

“Business models based on financial leverage will struggle to succeed in this new economic order.”



EDITORIAL BRAD F. KUVIN

Manufacturing Will Never be the Same

A friend who works in middle management for an automotive supplier, and who used to travel quite frequently to the company’s plants in Mexico and Europe, recently told me that regardless of how soon and strong recovery comes, travel budgets at his company (and others in the automotive industry, I presume) will never return to their former levels. And, as far as that expensive company-paid 4G wireless cell-phone package he once had, you might as well forget about that as well, he was told.

Hearing those comments sounded an alarm that, like most alarms, awakened me to a harsh and stark reality. I immediately thought back to an article I’d read nearly a year ago, when for many of us the pace of economic retreat was at its quickest. The article, written by Ian Davis, managing director of McKinsey & Company, discussed the realities of a pending and, at that time, far-off recovery. Now, several months later as we sit on what appears to be the leading edge of recovery, many manufacturers are diligently preparing for tomorrow’s altered business landscape —what Davis calls “the new normal.”

You should read Davis’ article in its entirety, at www.mckinseyquarterly.com. But the main point, if I may paraphrase a bit, is this: Companies that increase their key profitability ratios such as profit margin, return on assets and return on equity the old-fashioned way—through real productivity gains—will be rewarded.

So, we can predict that manufacturers will never be able to run their companies as before, and that business models based on financial leverage—or debt—will struggle to succeed in this new economic order. Commenting on the McKinsey article, Plante & Moran

managing partner Rich Antonini wrote recently (on MLive.com) that, “Manufacturers have begun to think about how things will be different when the economy turns and things get back to normal. But what is the new normal?”

Unfortunately, some of the new challenges created by the economic crisis will remain, even upon recovery. Antonini predicts, for example, that obtaining raw materials will continue to prove challenging. As such, metalformers would be wise to strengthen their relationships with suppliers and also learn to better anticipate their own raw-material needs.

Also, forget about forecasts in terms of developing work schedules. Instead, staying extremely close with your customers in order to accurately gauge and predict their rapidly changing part demands will become paramount.

And so, the common thread that connects the old way of doing things to the new is the relationships that bond metalformers to their suppliers and their customers. How, why and where we manufacture will never be the same. But success always has, and always will, depend on the relationships that bind our industry together.

A handwritten signature in black ink that reads "Brad F. Kuvin". The signature is written in a cursive, slightly slanted style.

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