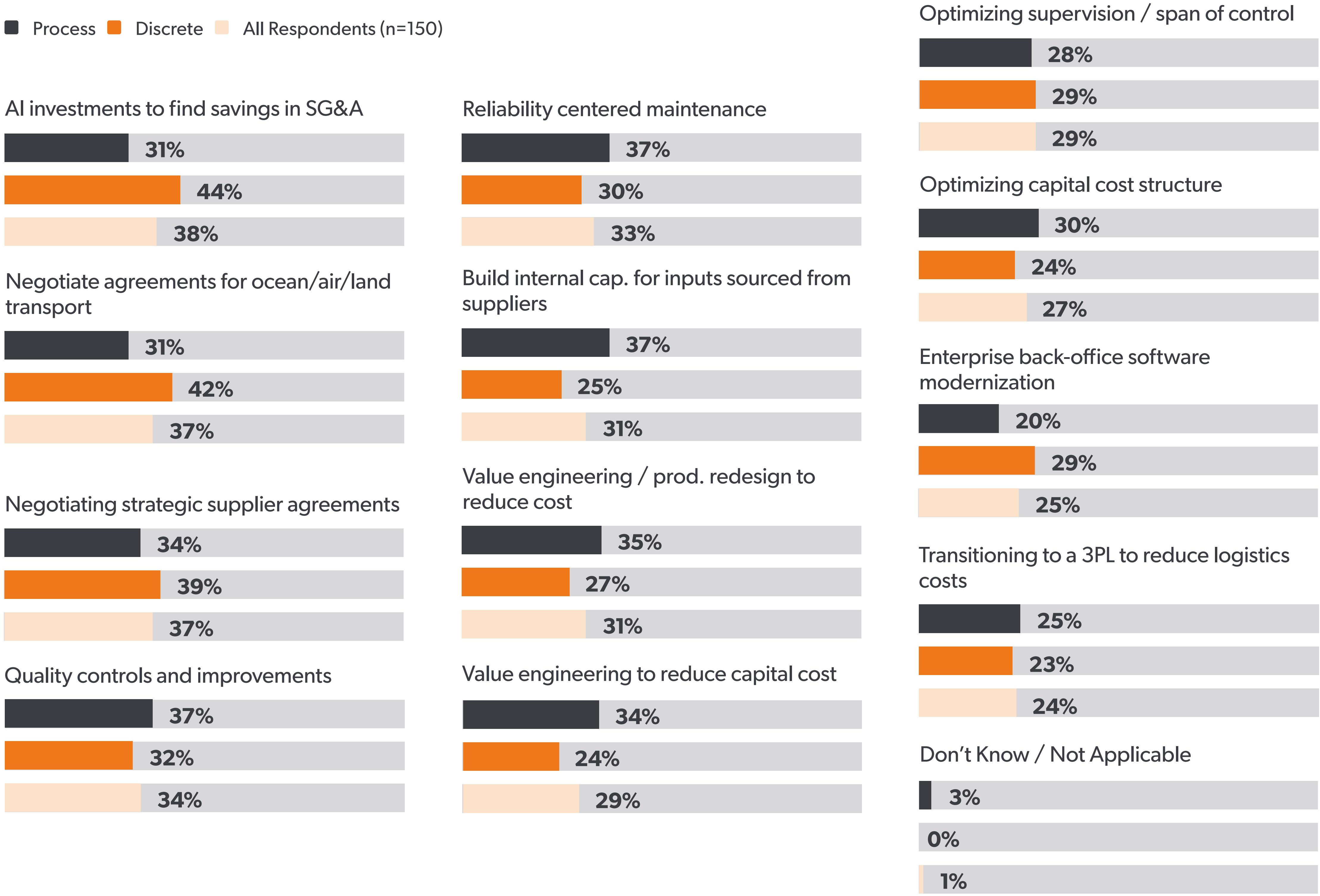
Commercial Leverage on Transport Vendors

Discrete manufacturers' use of transport negotiations nearly doubled, rocketing from 23% in 2024 to 42% in 2025. This underscores the importance of commercial leverage to press cost out of vendor agreements and increase resilience.

Discrete manufacturers are leveraging agility and supplier negotiations and playing catchup on maintenance technologies and IoT while process industries are playing catchup on plant floor automation. Both are converging on technology as the new cost governor.

TAKEAWAY: ***Discrete manufacturers were more likely to be implementing predictive maintenance, work-order automation and connecting equipment and systems through IoT. They were also more likely to report a lack of data for decision support, a gap they may be able to close with real-time data from IoT sensors on production equipment.***

During 2025, which of these specific investment-driven tactics are part of your cost takeout efforts?



INFLUENCE OF OWNERSHIP STRUCTURE/ COMPANY SIZE

The ownership structure of manufacturing respondents affects the time horizon around which decisions are made. Lacking quarterly incentives to drive share price, private companies get freedom to absorb costs and make investments that drive benefits in subsequent reporting periods. This freedom may work to the advantage of the 56% of the sample that are privately held.

Size matters, according to the data. The largest companies with the most market power and scale have less cost pressure and less aggressive goals. This market power gives them pricing leverage and enables them to determine the terms of engagement.

TAKEAWAY: ***The largest enterprises have a lead in AI. Companies with more than $5 billion in revenue were more likely to rely on AI tools to achieve cost takeout than smaller companies.***

Middle market companies ($500 million and $5 billion) were almost twice as likely to rely on internal teams augmented by external consultants for cost takeout.

Closely-held companies were dramatically less likely to engage in cost-saving strategies—50% less likely to be identifying cost-cutting opportunities and 17% less likely to delay capital investments or major projects. No family and closely held companies reported being under severe cost pressure, while 10% of public and private companies did.

TAKEAWAY: ***Closely held companies were also least likely to be deferring capital expenditures and major projects or identifying cost-cutting opportunities.***

Executives at private equity-backed companies need to find ways to protect margins reported to ownership and were most likely to delay capital projects and major investments. Private equity-backed company respondents were also most confident of cost takeout success by a wide margin — 80% were extremely or very confident compared to low teens among other demographics.

TAKEAWAY: ***One hundred percent of public companies were investing in high ROI opportunities to save cost —13% ahead of private companies. But they were also most likely to report takeout goals of 10% or greater, while private companies were most likely to report goals of 5% to 10%. They may come out of this time of fluctuating trade policy on stronger footing than public companies.***

COST TAKEOUT WAYS AND MEANS

Human and technology resources used for cost takeout affected the investments, cost reduction and delaying tactics used. Companies reported various benefits regardless of whether they relied on internal teams or consultants, a combination of the two or AI.

TAKEAWAY: ***When consultants lead the effort, a respondent was more likely to invest in high ROI opportunities and implement cost reduction, as opposed to delaying capital investments and major projects.***

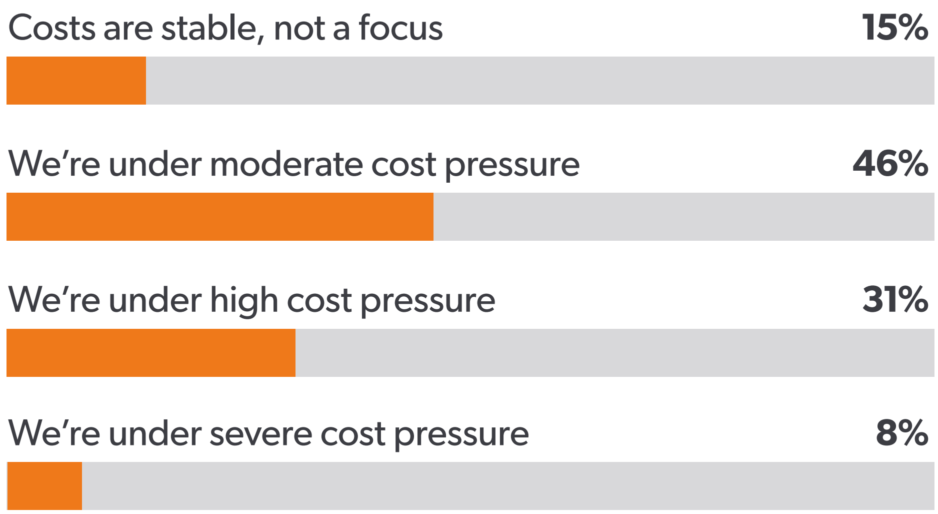
Internal teams users are the least likely to engage in investment strategies other than negotiating strategic supplier agreements. Meanwhile, respondents relying on AI and technology were most likely to invest in RCM and quality control improvements. AI is penetrating these disciplines with use cases like machine vision quality inspection and predictive maintenance.

