

Adding Substance to Your Business Philosophy

Mike Collins, Saving American Manufacturing

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In the last 30 years, a focus on operations has allowed American manufacturing to do very well in terms of cost reduction, productivity, and internal efficiencies.

The problem is that American manufacturing is not growing in terms of percentage of GDP, number of employees, number of plants, and — in many cases — sales revenue.

These businesses are very good at the internal and tangible issues inside the manufacturing plant, but are not very good at external issues relating to finding new markets and customers. For a variety of reasons they struggle at industrial marketing.

In 1970, I was doing graduate work in industrial market research and came across an article in *The Harvard Business Review* by Charles Ames, called “Trappings vs. Substance in Industrial Marketing.” Ames makes the case that most industrial companies are operations-oriented rather than market-oriented, which is the difference between successful and growing companies and all other industrial companies.

I don't think much has changed since Charles Ames wrote this significant article. Most manufacturers have marketing departments or some kind of marketing function. Sometimes marketing is just another name for sales, or it is a person who does the advertising, promotion, brochures, website, and lead generation — the trappings, not substance, of industrial marketing.

The substance, as Ames described, is a business philosophy driven by the markets and customers. I describe the substance as a way of growing by continuously finding new customers and market opportunities and to invent the new products

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and services that will give the company an ongoing competitive advantage. In short, the substance is defining where the company will go in the marketplace and how it will achieve the growth it wants.

In order to help drive this, I have provided a simple checklist of six essential questions:

1. Can you identify the best customers, now and in the future?

Really knowing your customers is absolutely vital to everything else you do. Selecting new customers and markets will drive decisions and changes to products, services, organization, and manufacturing.

2. Do you know which market niches (customer groups) to focus on now and in the future?

I don't mean by industry. I mean by specific market niche which defines the customer's business in terms of an SIC Code. The reason is simple: If you can figure out the SIC Code of a good customer, you can look up all of the other potential customers in the same niche and target them. If you leave this task up to the sales reps they will be forced to use "shotgun selling," where any customer is a good customer.

3. Do you know what kinds of products and services they want?

Developing a systematic way of monitoring customers is how you will find ideas for new products, services, and upcoming projects. Monitoring customers is almost always the key to success in increasing sales and finding market opportunities, regardless of whether it is something you're naturally good at or it feels like pulling teeth. It can be difficult because customers are external to the situation and not easy to monitor, but it must be done if you are to compete in a changing economy.

4. Can you compare your products - model by model - to your competitor's products in terms of price, delivery, and key features?

Competitive intelligence information is important because it shows you whether you have a competitive advantage. Many job shops and product manufacturers find themselves trapped in competitive situations where they have little competitive advantage and dwindling profits. In this situation the sales rep is trapped with very little to sell. It is up to the manufacturer to find out how the company can differentiate its products and services from the competition well enough to gain a competitive advantage and grow the business.

5. Do you know the specific reasons you lost orders to competitors for every known lost order in the last year?

One of the best indicators of whether a marketing or sales program is working is the ratio of orders to lost orders. Knowing why customers buy or don't buy is vital to any growth plan. The reasoning is simple — it is difficult to know what to do to prevent future lost orders or lost customers if you don't know why you are losing current customers and orders.

6. Do you know if you are making adequate margins on each product line, model, or job?

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Many small manufacturers have good sales records but rarely keep summaries of profitability. Maintaining detailed records on profit by customer account, product line, product model, and work order is necessary to make customer selection decisions, to change selling and pricing strategies, and to identify “product dogs” that should be dropped. But, most importantly, it is dangerous to go after large accounts or to bid on large projects when you do not have good cost information.

Conclusion

If you can't answer some or all of these questions, you are probably engaging in the trappings rather than the substance of industrial marketing. The fact is that American manufacturers are still operations-oriented and not market-oriented. They have done a great job of lowering costs, improving quality, and using continuous improvement techniques to keep manufacturing in the game. But if manufacturing is not growing in terms of jobs, locations, or percentage of GDP or sales, then the industry needs to transition from operations- to market-oriented companies just as Charles Ames suggested 43 years ago.

Michael Collins is the author of the Growth Planning Handbook for SMMS. You can find him on the web at www.mpcmgt.com [2].

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