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## **Can Small Manufacturers Profit In Today's Economy?**

By Amanda Earing, News Editor  
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With the high cost of raw materials and energy, staying profitable in today's economy can be challenging, especially for small and medium-size manufacturers. But some manufacturers are seeing high revenues, especially those that have made good investments in equipment, technology and knowledgeable employees.

But in order to stay profitable, manufacturers -- like every other organization -- must practice profit-focused strategies, including a planned profit model.

"That means they need to be able to look at their capacity -- how much are they losing, cost of production, the amount of downtime, rejects and reworks, high waste, low yield, increased energy bills and increased cost of raw materials. A planned profit model takes all those problems into account," says Terence Bond, senior executive of George S May International Co.

Manufacturers need to ensure they keep up-to-date on the rises in the cost of raw materials, tracking these expenses on a daily, weekly and monthly basis.

A planned profit model can help track these costs. It looks at revenue, minus the pre-planned profit, and the difference is the expenses.

"This is different from what a lot of small and medium-sized manufacturers are doing and have been doing for years. They normally look at revenue minus expenses, equals profit, but that profit is an unknown. It's like looking in rearview mirror," says Bond.

"Manufacturers need to focus on becoming an operational model and not a financial model to ensure their company is profitable and efficient," he adds.

As a result, with a focused profit model, manufacturers should look at all aspects of their operations, from quality control to project/product genealogy. Equipment and processes should be brought online, and easily tracked in real-time, from order entry through to fulfillment.

"Everything has to be looked at and included in the planned profit model. Otherwise, if you're not building it into the cost of that manufacturing process and what you're charging to the customer, it will come out of your bottom line," says Bond.

With a planned profit model, manufacturers stay on top of their receivables, making sure they come in on time so they can reinvest in the company technologically. Bond provides an example of one such company that could benefit when the right technology solutions can help with cost savings and prevent interruptions in operations.

"We had a company with an order that cost \$60,000, but payment was held up on the order for two weeks because the shipment was missing one item: a three cent screw. And until the customer could get their inventory, payment was delayed. A three cent item delayed shipping and payment of a \$60,000 order," says Bond. As a result, the company realized solutions were needed, particularly in the form of technology that could help track orders more accurately."

There is a lot of technology available for manufacturers, including inventory and product tracking, downtime and efficiency monitoring, material controls, production and HR tracking, changeovers, running one job and changing over to the next job, product/project genealogy and online quality control.

While there are many benefits to upgrading technology, Bond advises manufacturers to be realistic with the cost involved in upgrades and their payback period.

“In these economic times, many manufacturers believe if they spend money on new equipment, they will get a payback over a period of time, but that period of time has to be realistic,” he says.

When upgrading equipment, Bond advises manufacturers to look at the project cost, what equipment is needed, the cost to get the new equipment or upgrade equipment, the benefits during the expected life of that equipment, the payback period, how long will the project run, and how it will help with the business’ cash flow.

“The estimated life of any bottom-line improvement has to be longer than the payback period. So you have to recover an investment in full, in the shortest possible period of time, and generate additional income in the future,” say Bond.

Also, when considering upgrades, manufacturers need to realize they cannot always pass on these new expenses to the buyer. Instead, they have to be able to expand their reach, including geographic and demographic reach as well as expansion of product lines. Consider, when upgrading equipment, finding machines that can be used for multiple products and can quickly be brought online when changes are made.

Another strategy to remain profitable includes varying all financial accounts. Many small accounts mean different profit margins.

“If you put all your eggs in one basket and it breaks, you have nothing else to replace it,” says Bond.

Employees are also part of maintaining profitability. Retaining employees helps keep training costs down and keeps operations running smoothly. Bond advises putting in place employee reward and recognition systems.

“Rewards cost money, but recognition cost nothing. Employee of the week, employee of the month doesn’t cost anything, but it means something and many workers will strive for that recognition.”

“A small business owner can ensure that by being specific in what actions will be recognized and reinforcing it by communicating exactly what an employee did to get that recognition, others will try to emulate them,” he says.

Besides recognition, other reward programs can help maintain employees such as variable pay, pay by performance, profit sharing and stock options.

“In large companies, stock options have become an increasingly popular option in recent years and smaller and medium-size business owners are recognizing that. Keep the people, reward them, recognize them and they’ll stay with you. This ensures you are investing in the future,” says Bond.

*George S May International Company is a full service management consulting firm addressing the needs of small and mid-sized businesses, helping them boost productivity, reduce waste, and increase profitability. For more information, visit [www.georgesmay.com](http://www.georgesmay.com)*