Respondents reported relying on various cost-cutting approaches, based on their usage of consultants and AI technology. Companies working with consultants took more challenging and sophisticated approaches to cost takeouts.

- Internal teams respondents were most likely to reduce discretionary spending on SG&A categories.
- Internal teams supported by consultants were most likely to report layoffs and SKU or customer portfolio rationalization.
- Those working with external consultants to lead efforts were most likely to consolidate shared SG&A functions through shared services, reduce product capabilities to save cost and reduce inventory levels.
- Contract or temporary workers for cost takeout were most likely to engage in offshoring or nearshoring to reduce cost.
- AI or automation technology usage correlated with capital cost restructuring to reduce cost.

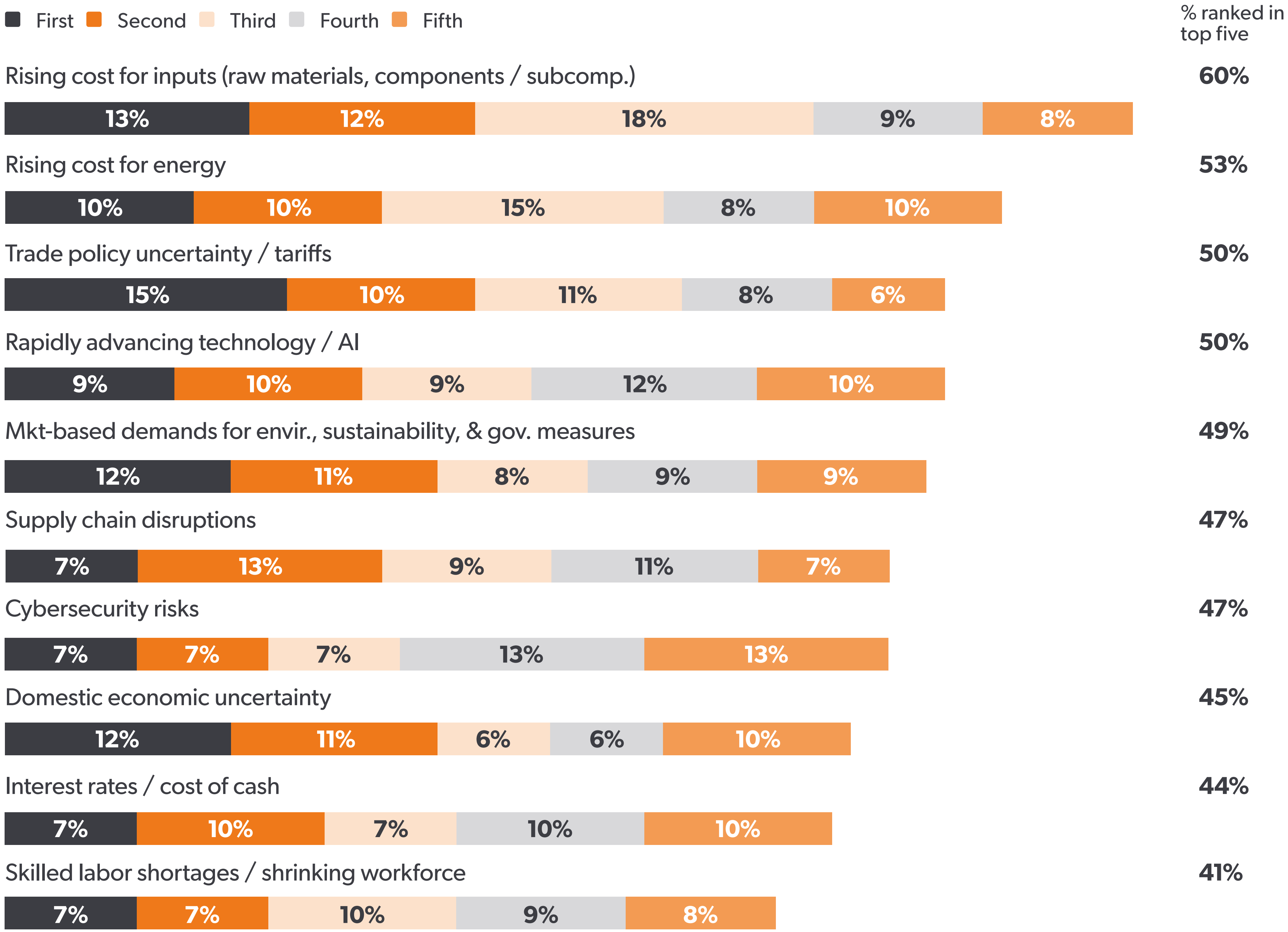
RESULTS IN BRIEF

Which of the following best describes the status of your company's current cost pressures?



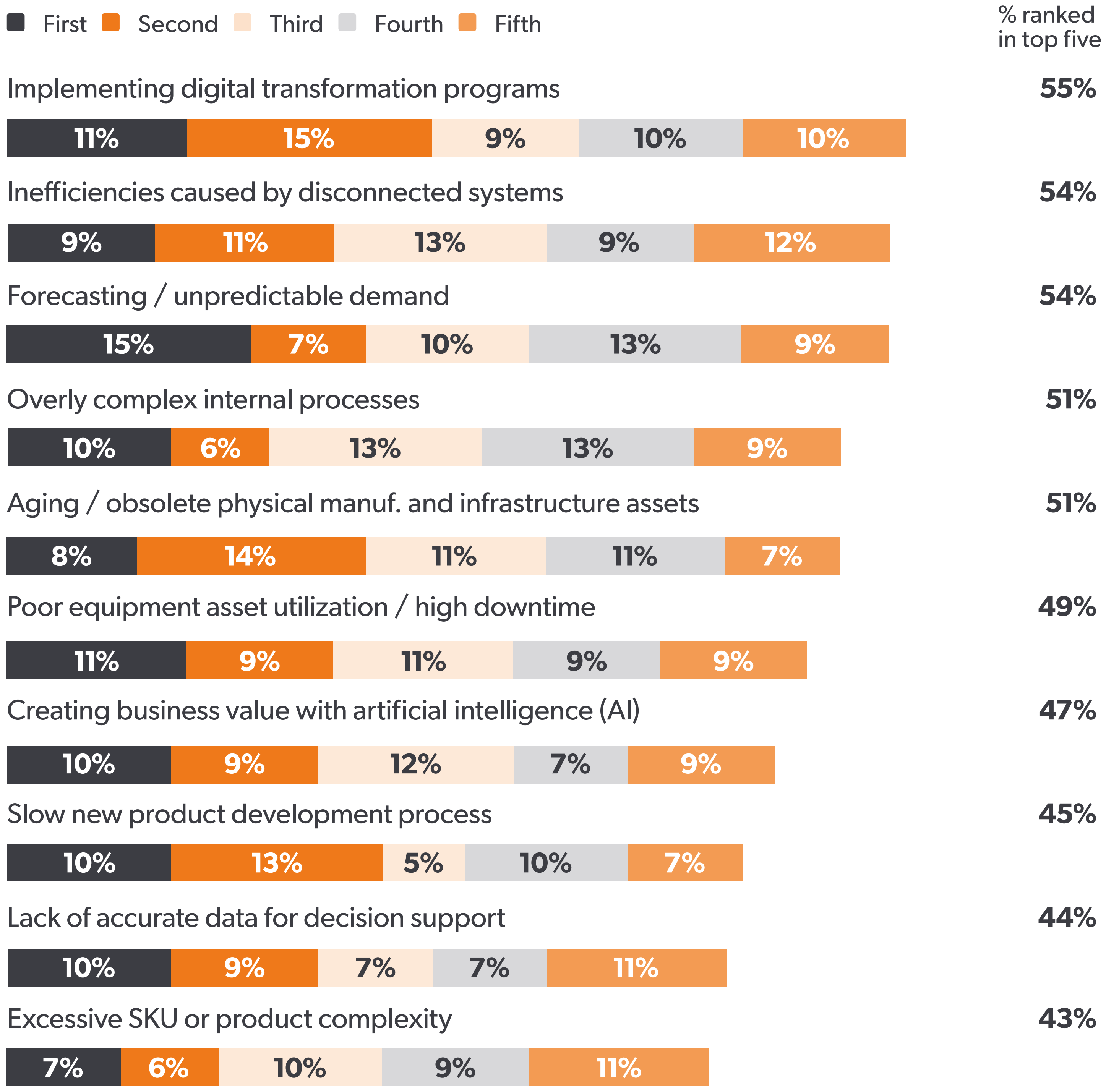
Base: All respondents (n=150)

Please rank your company's top five macroeconomic challenges for calendar year 2025.



