

Cost Reduction Alone Won't Save American Manufacturing

Everyone likes to blame the Chinese, or recent economic changes, for the decline of manufacturing, but the forces that led to the latest stage of globalization are not new. The changes actually began 27 years ago, and have changed manufacturing in the U.S. more than anybody thought possible.

Since 1980, U.S. manufacturing has declined:

- From 19.4 to 14.2 million employees.
- From 366,000 to 340,000 companies.
- From 22 percent to 12 percent of GDP.

In recent years the efforts have focused on cost reduction with programs like Six Sigma, and Lean Manufacturing. Each one of these programs has delivered successes but none are the universal answer to all of the problems created by globalization.

Taking A New Approach

There is no question that internal process changes such as Lean Manufacturing, ISO 9000, and Six Sigma were necessary and played a vital role in keeping manufacturing in the global game. But, despite all of these efforts, American manufacturing has declined in terms of employment, number of companies and percentage of GDP. As important as cost reduction and improving process efficiencies are, there are limits on how far supplier companies can go in terms of reducing costs and lowering their prices. As America moves into the new century, customers continue to close plants and move offshore, source goods and services from foreign suppliers, relentlessly drive cost reduction, and erode the margins of their suppliers.

Can We Compete?

The real question is, can American manufacturers compete in this new globalized economy? The answer is a qualified YES. But, to compete in the future will require a shift in focus to external strategies and what we can do in a changing marketplace.

Despite these relentless customer pressures, there are many new opportunities being created in this new marketplace. There are always new opportunities in the chaos of change. Hundreds of new market niches will emerge, and U.S. manufacturers are geographically closest to these cus-

tomers and can seize the initiative by offering innovative products and new services to take advantage of new opportunities.

Changing To A Prospector Organization

If we are going to halt the decline of manufacturing or have a chance of growing again, small and midsize manufacturers (SMMs) need to go on the attack and seek out the new opportunities being created by globalization. We can do it by transforming SMMs from operations driven (Defender) organizations to market driven (Prospector) organizations that are designed to find new markets and opportunities.

In my new book, *Saving American Manufacturing*, I offer a blow by blow description of the changes and external strategies that are needed to develop a new type of organization that can compete in a global economy and take advantage of emerging market opportunities. Other approaches to consider include how to:

- Find new customers and markets: There is no security in having a few high volume customers who continually drive prices and margins down to where the company can't make a profit. Real security for manufacturers is to develop a diverse group of customers and a portfolio of market niches that will help the company be able to "ride-out" cyclical nature of many industries and the fickle nature of many customers.



- Invent new products: American SMMs have always been innovative and good at developing new products. The challenge is to develop new products that fit specific customer needs and specific market niches.
- Create new sales channels: The manufacturers that are growing in the new economy are changing their sales channels to better fit their new customers and the customer's new needs.
- Adding creative new services: By carefully examining customers changing needs, it is possible to develop new and creative services that solve special customer problems and give you more competitive advantage. New services and geographic proximity are very difficult for foreign competitors to emulate.
- Develop a new type of organization: The traditional "Defender" organization that worked so efficiently for so many years isn't going to work very well. The "Prospector" organization is designed to monitor the external environment and is fast and flexible.

If we are going to halt the decline of manufacturing, SMMs need to go on the attack. American manufacturers have always been unique and very resilient in the world. They have always bounced back from world wars, depressions, recessions, and the threats of foreign competitors. I am optimistic that American manufacturing is going to bounce back again.

*In his 35 years in manufacturing— including corporate positions from salesman to VP, and extensive consulting with the NIST Manufacturing Extension Partnership— Mike Collins has helped companies make the transition from being "Defender" organizations focused internally, on process change and cost-cutting, to "Prospector" companies focused externally, on finding new markets and profitable growth. His new book, *Saving American Manufacturing*, is a comprehensive strategy that demonstrates how to ultimately become an organization that will continuously find new opportunities in today's fast-changing global economy. Email your comments to IMPO: anna.wells@advantagemedia.com. **IMPO***