Q&A with Ralph Keller from the Association for Manufacturing Excellence and Mike McDonald of Prime Advantage Corp.

Ralph Keller is President of the Association for Manufacturing Excellence (www.ame.org), an organization dedicated to cultivating understanding, analysis and exchange of productivity methods and their successful application in the pursuit of excellence. He has been an operations practitioner for the past 35 years.

1. Surviving and finding working capital are crucial. By implementing Lean techniques, manufacturers can substantially reduce inventory, free-up floor space and convert inventory to cash that they can then use to expand their business, invest in new product development or re-invest in new equipment.
2. Re-establish trust from your workforce. Learn from Toyota's employee retention success: The concept of re-utilizing staff via cross-training versus layoffs during downtimes should be considered. Retaining and cross-training improves job skills of individuals so that when the recovery happens, and it will, companies will have a much more capable workforce to respond to customer and company needs, with more horsepower to improve the business without the expense of starting over with new employees.
3. Be flexible and nimble; the big competitive advantage is time. Whatever competitor can get the customer the product needed, configured the way

they need it, and delivered exactly when they want it, is the company that's going to win. The challenge is increasing revenues and cash flow while maintaining margins with declining pricing.

4. The future of U.S. manufacturing is new product development. Despite current economic conditions, don't put new product development on the back burner. If you do, your competitors will pick up that business. And create products at home versus 8,000 miles away: it's the commodity/mass retailer who has products that have moved overseas. Find new products to satisfy customer needs here.
5. Consider going green cautiously. Going green is something that businesses must be aware of and consider. However, with current economic conditions, it will probably get less focus in 2009. Being green is good business when you're trying to reduce costs, but not your focus when you're just trying to survive.

Mike McDonald is vice president, new business relationships, Prime Advantage Corp. Prime Advantage is dedicated to reducing the overall costs of doing business and to increasing profitability for both buyers and sellers in its private network.

As we reflect on the regular discussions we have with our 550+ industrial manufacturing members, as well as on the survey data gathered from this group in 2008, we believe that the mid-sized industrial manufacturing sector will face even greater challenges in 2009 due to the economic recession.

One issue many manufacturers are worried about in 2009 is eroding margins. Demand is down for their products and revenues are shrinking. Along with demand, prices for supplies (including raw materials) have been falling, which is typically a good thing. If price deflation on the procurement side keeps pace with shrinking demand, margins can be maintained. However, in this current environment, demand is shrinking at a faster pace than pricing, so margins are getting squeezed and EBIT, net income, and profitability are in jeopardy.

Growing pressure to cut costs highlights the need for smarter purchasing tactics. In light of this, we are seeing manufacturers leverage strategic sourcing and procurement planning in order to improve their product or service pricing flexibility.

Our members who have experienced the most success have strategically addressed pricing pressures along with asset management. Many of our suppliers offer inventory management programs, which frees up cash for manufacturers-cash they don't have to tie up in inventory. The combination of these two benefits, a lower cost structure of purchased goods, and inventory management programs, offer significant savings and flexibility for midsized industrial manufacturers.

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