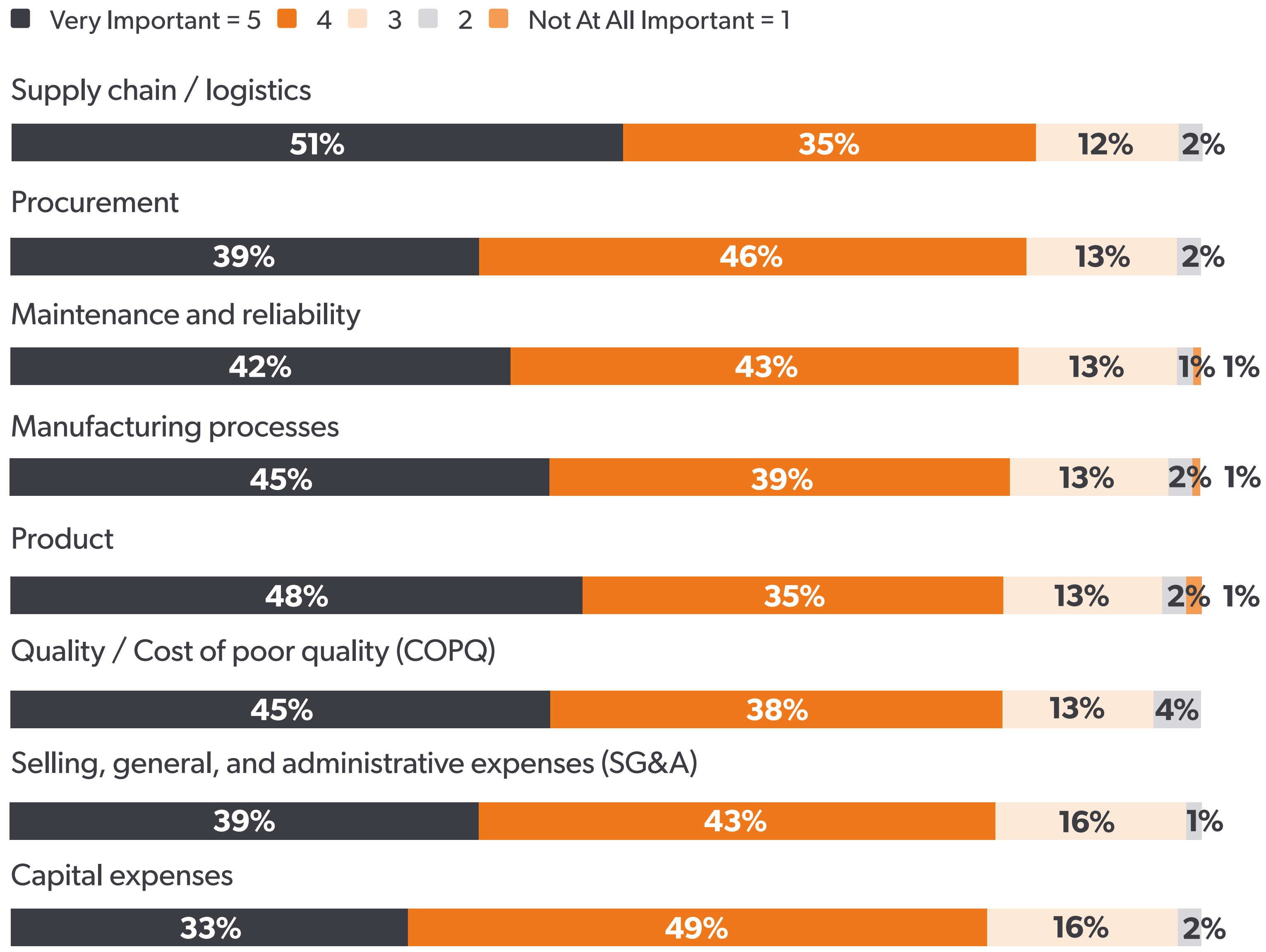
Base: All respondents (n=150)

Please rank your company's top five internal challenges during 2025.



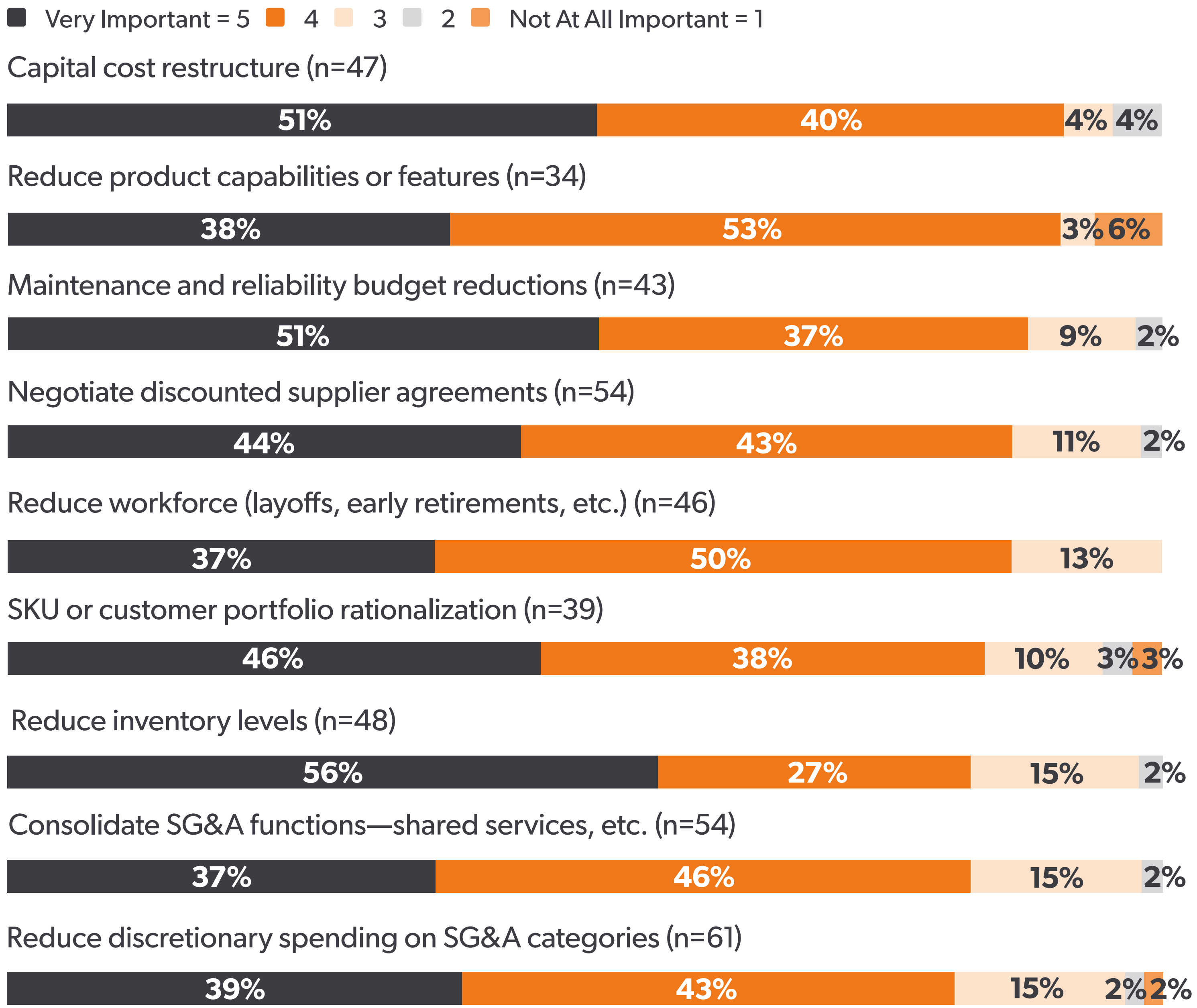
Base: All respondents (n=150)

