

# Operation Excellence

July 31, 2012



## “New Normal” ... is it really?

A few weeks back I had an opportunity to visit one of our reader’s facilities. The facility that I visited is a very good Midwestern manufacturing factory, which has had multigenerational ownership, and has a customer list that many would envy. Like many similar firms, it has experienced customers changing to some offshore sourcing that has resulted in domestic over capacity for the industry that it competes in. The ultimate consuming industry for most of the firm’s customers is new construction – so the company has had a “bit of bump in the road” due to the compound effect of lagging new construction and increased offshore sourcing. The president of the firm used a term that we have all heard, but prior to our discussion I hadn’t really given a lot of thought to... he described the current operating environment wondering “if we are in a new normal”.

When I look back at many of the closed factories that I am familiar with here in the upper Midwest -- many of these firms got frozen in their tracks and too willingly accepted the “new normal”. Perhaps it was inertia. Perhaps it was the belief that, “it has always come back before – it will this time too.” While this particular firm has a strong history of conservative management that has served them well, it has now experienced a multi-year decline that began before President Obama was elected to office – (I’m not being political here... just offering a relative timeline) the “new normal” certainly isn’t “new” anymore! Sadly, many firms have closed as they didn’t have the resources or staying power as this reader’s did but more importantly, they didn’t explore new market segments and new ways to compete and to exploit their productive resources.

[It was interesting that in the last month, I have also had the occasion to communicate with a former “boss”. We last worked together when he was president of a significant subsidiary of a Fortune 100 firm. He has since retired – but his lament was that the subsidiary we had worked at was now operating at volumes way below the historical sales volume levels that were achieved pre 2008. While we worked in a totally different industry than the company that I am referring to above, the intriguing point was that the percentage decline in sales was almost identical as our reader’s facility -- both have experienced reductions of 35 to 40%. Certainly not minor amounts!]

So, if we are now in a “new normal” environment where market demand is not going to return to previous levels in the foreseeable future – how do you compete?

Earlier this year, I wrote about my belief that the planning process should be more continuous --- not just a calendar event that is too often scheduled once each year. One of the elements that I really haven’t seen incorporated in the usual planning process is the question of, “how much of our theoretical capacity do we want to sell (each month)?” I believe that the more typical planning question is, “how much of our theoretical capacity can we sell?” These 2 questions are very different and may cause you to develop very different answers to the follow up question: “how are we going to accomplish this?”

The punch line on this issue is that I'm going to state that the marketing and sales departments in many of our companies are sadly deficient. Bottom line there are only 3 ways to compete in the "new normal" environment... price, quality, and lead time. Fifteen years ago, that wasn't the case... I recall participating in one turnaround effort where lead times were ridiculously long and product quality was terrible – we immediately raised prices, orders went up by a multiple of the price increase, we then implemented manufacturing practices that cut lead times by 80%, **and then finally** we fixed quality.

In today's environment, as one prospective client stated to me last week, "...if you don't have (perfect) quality (relative to your competition), ... you are back on your heels, ... you haven't got a chance...". This same prospective client also made the observation, "We are spending \$1.5M per year on an outside sales function – I'm not sure that we even need it!" Talk about a bold idea and thinking outside of the box – but in this instance he may very well be right!

Anyway, does your marketing and sales department regularly look at opportunities for market segmentation? I'm specifically referring to potential customers that might be outside of your usual markets but utilize existing assets' available capacity and generate additional Thruput \$. Can you develop compelling/unrefusable offers (aka "Mafia" offers) for these potential customers that your competitors will probably be unwilling to match?

It isn't manufacturing but as an example: Race fans: Do you remember when there was only one event held each year at the Indianapolis Motor Speedway? The Indy 500. Well, now there are 3 events, The Indy 500; The Brickyard 400 (NASCAR -- first year was 1994); and The Red Bull Indianapolis Moto GP (motorcycle racing -- first year was 2008). These events are scheduled about 6 weeks apart: Memorial Day weekend, July 4<sup>th</sup> weekend, and the middle of August. These events appeal to different market segments but utilize the same asset and most definitely charge different amounts for admission and generate additional Thruput \$.

If a potential customer would offer more detailed information about hes (being politically correct, her or his) production schedule and consumption of the products that you produce for them, might you be able to properly size a buffer in front of them that would guarantee them 100% perfect service? Could you offer a significant potential penalty that, if you ever missed a scheduled delivery (which you won't if you manage the buffer correctly), would be something that your competition wouldn't even consider matching? Perhaps to aid the customer's hesitancy to change to you as a vendor, you offer the penalty for only the first 90 or 180 days?

We have another reader that has an aircraft maintenance business. He asked the other day for ideas that he could incorporate into a presentation that he was going to make at the recent Experimental Aircraft Association Convention at Oshkosh, WI. One idea was to offer a substantial discount for a new customer's first annual aircraft inspection, if he was hired to do the pre-purchase inspection on an aircraft. As most aircraft owners understand, the first annual inspection is usually the most expensive. A pre-purchase inspection may cost \$1K. A discount of \$500 on a first annual inspection that may cost \$4K to \$15K is a pretty good deal -- and if he provides good service on that first annual, repeat business (as implied annual inspections occur every 12 months – required by regulation) is very easy to generate.

Our economy has been a disaster for almost 4 years... I don't care why, who is to blame, or whatever. But for whatever reason, as you read this today, there are several scenarios that you might find yourself in. I offer the following possibilities:

- If you are holding on, or barely surviving, it imperative that you start to think out of the box and eagerly explore different market segments and ways to make compelling offers to new clients. Ask that question: “How much of our capacity do we want to sell each month?” Challenge the marketing and sales folks with the follow up question with, “How can we do that?” Generate compelling offers to new market segments.
- If you are growing, you can probably increase prices, as the market is recognizing that you are offering superior value to your competitors. Ask yourself, “Why are we growing?” Are you growing because you are competing only on price? Very rarely do you find marketing and sales folks that are willing to raise prices. You may not have been able to generate price increases for the past several years, but competition’s capacity may have declined and you may have an unrecognized opportunity to “get some price”.
- If you don’t know what to do now... I’d suggest that you take a real hard look at your market, your offered products or services, your organization, and your business processes and practices – perhaps you don’t need that legacy sales force that only, “...carries a box of doughnuts and sticks a cigar in a customer’s mouth...”. In other words: Does everything that your organization is doing, bring value to your customer’s and your mutual desire for success, and reflect the way that business is being done today?
- Your ability to grow in market segments that have excess capacity is going to require compelling offers to new customers ... offers that that they cannot refuse.

The president of the facility I referenced in my first paragraph was correct to question “if there is a new normal”. I don’t think that there is a normal... there is only “new”. Yesterday is a ghost, tomorrow is a dream, we have to evaluate, plan, and act now.

“Profound knowledge must come from outside the system – and it must be invited in.”

--W. Edwards Deming

If you need some help in evaluating your organization’s capability to compete, survive, and thrive in the “New” (Normal) – please give us a call and invite us in.

All the best!

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