WHEN DOING BUSINESS IN A TOUGH ECONOMY,

A Prescription Without Diagnosis Can Lead To Malpractice

BY MIKE COLLINS [MPCMGT@ATT.NET]

How many of you Pennsylvania manufacturers have had any of these types of problems:

✣A large truck manufacturer (Freightliner Corp) is closing its Portland, Ore., plant and laying off 1,200 employees. But it is also terminating work for hundreds of local suppliers, some of which depend on Freightliner for more then half of their business.

✣Hewlett Packard is moving many of its product lines to overseas plants and pulling the work from many of their domestic suppliers.

✣Some customers, in their rush to get the lowest price, are simply bad customers who don't really appreciate the supplier's services and do everything in their power to delay or reduce payments.

✣Some suppliers are in declining industries like the American auto industry where 11 of the 12 Tier One Suppliers are in Chapter 11 bankruptcy and feel they have no choice but to force their suppliers to sign contracts with three year guaranteed price reductions.

Many American suppliers used up most of their retained earnings in the last recession. And, many suppliers are dominated by a few large customers (Customer Concentration) and need to find new customers where they have a chance at improving margins.

These are just some of the problems caused by customer concentration and customer offshoring. In many industries, American small and mid-size manufacturers (SMMS) will not survive in the future without diversifying into new customers and new market niches. They need to develop a diversification plan with new strategies and new approaches to grow and become more profitable.

Every strategy decision is an investment decision because growth strategies always cost the company money. Some strategies -- like new product development -- are more expensive than others, but all strategies cost money. So before adopting a big idea or a specific growth strategy, it is a good idea to evaluate your company and determine how prepared you are to grow and how much growth you can afford. A good assessment will show weak areas (RED FLAGS) and strengths (BEST PRACTICES), and the missing information that is critical to making strategy decisions. This is a quick assessment that takes little time, but it does reveal some big problems to consider.

DIAGNOSIS BEFORE PRESCRIPTION

If you were a doctor examining a new patient who complained that pains in their abdomen had become intolerable, you would not simply prescribe a painkiller and send the patient home. You would perform a careful diagnosis that included blood work and tests, as well as a thorough physical examination.

A doctor must find out if the patient has an upset stomach or colon cancer before offering a prescription. The same rule applies to manufacturing companies who want to grow. It is important (and very inexpensive compared to investing in strategies) to examine the company's financials, costs, margins, customers, competition and markets before investing in sales, advertising, products, sales channels, and service strategies that all require some kind of dollar investment.

There are eight fundamental questions that need to be answered before you develop a growth plan or select a strategy:

1. How much growth do you want in terms of sales volume and net profit?

It is important to point out that growth is not just about sales increases. Improving gross margins and net profits is even more important to the long-term survival of American manufacturing companies. Deciding on a degree of growth in sales and profitability at the beginning helps drive the selection of strategies and the whole process.

2. How is the company doing in sales, profitability and cash flow?

You don't have to be a CPA to understand the relationship to sales, profit and cash flow. If sales are flat or declining, profitability is declining and cash flow is awful, it may be dangerous to work on any plan to increase sales unless you completely understand and can document the reasons for each problem.

3. How will you finance the growth?

This question has to do with the balance sheet and investment. Obviously, if a manufacturing company has been struggling and has negative net worth, they may not be able to borrow any money for growth. Or, the company may choose to finance growth from internally generated funds, which will severely restrict the number of strategies that can be used. It is absolutely vital to answer this question right at the beginning of the process.

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4. Do you have accurate costs, margins and price information?
One strategy that must be developed in a growth plan is the pricing strategy. If cost information is not accurate or there are cash flow problems, it may be dangerous to pursue a growth strategy because sales growth might accelerate cash flow problems or further decrease profitability.

5. Do you know the reasons you lose orders?
Knowing the reasons you are currently losing orders is one of the most strategic questions in growth planning. If you don't know why you are losing orders now, how can you develop a plan to grow in the future?

6. Can you profile the best and worst customers?
Industrial manufacturers don't need just more customers. It is important to profile all customers in terms of good or bad criteria. It allows the planner to determine a sales and marketing plan to go after the best customers that fit the company's products and services.

7. Do you know if you have a competitive advantage and can you compare your products to the competitor's products in terms of price, delivery, key features -- model by model?
If you don't have a competitive advantage over specific competitors in the marketplace you won't be able to grow no matter what strategy you select. If you find out you don't have a competitive advantage you will have to change your products, services, or prices to create a competitive advantage before proceeding with a growth plan.

8. Do you know which market niches (customer groups) to focus on now and in the future?
This question is answered by defining all customers by SIC CODES and then grouping them into market niches that can be prioritized to determine target markets. It is also important to answer the question of whether you want to grow by market share or by finding new markets.

PRESCRIPTION

(Selecting Strategies)
Based on the answers to these questions, a company can then determine which strategies are needed to help them grow. This is what I call evaluating strategies in terms of growth potential and cost. The most progressive manufacturers display a wide variety of strategies that can be used to grow in the globalized economy. The following list describes 14 of the primary strategies used:

1. Market diversification
2. Creating new services
3. Developing new products
4. Expanding the sales coverage
5. Focusing on fast deliveries
6. Establishing new sales channels
7. Developing proprietary processes
8. Licensing products or services
9. Exporting to international markets
10. Equipment upgrades and machine tools
11. Certifications
12. Acquisitions of products or companies
13. Consolidation
14. Cross training employees with more skills

So does this work? This process was developed by the author to assess two industrial divisions that were losing money and market share. It was used to develop a five-year plan to both turn around the divisions and select strategies for growth. Both divisions doubled in sales, market share and profitability in five years. The four-hour interactive workshop has been given to manufacturers in Cincinnati, Ohio, Chicago ,Ill. and Lewiston, Maine with considerable success.

Michael P. Collins is President of MPC Management, a manufacturing consulting company, and the author of the book, "Saving American Manufacturing. This 8 step process is actually the outline from a day workshop for Small and Midsize Manufacturers who are interested in developing a new growth plan. The workshop is interactive so that all participants get to ask questions and get answers on their specific company issues. The objective is for each company to leave with enough information to begin a growth plan and understand where they have Red Flags (weaknesses), Best Practices (strengths) or need to gather more information before they invest money and make strategy decisions. ✣