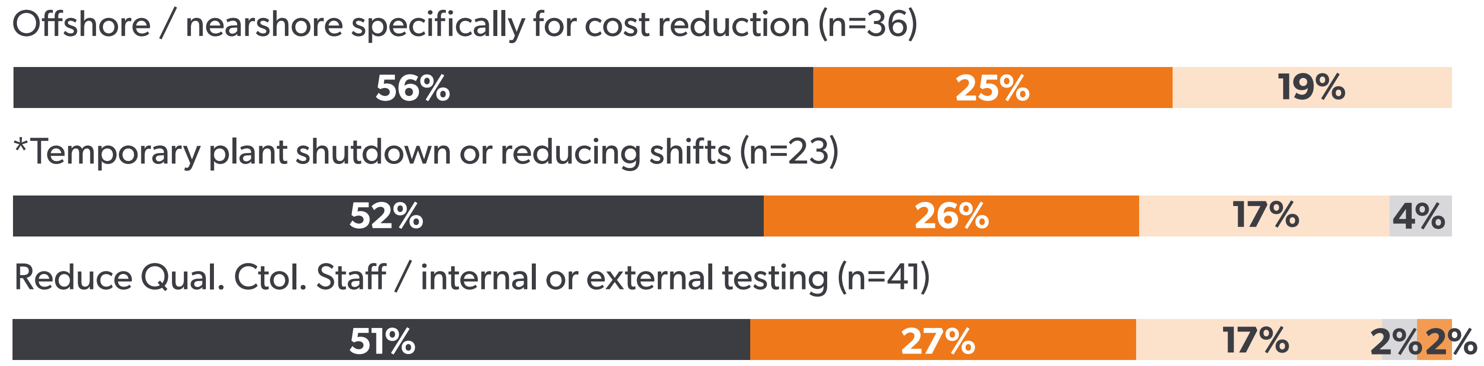
During 2025, how important to your company's cost takeout efforts are decisions related to cost reductions, strategic investments, or spending?



Base: All respondents (n=150)

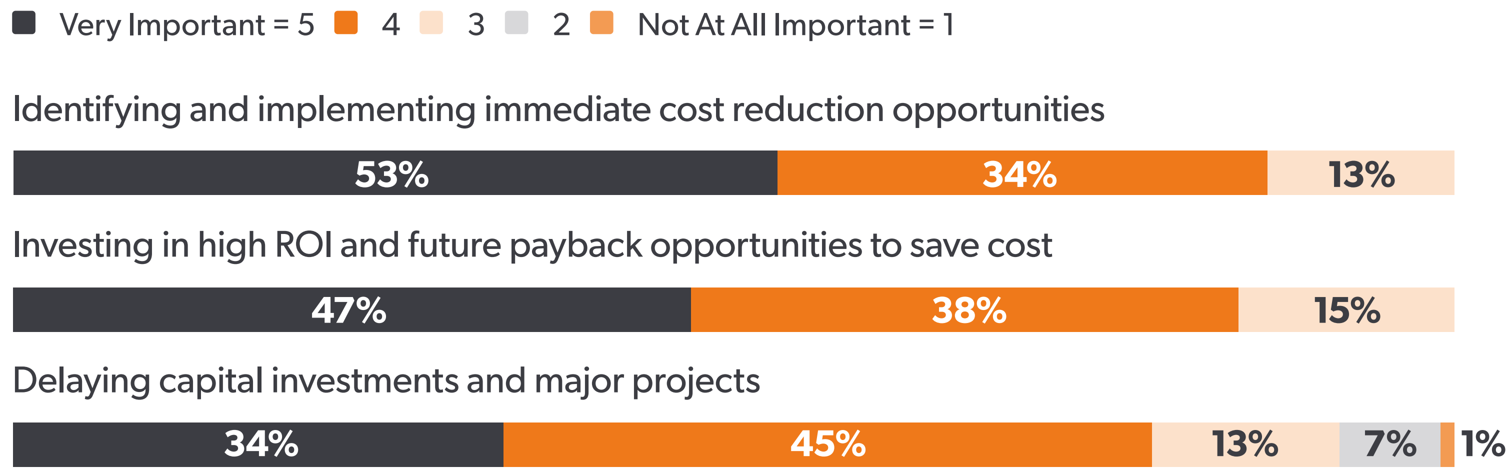
How important are the following cost-cutting tactics to your company's 2025 cost takeout efforts?





Results should be viewed as directional due to small sample size.

During 2025, how important are these cost-cutting strategies to your company's cost takeout efforts?

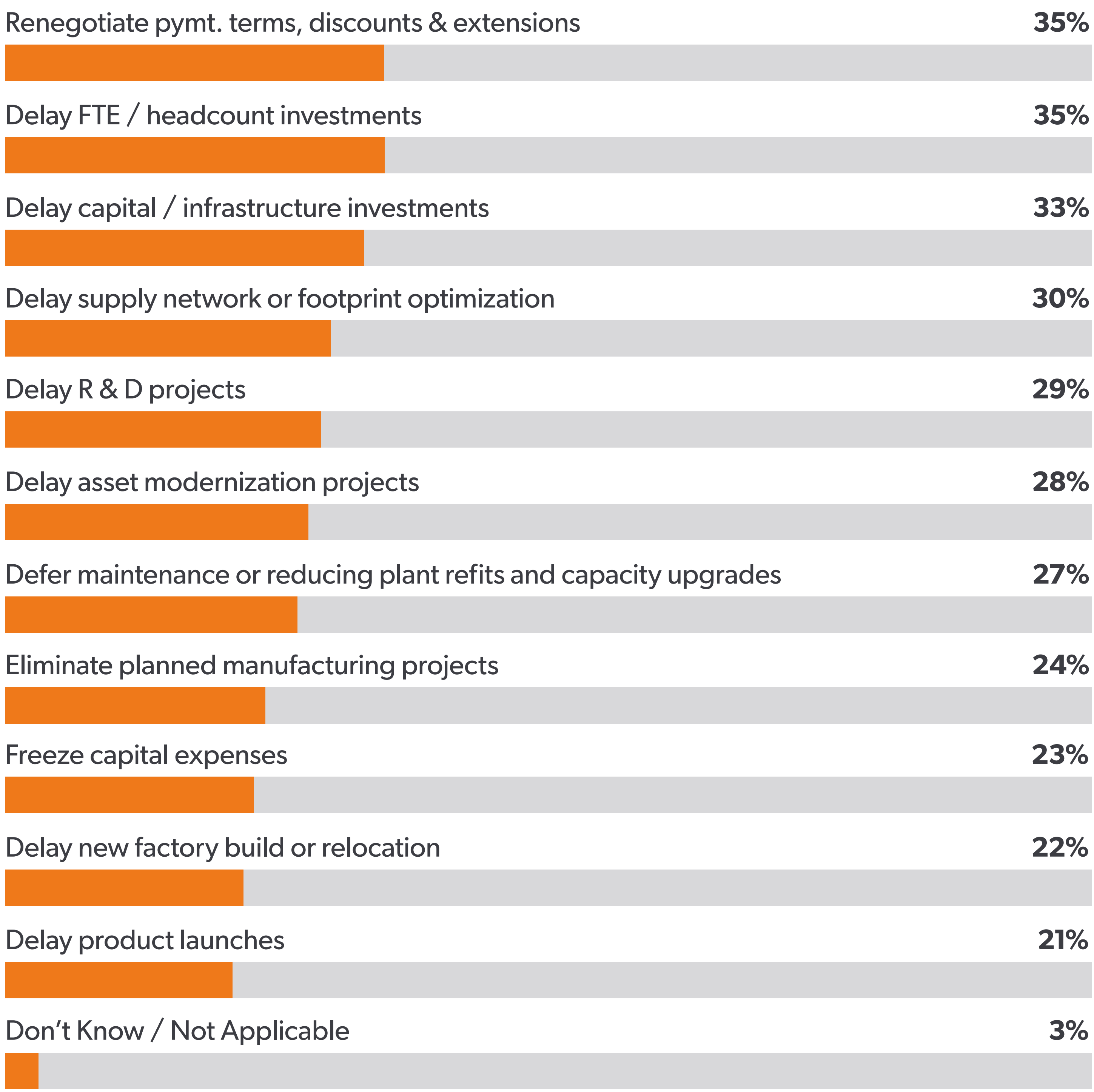


Base: All respondents (n=150)

