



# Performance NOW - Manufacturing

## Keys to Increasing Market Share and Improving Profitability

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One of the largest components of the United States economy, the domestic manufacturing sector has experienced the same trauma over the past three years that the service, technology, and other major sectors have gone through. The near-collapse of the domestic auto industry and the dramatic downturn in the housing sector pushed an already precarious manufacturing sector to the brink from 2007 through 2009.

Recent data suggests that the manufacturing sector, while hardly healthy, has started to experience a modest turnaround. The Institute for Supply Management purchasing managers index rose to 59.7 in May before declining 3.5 to 56.2 in June. May's 59.7 was the highest level since April 2006 and the 13th consecutive month of improvement. Acknowledging that the base from which manufacturing is operating is severely depressed, these findings are optimistic for the near-term future.

The manner in which manufacturing firms survive recessions and come out stronger on the other end is the subject of extensive research. Recent studies from the Harvard Business Review and McKinsey & Company provide a glimpse of how the most successful manufacturing firms come out of recessions positioned to increase market share and improve profitability:

### ***Examination of Business Model***

Not unlike firms in other sectors, manufacturing oriented firms that diligently and harshly analyze every aspect of their business model during downturns in the economy are at a distinct advantage. The ability of management to analyze and then re-analyze all aspects of the manufacturing process, from procurement of raw materials to the workings of the shop floor, is a key ingredient of success.

### ***Reduced Expenses Through Improved Operational Efficiency***

Manufacturing firms should focus extensively on reduction of variable and fixed expenses through improving operational efficiency during a recessionary period. While overhead and other non-manufacturing related costs are likely to be reduced under the direction of senior management, operating management also needs to do its part by improving operational efficiency during this period.

### ***Investment of Capital in Under-Priced Assets***

Not surprisingly, firms with sufficient capital bases use downturns in the economy to purchase property, plant, and equipment at significantly reduced prices. This allows manufacturing firms to re-engineer inefficient processes while also generating relatively higher returns due to the low cost basis of the purchased assets.

### ***Increased or Constant Spending on Research and Development***

A constant theme of manufacturing firms which are ready for post-recession economic conditions are companies that maintained or even increased R&D expenses during the downturn. The better companies understand that research and development capital is essential to the long-term viability of an enterprise and do not touch this sacred area during recessionary periods.

As the country looks to inch its way out of one of the worst recessions since the Great Depression, manufacturing can play a leading role in the recovery. Undertaking the steps noted above and expanding these actions into new areas of business, both geographically and from a product perspective, will allow domestic manufacturing companies to thrive in the post-recessionary climate.

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