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# I Industry

## Contract Manufacturing

*It's an effective way to fill up your factory  
and keep your investments earning money.*

By Bradford L. Goldense

**G**lobal competition is increasing every day. To some companies it presents unlimited opportunity. To other companies it threatens unparalleled disaster. If your company is in a US industry that is being eroded by off-shore competition, or is producing products for a mature or declining market, consider providing contract manufacturing services to industries and markets that are thriving. Using such a strategy, two Massachusetts companies in the apparel and footwear industries are beginning to thrive once again.

### Fundamentals

The first rule of marketing is "no market-no sales." This is what is happening to many companies in Massachusetts and around the country today. Certain manufacturing industries such as textiles, apparel, jewelry, footwear, hollow ware, injection and insertion molding, segments of the electronics industry, and several other industries sometimes seem to be candidates for the endangered species list. Management is capable, marketing and sales personnel know their job, manufacturing produces a quality product, and financial executives can squeeze water from a rock. But, alas, the market that everyone knows well is disappearing.

The first thing to do is to analyze the cost

structure of your business. Work on trimming overhead and lowering the break-even point. Improve your productivity. Consider putting parts of the factory into "moth balls" to lower daily operating and utility costs until sales turn back up. Most companies in the endangered industries are well along in their thought and implementation process with initiatives such as these.

The second thing to do is to examine the intrinsic assets of the company. What are your company strengths and capabilities? Stop and think about what everyone really knows how to do, not what everyone has been doing. Start with your manufacturing operations. What is your equipment really capable of? Would your skilled production staff really have to stretch a lot if they were producing different products? Typically, when one examines these questions, one finds that the equipment could be used to produce a wide variety of products, and/or perform certain specific operations as a subcontractor to another company's production flow. The manufacturing staff also has lots of knowledge and is waiting for the next new challenge. Especially when the alternative is being laid off.

Once you know the capabilities of your operations, next look at marketing and sales capabilities. You will find that your resources in these functions can adapt to addressing new markets with relative ease. The key to

success in these functions is a balance between product knowledge and strong customer service. Some education and training may be needed to boost knowledge in potential new markets, but in the contract manufacturing arena product knowledge is not as key since your company is not developing and designing the product. In contract manufacturing your company is producing a product, or part of a product, that is developed by another company. The key to success here is service and quality. The essential ingredients to achieve success may largely be boiled down to one single item, "good work hygiene." In the sales and marketing function good work hygiene means solid customer service. Follow-up on leads in a timely manner. Get answers to questions and call your customer back. Make sure shipments occur on time, or notify the customer in advance that a shipment will be late.

### Contract Services

Contract services are a way of the future. There are many examples in industry today. Kodak is contracting to IBM to manage all their data centers on a contract basis. Temporary help is already the preferred approach to getting over peak loads in the financial accounting functions. More and more marketing and sales organizations are

developing relations with manufacturers representatives and other third-party marketing companies to leverage their own internal staff. Almost all advertising functions are now contracted out to companies that specifically know this business. Many companies are contracting with other companies to design their new products.

In summary, there are many reasons for a company to contract out services. Industries with large seasonal fluctuations contract out services and have been doing so for many years. Contract services reduce fixed overhead and annualized carrying costs. Contract services allow you to hire experts as you need them. The alternative is to hire a generalist and it often causes you to "make work" to keep them busy during times of low activity. Contract services also allow your customers to take orders that would put them over capacity. Often these orders get turned away because the company knows that it would not be possible to meet requested ship dates.

Once the decision has been made to investigate the possibility of providing contract manufacturing, there are six simple steps to take to identify and select the right opportunities for your company.

1. Understand Company Capabilities
2. Identify Potential Markets
3. Analyze Potential Markets
4. Screen The Markets
5. Focus On Target Market Segments
6. Actively Follow-Up Leads

This effort is centered on the manufacturing function. The key question to be answered is, "What products could our existing equipment and staff produce without significant additional investment in factory equipment and re-training of production staff?" A "brainstorming workshop" of the key people in the manufacturing engineering and production functions is a good way to get started. Asking innovative marketing

and sales personnel to participate is recommended. Get everyone together and start generating a list of products that you think you could produce. Do not attempt to think through each idea when it is generated, but simply write all ideas on a white board or sheet of paper and keep thinking.

Once the creative thoughts of the group start to fall off, move to grouping the ideas into lists that correspond to the markets that they align to. The grouping of ideas by market will probably generate new ideas and should be captured as well.

This exercise should result in identifying somewhere between forty and one hundred opportunities. These opportunities will translate into a number of different markets during the grouping exercise, probably on the order of five to fifteen new markets.

If your workshop exercise has generated a large number of markets, pre-select some number less than ten to begin the initial study. The work associated with analyzing the markets is significant and you can always investigate the other markets once the

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"best guess" group has been looked at. The same approach will apply once you have identified the best segments in each of the five or ten markets.

The next step is to segment the markets into their natural market segments. For instance, the apparel industry might be segmented into women's clothing, men's clothing, children's clothing, athletic wear, and accessories. There are tens of thousands of companies in apparel market and a somewhat more manageable number of thousands of companies in any one segment. Certainly there will always be companies that span segments. Do not worry about companies that span segments, take a segment focus.

Now head off to the library, contact industry associations, investigate market research firms that follow specific markets and or market segments. Get a grip on the overall sales revenues and profits in each segment, the growth patterns in each market and segment, and the number of companies in each segment. Analyze each of the initial markets that were selected in this manner. Identify some number of companies that you feel, or satisfactorily prove, represent each segment. Get the addresses and phone numbers of these companies, and the names of key contacts if possible. Remember that you are looking to provide contract manufacturing services and the people that approve these decisions at these companies are in the operations, engineering, or purchasing functions. Contacting sales and marketing personnel may be a good first step, but they will not make decisions in this area. ■

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