

# PLANNING ON GROWTH?

## START OFF ON THE RIGHT TRACK BY ANSWERING THESE ESSENTIAL QUESTIONS FIRST!

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Small- and mid-size manufacturers (SMMs) do not like to do business or growth plans. There are a lot of reasons for this. Not the least of them is that most SMM managers consider planning an academic exercise that leads to generalizations and ethereal results. Manufacturers like to do things that are action oriented and lead to tangible and believable results.

But on the other hand, all manufacturers want to grow. And growth usually requires investment because strategies like new products, finding new markets, expanding the sales organization all cost money. So how do you know if the company is ready to commit to growth?

Here are six essential questions that should be answered before you commit to growth in terms of sales or profitability. It is helpful to answer yes or no to the six questions before reading on.

### THE SIX ESSENTIAL QUESTIONS

(Take the Test)

1. Can you identify the best customers to sell – now and in the future?
2. Do you know which market niches to focus on now and in the future?
3. Do you know what kinds of products and services the best customers want?
4. Can you compare your products to the competitor's products in terms of price, delivery, key features, model by model?

5. Do you know the specific reasons you lost orders to competitors for every known lost order in the last year?

6. Do you know if you are making adequate margins on each product line, model or job?

### ESSENTIAL QUESTION 1: PROFILING CUSTOMERS

Can you identify the best customers to sell – now and in the future?

Profiling your customers is the first step in the Six Essentials because “all customers are not good customers.” Selecting new customers and markets will drive decisions and changes to products, services, organization and manufacturing. It is important to know how to profile the best customers, their wants and needs, or customers with future sales potential to grow your business profitability.

The simplest way to achieve this is to carefully profile the ideal type of customer; then find more like them. Usually, you can do this by examining the best of your current and past customers. Here is a simple process to objectively profile your customers:

1. Begin by printing a list of all accounts sold in the last 12 months by sales volume – from the largest volume to the smallest volume account.
2. It is also very helpful to include the average profit margin percent of each account before overhead. (This is known as the contribution margin or sales – direct materials and direct labor).

3. Then assign NAICS codes to each customer account. NAICS means the North American Industrial Classification System, and you can find codes for every customer's product on the Internet by going to [www.naics.com](http://www.naics.com).

4. The next step is to determine good and bad customers by simply marking each customer account plus or minus. Bad customers can limit your profit growth and more good customers will help you achieve growth goals.

5. Now, go through the list of good customers (with plus marks). These are the ideal customer profiles with the best future sales potential.

6. The SIC codes for these “Best Customer Profiles” will help you find more like them.

When the objective is profitable growth, it is better to go on the hunt for a customer who sees the value of your price than to continue accepting low margins or count on cost reduction turning around a bad customer that is always focused on price reduction.

### ESSENTIAL QUESTION 2:

Do you know which market niches (customer groups) to focus on now and in the future?

For growth planning, it is important to determine what markets you are already in, whether the markets have more sales potential or if you should look for new markets.

**Group Customers into Market Segments**

Each customer account was assigned an NAICS code. If your customers are in a spreadsheet, you can sort the NAICS codes from the smallest to the largest SIC number, and then group these customers into market niches.

The market niches can then easily be identified and grouped together by common factors. For instance, manufacturers of butter, cheese, milk and ice cream can all be grouped under a dairy market definition or approached as individual market niches.

**Determine Market Size by Prospects**

This requires that you access a database such as the Dun and Bradstreet's I-MARKET and find out how many prospects are in each market segment. This will give you a preliminary idea of the market size you will be "prospecting." (NOTE - This entire process is explained in more detail in Chapter 2 of "Saving American Manufacturing." All of the specific tools that support the process and all of the spreadsheets and charts are included.)

**ESSENTIAL QUESTION 3:  
Monitoring customer wants and needs.  
Do you know what kinds of products and services they want?**

The reasoning is simple. The more you can define what customers want and need in terms of products and services, the better chance you have of making growth goals.

For most manufacturers, this is the most difficult of the six questions to answer because it requires developing a systematic way of monitoring customers. Monitoring customers is where you will find many ideas for new products and services, it is the key to success in increasing sales and finding market opportunities. Regardless of whether it is something you're naturally good at, or it feels like pulling teeth, it must be done if you are to compete in a changing economy. You might consider hiring a third

party to help you get started or perhaps another employee with these skills. But, you can no longer afford to operate in an information vacuum. Your future depends on it.

**ESSENTIAL QUESTION 4:  
Can you compare your products to the competitor's products in terms of price, delivery, key features, model by model?**

Simply put, it is almost impossible to grow and sell more to customers unless you have a competitive advantage. When the objective is to find new customers and new markets, it is important to find out:

- How many competitors there are for each product line or service.
- How your products or services compare to their products in terms of customer buying perceptions.
- How your prices compare to their prices from customer buying perceptions.

Many job shops and product manufacturers find themselves trapped in competitive situations where they have little competitive advantage and dwindling profits. They need to gather critical competitive information to find out if their company can differentiate its products and services from the competition well enough to maintain margins or grow the business

If you find that you don't have a competitive advantage, then it is best to find ways to differentiate your products and services before investing a growth plan.

**ESSENTIAL QUESTION 5:  
Do you know the specific reasons you lose orders to competitors for every known lost order in the last year?**

One of the best indicators of whether a marketing or sales program is working is the ratio of orders to lost orders. Knowing why customers buy or don't buy is vital to growth planning; and I have included it as one of the Six Essentials. The reasoning is simple: It is difficult to know what to do to prevent future lost orders or lost customers if you don't know why you are losing cur-

rent customers and orders.

Keeping track of lost order information is critical to perpetuate long-term growth. The bottom line is you can't really develop a plan to increase sales growth or even survive in the new economy without first understanding why you lose orders and customers.

**ESSENTIAL QUESTION 6:  
Product costs and margins. Do you know if you are making adequate margins on each product line, model or job?**

To have a chance of competing in the new economy, you will need to find out if you are making adequate margins on each product line, model, job or service.

Many small manufacturers have good sales records but rarely keep summaries of profitability.

Maintaining detailed records on profit by customer account, product line and even product model is necessary to make customer selection decisions, to change selling and pricing strategies and to identify "product dogs" that should be dropped.

The most important reason costs and margins are important is that it is dangerous to find new customers, pursue large accounts or to bid on large projects when you do not have good cost information. (Examples of the kind of data needed are described in chapter seven in a section describing the fundamentals of designing a basic costing system.)

Once you have identified new customers and markets as described earlier, the next challenge is contacting them. The good news is that you probably now have some of the best customer and marketing information you've ever had. When you have enough information that you feel that you can answer all six questions with a "Yes," you have a good chance of setting sales and profit goals that can be attained. **P**

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