Some simple actions to help in the downturn

When one looks at the manufacturers who survived and positioned themselves well in past downturns, the most effective approaches were similar. Here are several time-tested survival strategies for manufacturers that could provide a bridge over short-term troubles and simultaneously build long-term competitive advantage.

Look beyond the crisis. The most important part of a downturn strategy is to examine your current and future company and industry position, and your product mix in light of that position. Can you come out of this as the low-cost producer with advantages of scale? Which competitors, customers, or suppliers might fail, and what does this imply for where to expand or contract product lines? Investigate where you can cancel or delay product and manufacturing investments, versus where you need to play more aggressively to win. It will be impossible to know how to take some of the other necessary steps if you do not know where you can win.

Improve your product mix and profitability. With reduced demand in many areas, some products that were profitable just became money-losers. Non-strategic customers or those that have de-sourced you may be targets for hefty price increases during the transition. Conversely, if you have a market advantage, outpace your competitors by selling upgraded products at a slightly lower price than you would normally consider. This may also be the time to rationalize product lines and take out items that are complex to produce, especially if customers will no longer pay for them. Remember that complexity is often a driver of overhead costs.

Free up cash. Cash costs have gone up dramatically. Postpone nonessential investments and cancel projects that are no longer viable. Adjust capacity and inventory levels for decreased demand, moving rapidly to analytical targets based on the newer, much lower, consumer demand. Ensure that accounts payable and receivable are in line with your industry’s norms; track changes in customer credit. Retailers and other business customers will most likely be willing to pay more for faster cycle times because their demand is also uncertain.

Rationalize overhead costs. Match so-called fixed staffing needs to new workloads. For plants that have shrunk in size, combine senior-level job functions like plant management, HR, finance, and engineering across plants. Aggressively reduce materials handling, quality, and maintenance activity while retaining the most skilled maintenance people. The greatest gains can be achieved by reducing the number of layers between the CEO and the factory floor.

Reduce capacity. This is one of the most difficult levers to pull, but it is essential for conserving cash. Eliminate shifts where slow sales have severely cut into production. In-source production to fill unused capacity. Consider combining some plants with those of competitors. But keep an eye on the most likely places for post-downturn demand; make sure that you retain productive factories there, prepared to fill the void left by competitors who will have exited the market or slashed production.

Improve productivity for direct and indirect labour. Cross-train factory staff for increased flexibility in response to fluctuating demand. Use overtime and weekend schedules to substitute for unneeded full shifts.

Reduce wages, benefits, and raw materials costs. Previous run-ups in labour costs may not have been justified, and many would rather keep their jobs at a lower wage than lose them. Remember the need for tremendous leadership as you embark on this path. Also, commodity prices are lower, which offers an opportunity to examine cost models and possibly rejigger raw material purchasing strategies. Renegotiate long-term contracts, readjust hedges, and switch to lower-cost materials that do not compromise product value.

Deshel can help provide the interim support that a company to weather the downturn

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