What You Need To Know To Grow

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All manufacturers want to grow, and growth usually means finding new customers and markets and then making the strategy decisions to find the new sales. 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.

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 fact, there are eight fundamental questions that need to be answered before you select a growth strategy or invest any money.

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 percentage 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.

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 keep customers and get orders to grow in the future?

6. Can you profile customers?

Industrial manufacturers don’t just need more customers, and they can usually tell you which customers on their customer list are the bad 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 have a competitive advantage and can you compare your products to the competitor’s products — 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 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.

Mike Collins is the author of Saving American Manufacturing. He can be found on the web at www.mpcmgt.com [2].

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[1] http://www.impomag.com/digital-editions/2012/06/june-2012-jobs-report-2012
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