

Making It In America: Strategic Partnerships

Mike Collins, Author, Saving American Manufacturing

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I wrote last year about the amazing Bionic Wrench and how its inventor, Dan Brown, used a unique process he calls “Differentiation by Design” to design it and get it into the market place. From the very beginning, Brown knew that he had to commercialize for the retail mass market, but he was committed to an American-made business model. This presented a significant challenge: How do you compete in a market space dominated by low cost imported products with an American-made product?

Value Added Price Strategy

Brown knew he needed to find a good vendor in the United States to manufacture the Bionic Wrench. He believed that because of the cost differences of labor and production between the mature and emerging markets, that if new value added products could be produced in the mature markets that invest in their development, there must be a robust Lean strategy from the supply chain through the distribution channels to complement a strong product experience.

Brown’s decision was based on the assumption that if your new product truly has created added value, you should be able to receive a reasonable value added price in the market and thus produce the product domestically until competition or product evolution eats away at that added value. And, as the products mature and lose their added value and become more commoditized, the domestic supply chain model will cease to be competitive. At that point you have hopefully reinvested in the next generation value added product to sustain your domestic supply model, extending your brand with the consumer.

Design for Manufacturing

As part of the process to make the Bionic Wrench in the U.S., Brown designed the wrench and prototyped it in a number of different manufacturing processes. Based on these experiments and costing out the design for the best combination of unit cost versus manufacturing investment, he determined that a “plate manufacturing” method using stamping provided the best combination of piece part cost, quality, and performance. He then focused on searching for the best American supplier that could build the tooling, and stamp and assemble the wrenches.

Brown was looking for an American manufacturer that could be a strategic partner with the following capabilities:

- The production expertise and best practices developed to provide high

quality components at competitive prices.

- The ability to build the tooling, stamp the parts, assemble the wrenches, and fulfill the orders all under one roof. He wanted to deal with one strategic supplier, not multiple supply chain management issues.
- Experience in implementing the Quality and Lean thinking systems in its own culture, so he did not have to nurture them in these areas.
- A relatively close location so that he could easily get there for meetings.

Strategic Partnership and an Agreement

Brown knew that his core competency was in design, product development, commercialization, and creating the IP to protect the investments. He also knew that he had a limited amount of investment capital, and it made no sense for him to utilize his capital to invest in manufacturing capacity that already existed in the supply chain. He saw that the best use of his capital would be to secure the patents, and develop the marketing and product launch strategies to compete in a very competitive market space.

After reviewing several other manufacturing options, he chose Penn United of Cabot, PA as his strategic partner, and developed a supply agreement where Penn United would not only design and build the tooling but also have some skin in the game and acknowledge the financial terms dictated by the mass market buyers. Specifically, the agreement required the financial resources to hold inventory, and participate in the retail trade receivables conditions of the big box retailers.

This story explains a business model of a strategic partnership based on designing new value added products that can be leveraged by other American manufacturers to develop and manufacture new products in the United States. He makes several compelling reasons for manufacturing in the U.S.:

1. Brown invented a patented product that was very unique; the patents serve to protect him from knock-offs.
2. Brown felt that a unique product should command a value added market price which would help him source domestically.
3. Because he understood the need to spend the time in the designing for manufacture process to optimize the production and ensure high quality from the start, he wanted somebody that was geographically close to him. This would save him a lot of time in getting the product to market and travel costs.
4. But perhaps the most important factor was to find another American manufacturer that could complement his expertise. Brown was the designer and marketer and united with a company that could handle all of the manufacturing under one roof. Partnering with Penn United leveraged the domestic supply chain advantages as well as their resources and investment, and the ability to participate in the credit terms demanded by the big retailers.
5. To ensure that the partnership could meet the deadlines for market entry, they needed to have absolute control of delivery time and quality. These

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risks are much higher with a new Asian supplier, and big problems during the first order could have killed the product.

The irony is that the issues of subsidies, tariffs, stealing technologies, and currency manipulation have gotten worse in China – not better. Brown believes that America’s rush to offshore products for the last 30 years in Asia, whether it made economic sense or not, has caught up with us. He thinks that more and more American consumers will see the value in American-made products, and the economic sustainability will become more of an issue for consumers. This in itself would be a strong product differentiator for us.

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