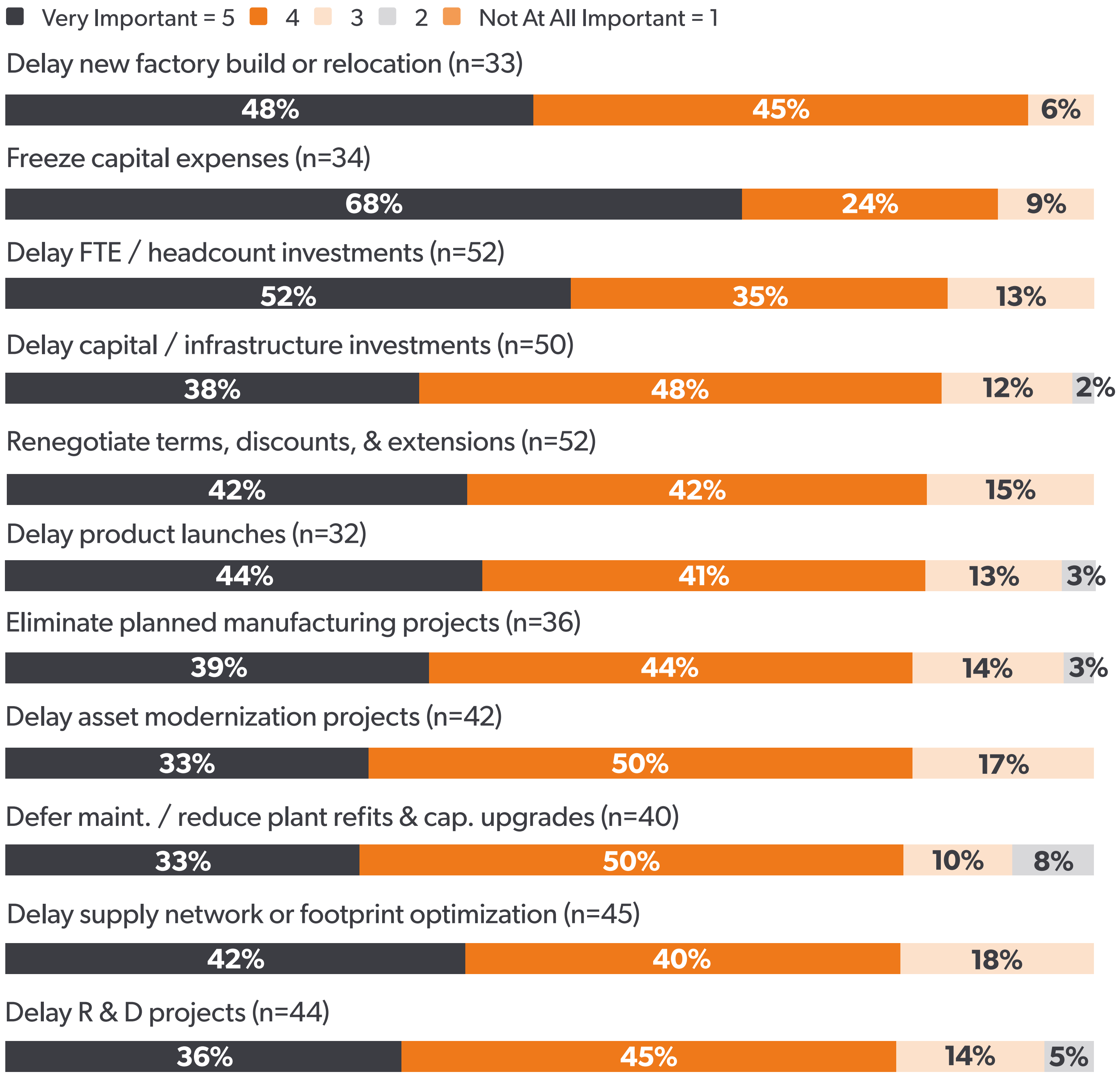
You indicated the importance of reductions / spending cuts in 2025. What fears or concerns do you have about cutting these expenditures?

Base: All respondents (n=150)

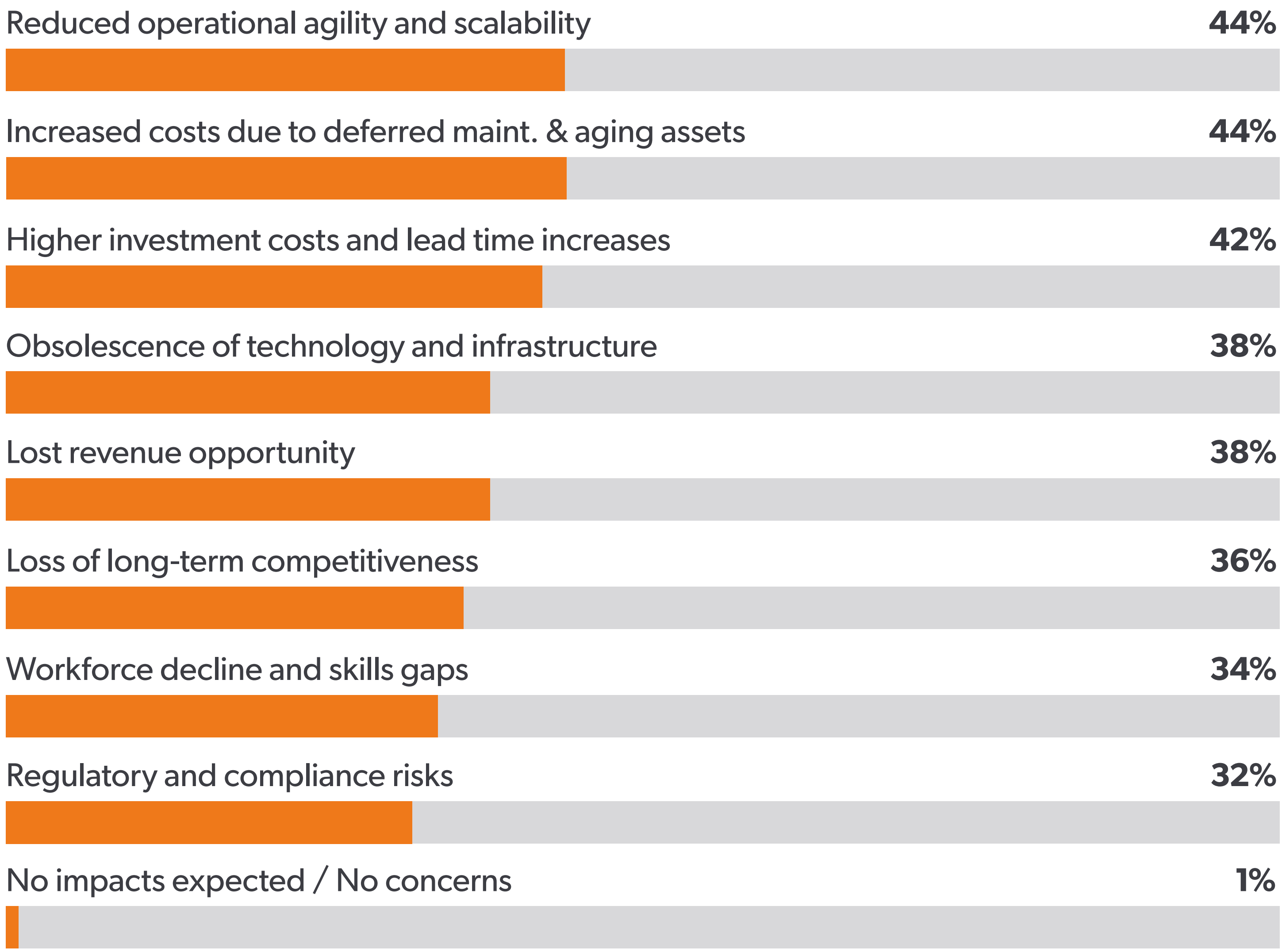
During 2025, which of these tactics for delaying investments are part of your company's cost takeout efforts?



How important are the following tactics for delaying investments to your company's 2025 cost takeout efforts?



