Choosing Your Future

Mike Collins

Like many other recovering General Managers, I enjoy reminiscing about the good old days of manufacturing—the golden years when America dominated the world in manufacturing, and growth seemed endless. The general inference was that the markets would grow indefinitely with little competition.

Then the 1980s and 1990s brought Asian—especially Japanese and Chinese—competition, some of which was offering imitations of American products at 40 to 50 percent lower prices.

At the same time, American policies allowed the trade deficit to balloon out of control, which resulted in the loss of millions of American manufacturing jobs. All of this accelerated at the turn of the century, and globalization still seems to be developing and changing customers, markets, industries, products, and services.

A lot of manufacturers simply seem frozen in the headlights, and do not know how to react to these ongoing changes. If you are languishing in a situation where you are not growing, I always think it is best to begin some thought experiments. Here are some things to consider:

Problem: American manufacturers can’t compete with the low cost countries on price. No matter how much time and effort you put into reducing costs and waste, there is always going to be a low cost country with a lower price. If you live by price you are going to die by price.

Solution: Many progressive American manufacturers have proven we can compete on value. One example is Baldor Electric, a motor manufacturer that is totally committed to the notion of selling value, with the belief that value is something perceived differently by each customer. The core of Baldor’s strategy is contained in a general formula made up of four variables consisting of the customer’s perception of quality and support services, as well as cost and time (delivery). John McFarland, Chairman of Baldor says, “We believe that we can increase value if we increase quality and service.” Contrary to what you may hear, many customers will pay for value.

Problem: Another issue is lead time. If lead time is not an issue with the customer’s production, then foreign competitors have the edge and it is tough to compete.

Solution: But many U.S. customers operate on a just-in-time basis and they can’t live with the uncertainties of ordering overseas. Davis Tool, Hillsboro OR, decided to change their strategy by offering quick turnaround on custom or low volume jobs. They have been very successful because they selected customers who had very short lead times and did not want to rely on foreign suppliers.

Problem: I think it is safe to say that not all customers are good customers. American companies, who were the main customers for America's small and midsize supplier companies, have moved product lines overseas, built plants in foreign countries, shut down U.S. factories, and are relentlessly pressing for price reductions. In pursuing price reductions, American suppliers are coerced by the security of sales volume to give up their margins. Many of these customers are in financial trouble and could take their suppliers down with them.

Solution: Suffice it to say, getting rid of these customers and finding new customers to replace them (and new markets) is worth consideration. This will probably require reorganizing the company to become a prospector organization and to find or invent new sales channels. But it is clearly a better alternative then to hang on to bad customers who don't really care if you make a profit.

Problem: Everyone agrees that American manufacturing must be more innovative, yet few sources explain how to do it, or exactly what *innovation* means. Innovation can mean improving internal processes, but I think the biggest issue is that manufacturers need to increase the output of new products and services.

Solution: My own experience of developing new products for more then 35 years proved to me that new products that sell enough to justify the investment come from new customer needs or offering unique solutions to customer problems. This suggests that the company must devote the time to physically being in the marketplace and monitoring customer problems. If you can accomplish this customer monitoring, you will find that you can offer them creative new services.

Problem: The last consideration is to give some thought to foreign markets. Almost every European country is good at exporting (including their small manufacturers). They are good because they recognized a long time ago that they had to sell internationally. Americans have been spoiled by being located in the biggest market in the world, but now every country in the world wants to sell to the American market and every industry is being pursued by foreign competitors.

Solution: There are many market niches overseas that are just developing and can use existing U.S. products. Why not take some baby steps towards learning how to market to foreign countries?

What is unique about these ideas is that they are all external strategies. The most popular program for remaining competitive is to practice Lean manufacturing methods and continuous improvement. Continuous improvement methods have reduced cost and waste and have kept American manufacturing in the game, but Lean is an internal discipline and is not a strategy for growth. It has little to do with top line sales growth or finding new opportunities in the marketplace. Hammering away at the bottom line with continuous improvement is absolutely necessary, but if you want to create a new future for your company, you need to develop a growth plan with the new strategies.

After watching the events on Wall Street almost destroy our economy and many others around the world, I don’t think it prudent to hope for better economic times. Remember, American manufacturers have some clear advantages. We can sell value instead of low prices, we are located in the market, we can offer short lead times and customized products, and we are not dealing with the logistical problems that come with shipping products from another country. A better strategy for growth is to go on the offense, but it will take a plan that defines the right customers, new markets, products, services, and types of sales channels. It's time to create your future, rather then wait for events to create the future for you.

Mike Collins is the author of Saving American Manufacturing.