

Planning for Manufacturers

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This month's highlight in U.P. Business Today is on Manufacturing and U.P. made. These two topics are close to the hearts of many readers of this publication including the author of this article. Manufacturing is of historical importance to our region, critical to today's economy and imperative to the future development of the U.P. and the States of Michigan and Wisconsin.

Over the last several decades, our firm has interfaced with hundreds of manufacturers of all size. Throughout these interactions, we have observed a commitment to develop and manufacture quality products. However, we have also observed that business owners and leaders can become so operationally focused working in the business, they forget to set aside time to reflect and work on the business. In other words, many manufacturers tend to be good at designing, developing and making products, yet struggle with stepping back and looking at the broader picture of where their business is going and planning for the future. An example of this is a capital equipment manufacturer we served in 2007. Although the company designed and manufactured great products, they were highly focused on the whirlwind of keeping up with demand for their products, constant hiring and managing day to day operations. They left little time to think, plan and act strategically which prolonged key decisions that should have been made earlier about the direction, structure and growth of the company. As a result, the business suffered in later years due to changing market conditions.

Why do many business owners and leaders struggle with objectively reviewing their businesses and planning for the future? Based on our research, we believe there are two primary reasons for this condition:

The first reason is pretty obvious, manufactures are makers. They design, develop and make things. The skills required to do so include creativity, technical knowledge and the ability to produce and get things made. Manufacturers generally live in the tactical to produce a desired product today. Business owners and leaders of a manufacturing company are primarily operationally focused.

The other reason why many manufactures struggle with planning can be traced back to the core beliefs about planning which may be held by a business owner or primary leader. Reasons we have heard for planning avoidance include "planning isn't effective because plans always change" while others have believed that planning is restrictive, lacking in flexibility and inhibitive of freedom and creativity. We often observe these beliefs in organizations where managed chaos reigns and where firefighting preventable problems keeps everyone on their toes. Accompanying these beliefs is often a high degree of manufactured waste, a lack of organizational efficiency and a management team that is often fractured, not aligned and who often employ the blame game. The cost of such to an organization can equate to 3-5% or more of profit margin, which depending on the size company, could equate to millions of dollars in lost profit.

Although many manufacturers are overly operationally focused and generally avoid planning, there are some that practice taking time each year to reflect on their businesses, where they are going and how to get there through regular planning. We were exposed to one such manufacture in 2005. The company was an automotive supplier of specialty machined alloys near Chicago, IL. The economics of their business had been deteriorating for a while and a strategic decision was made to pivot away from the automotive market into the medical device market where value could be better realized from their ability to develop proprietary alloys. Within 5 years of committed effort, the market transition was complete and today the business is diversified. Ironically, the very reasons stated above for avoiding planning within many manufacturers, including restriction, inflexibility, lack of freedom and creativity, were not experienced by our client and to the contrary, had they stayed in their original market space they would have experienced all of these challenges.

The month of December and year end provides an ideal time to reconsider your core beliefs about planning and the amount of time you regularly devote to such work. December also allows us to practically experience the results of planning as we celebrate the season of Christmas. The birth of Jesus Christ was foretold by the prophet Isaiah more than 700 years earlier and is just one of an estimated 300-500+ messianic predictions in the Old Testament. This points to a grand plan of freedom and eternal life extended to all humanity that is thousands of years old. Perhaps if the creator plans and does so with that type of time horizon, having a plan for our businesses over the next one, three and five years is a wise thing to do.

Jeff Ketchum is a 20-year resident of the Upper Peninsula and the Founder and President of several U.P. based small businesses. One of them, Lordstone Business Advisors, Inc., helps guide small business owners (\$1M - \$50M) who are looking to grow their business through effective planning, hiring, leadership development and execution.