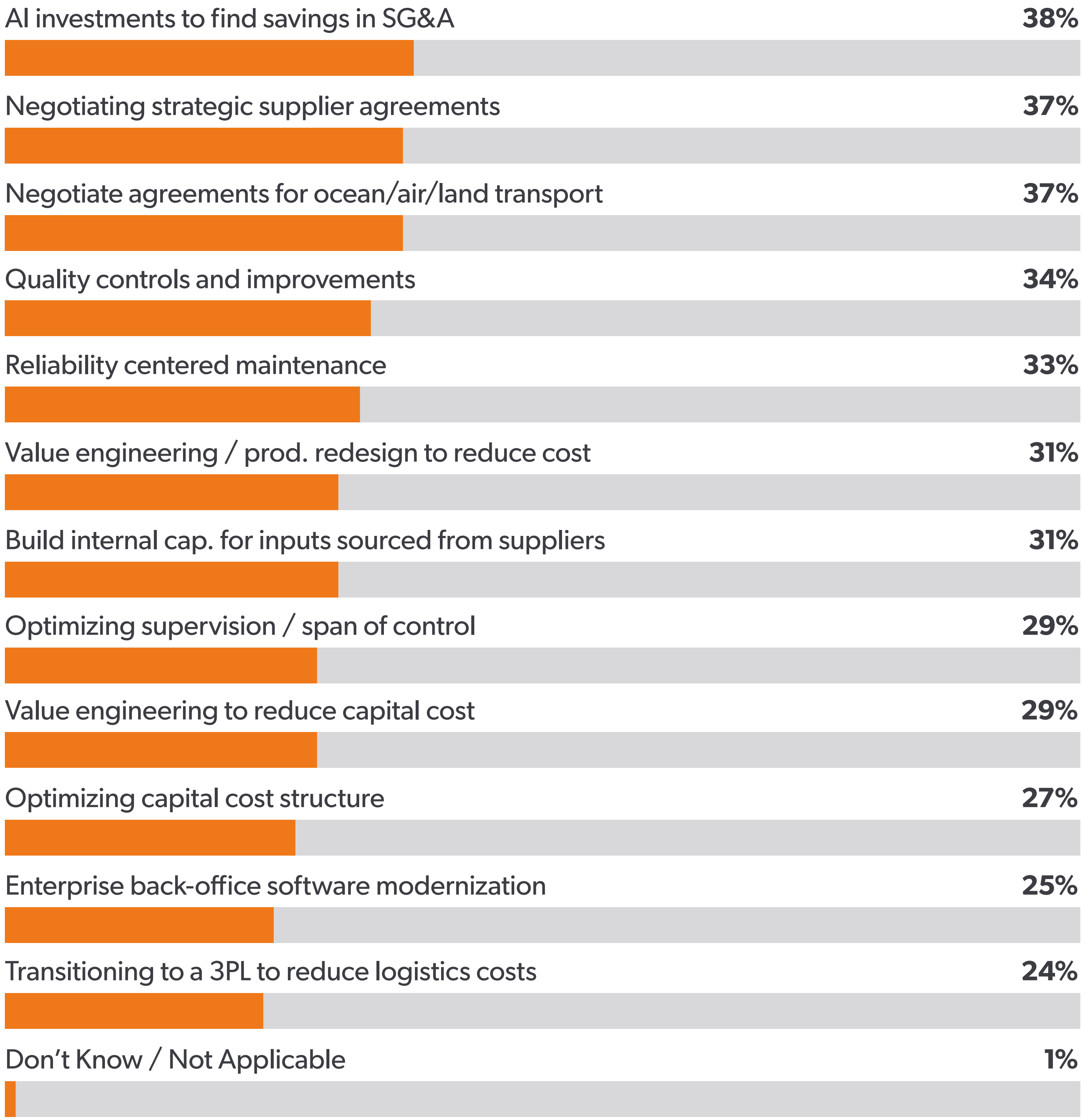
You indicated the importance of delaying capital investments in 2025. What fears or concerns do you have about delaying these capital investments?



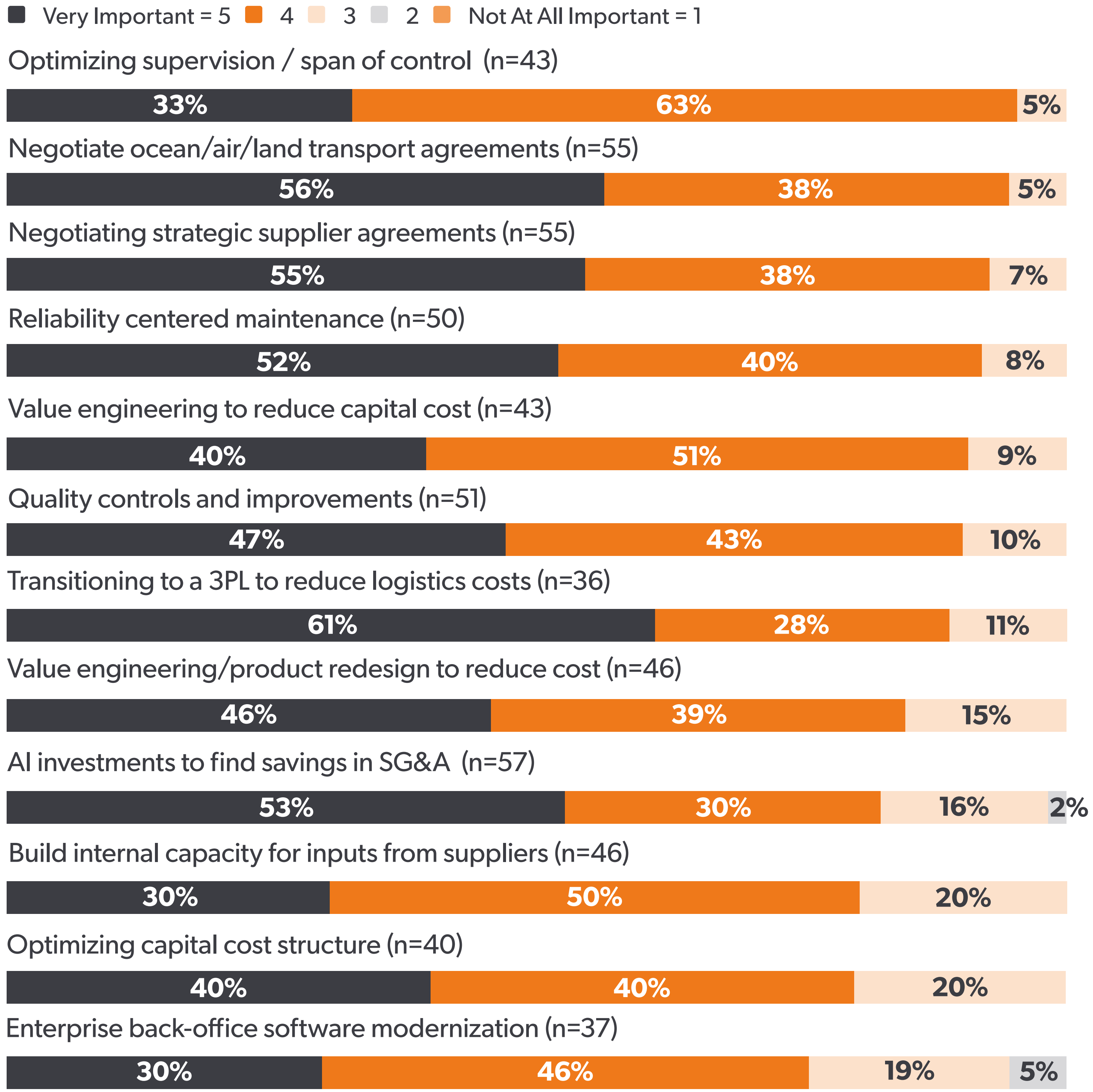
Base: All respondents (n=146)

During 2025, which of these specific investment-driven tactics are part of your cost takeout efforts?

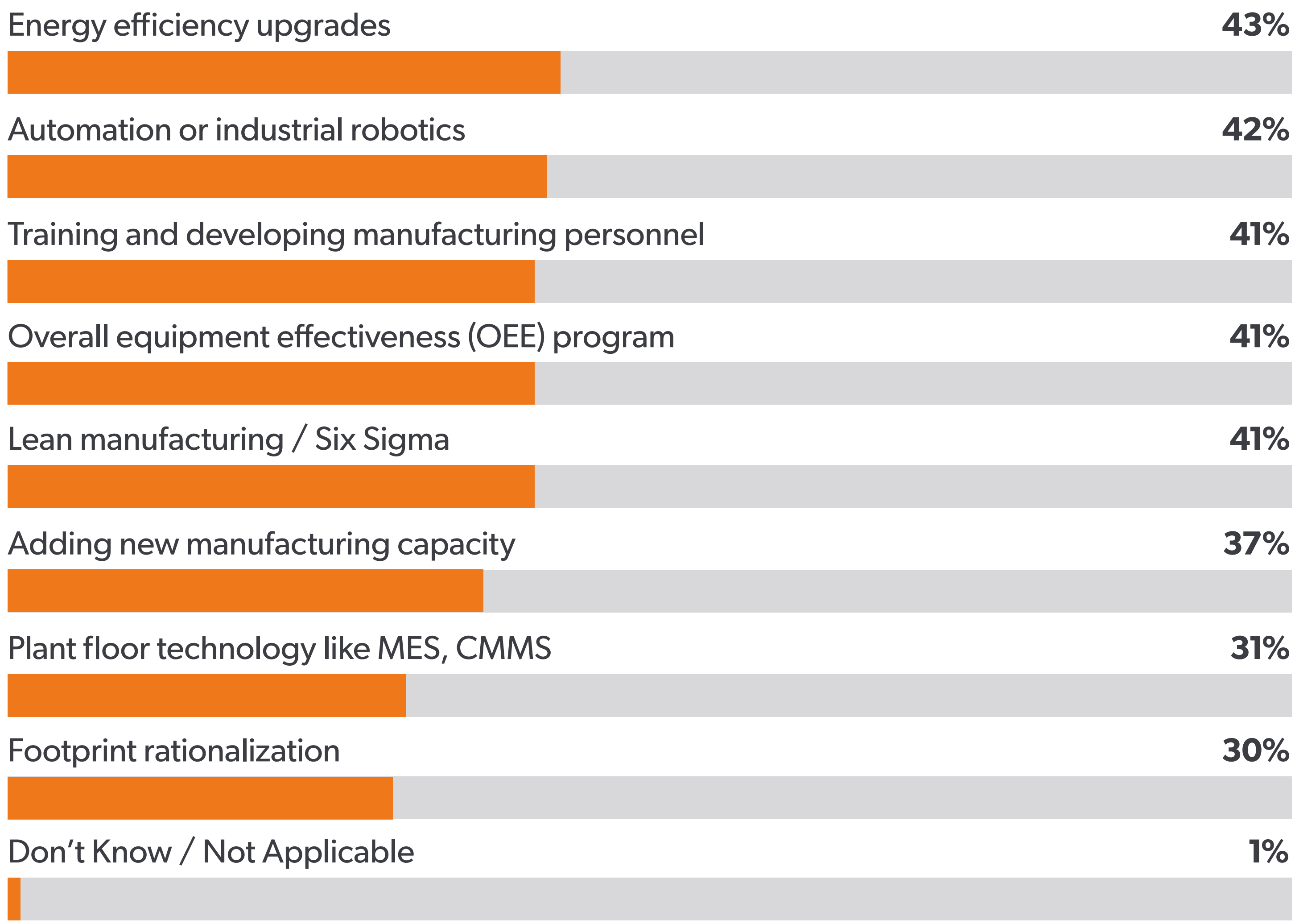
Base: All respondents (n=150)



How important are the following investment-driven tactics to your company's 2025 cost takeout efforts?

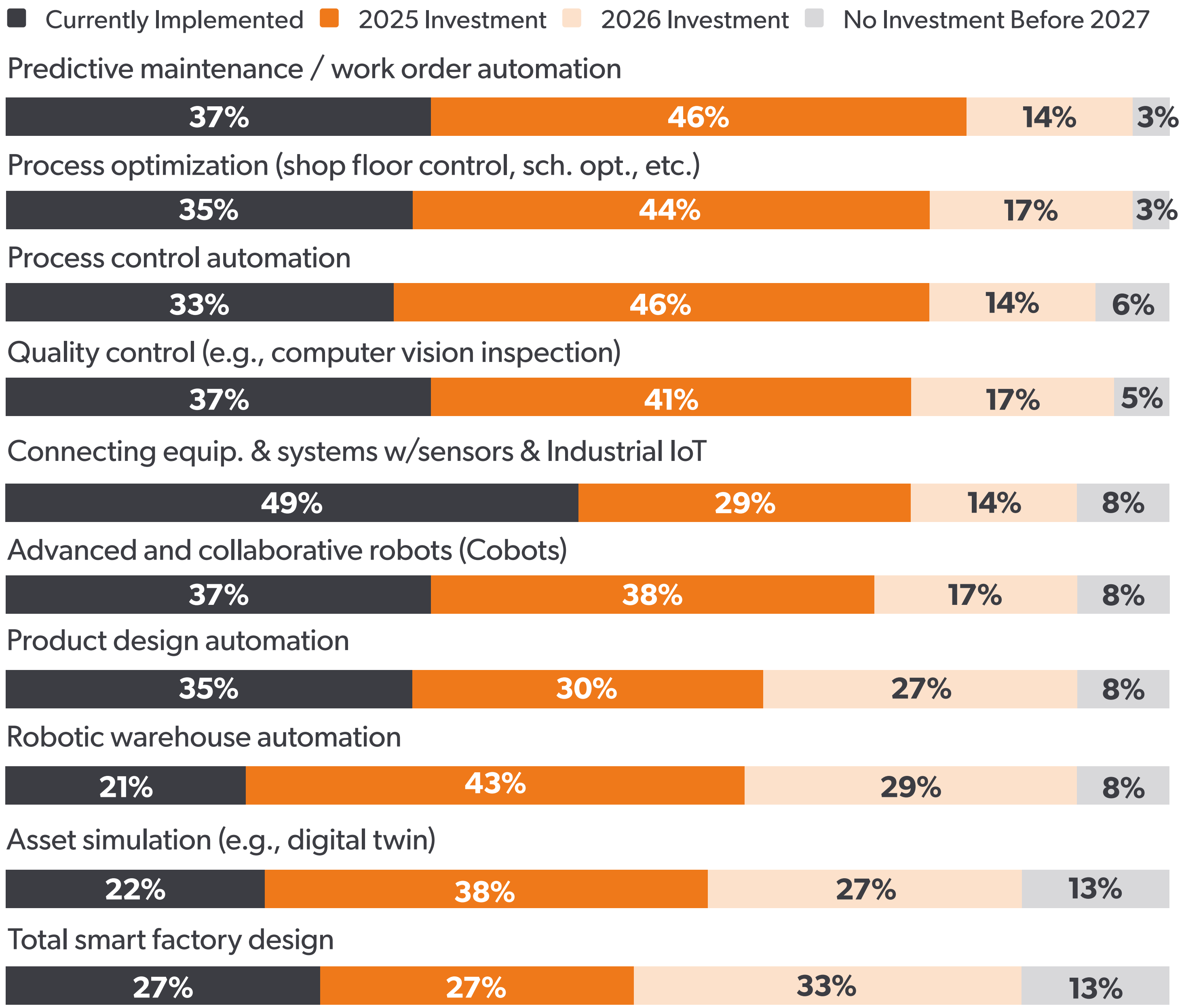


In 2025, in which of following manufacturing areas is your company investing as part of your cost takeout efforts?



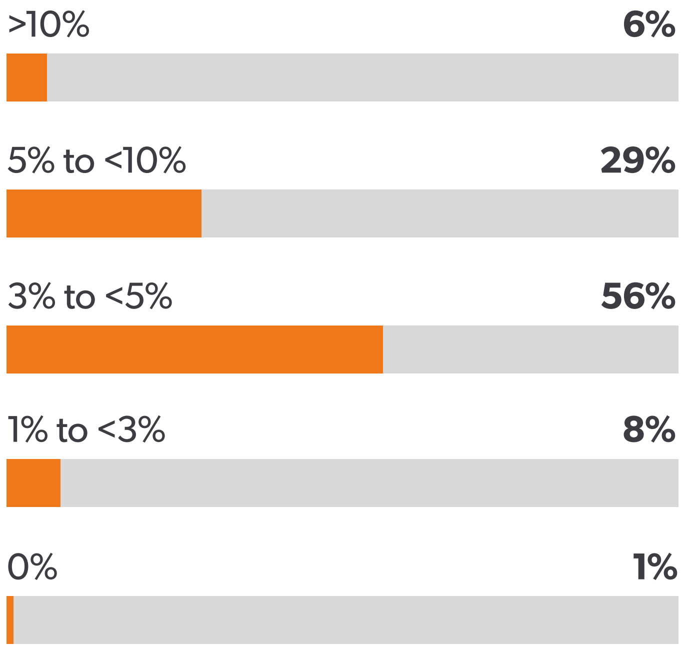
Base: All respondents (n=150)

You indicated your company is investing in automation and robotics. In which of the following technologies / initiatives is your company investing?



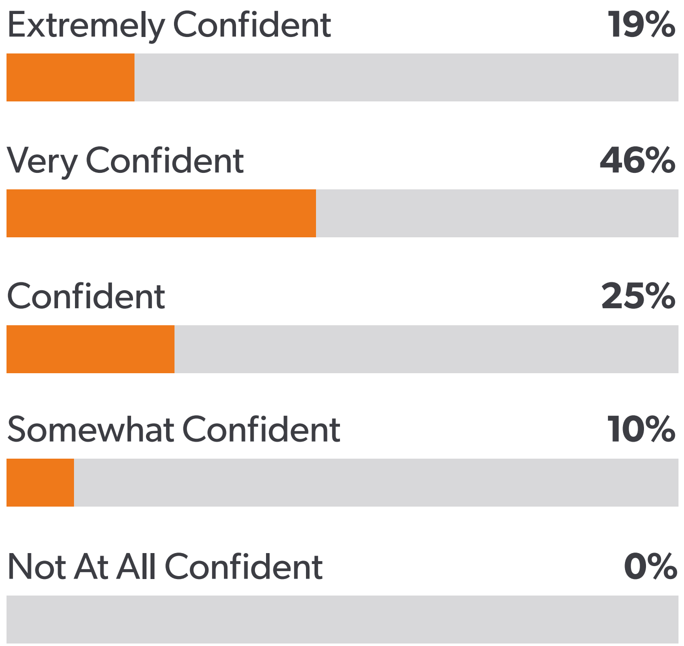
Base: All respondents (n=63)

In 2025, what percent cost reduction target best represents your company's total goal?



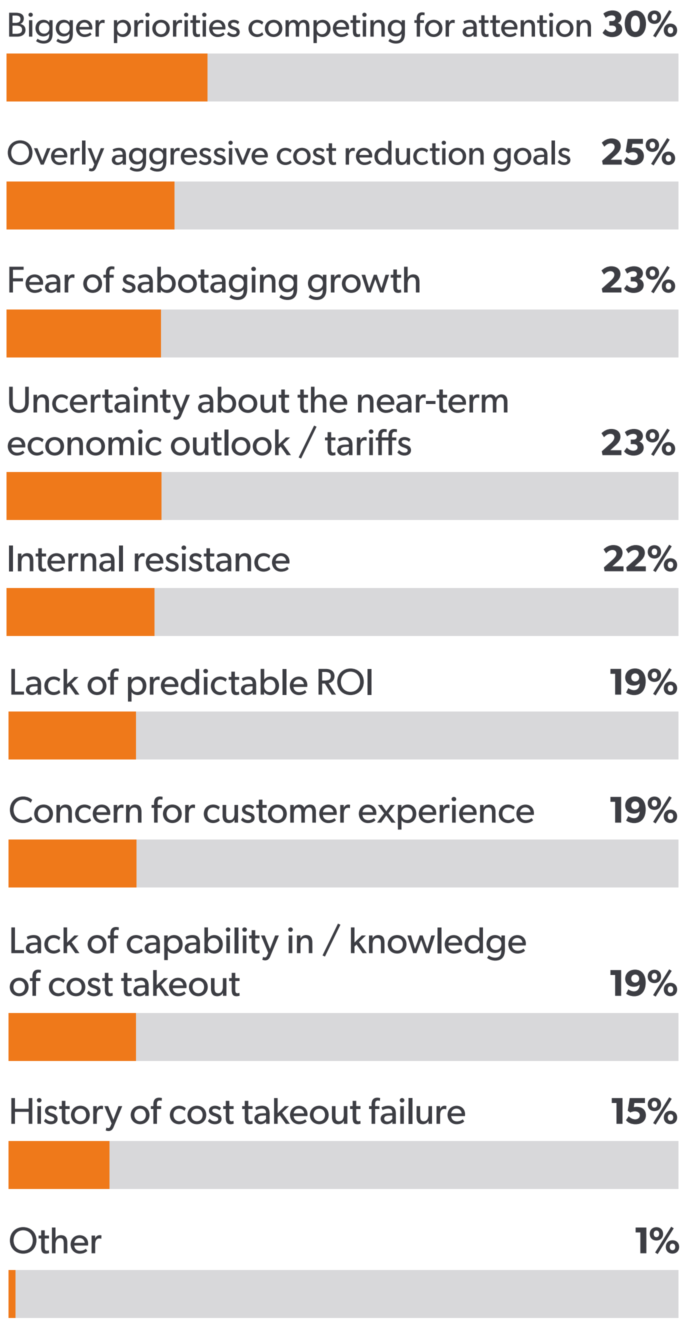
Base: All respondents (n=150)

How confident are you that your company will hit its cost takeout targets for 2025?



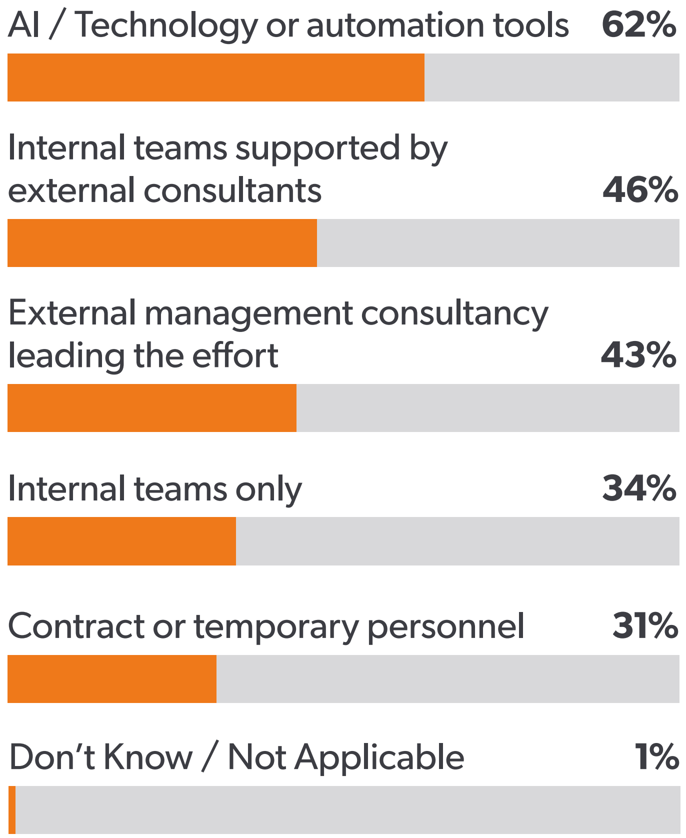
Base: All respondents (n=150)

Which of the following are the two most significant barriers to your company's cost takeout success in 2025?



Base: All respondents (n=150)

How is your organization currently executing its cost takeout efforts?



Base: All respondents (n=150)

CONCLUSION — LOOKING FORWARD TO 2026

Recent market conditions have put United States manufacturers through the wringer. In open-ended comments, respondents sound wary of continuing disruption from:

- Whipsaw changes with subsequent administrations
- Labor shortages
- Adoption of new technologies like AI
- Stalled research and development hurting competitiveness
- Geopolitical uncertainty
- Rising cost for energy, labor and inputs

Business and cost takeout acumen are critical to navigate in this uncertain environment, but so is technology. With 38% of respondents using AI, 83% saying AI as critical to cost takeout success, 43% investing in energy efficiency and 42% investing in automation, technology has become a key lever for cost takeout.

One concept that frequently appeared in these open-ended responses was the concept of balance. Respondents are balancing:

- Technology investments versus long-term returns
- Cutting labor now versus having to scale back up later
- Cutting cost versus customer satisfaction

Heading into a new year, manufacturing executive teams that can maintain a sense of equilibrium as the earth trembles underfoot will win. This ability to maintain balance may come from the ballast of a private company with cash on hand. It may come from a public company with a strong balance sheet and brand equity to fund transformational investments.

Or it may come from an intelligent and disciplined approach to cost takeout that leverages the right people and technology.

ABOUT EFESO

EFESO Management Consultants is the leading global pure player in operations strategy and performance improvement. We are committed to delivering real results, together with our clients across industries. We create outcomes that make a tangible difference — changes you can see, feel, and measure.

For us, real means results that are concrete and impactful, directly addressing the unique needs of each client. Together reflects our commitment to partnership, working closely with your teams to solve today's challenges and build resilience for the future.

We provide end-to-end operation services, integrating processes, human dynamics, digital technology, and sustainability. Our expertise spans production and operational excellence, supply chain optimization, and idea-to-value solutions.

Working in tandem with business leaders from global brands, mid-sized companies, and private equity, we drive transformation through 1,500+ projects annually in over 75 countries. This is powered by deep industry expertise and a commitment to lasting impact. EFESO. Real Results, together. To know more, visit us at www.efeso.com/americas.

ABOUT THE STUDY

In August 2025, EFESO's research partner, Endeavor Business Intelligence, used a research panel approach to survey 150 manufacturing executives in North America. The respondents were screened to include C-level, VP, SVP and board members/senior advisors. All the companies have an annual revenue of $100M+, with the vast majority north of $250M.