

Small, midsize manufacturers face complex market

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In the seminars Michael Collins does for manufacturers, his “industrial coupon ad” always gets a laugh. Designed to look like the ubiquitous consumer product coupon that runs in national magazines, it reads:

“Yes, I am interested in solving the sheet packaging problems in my paper mill. Please send me a Model 2000 sheeter. My check for \$2 million is enclosed. I accept your offer to provide two servicemen at \$1,000 per day for 10 months to install and test the equipment. If it does not perform as agreed, I may return the equipment in 10 truckloads for a full refund.”

The phony ad makes a serious point -- that industrial marketing is vastly different than marketing for consumer products. Collins, a nationally known manufacturing consultant, author and product manager at Columbia Machine company in Vancouver, Wash., led a seminar in Richland this month about how manufacturers can find new customers and markets.

“Industrial marketing typically involves very complex, technical products and services that require extremely knowledgeable sales people,” Collins said. “You’re selling to sophisticated buyer teams, usually on a bid and price quote system. There’s a long lead time for sales, often from one to three years after the first contact.”

On top of these complexities is a tougher business environment for small and mid-size manufacturers, which Collins calls the new industrial revolution. The nation’s largest 200 manufacturers are making 40 percent of industrial products, he said. And larger manufacturers are reducing the number of smaller manufacturing suppliers they use, which means “more vendors are chasing fewer customers,” he said. Customers also are demanding higher quality, price discounts, customized products, faster delivery and even worker training on the equipment they’re buying.

Some manufacturers respond by resorting to what Collins calls shotgun marketing, or selling anything to anyone. “Their goal is increased sales without regard to profitability,” he said. This haphazard approach leads to low repeat business, customer service problems and erratic profits, he warned.

Instead, Collins advises manufacturers to use data to make strategic marketing decisions. “It’s not true that every customer is a good customer,” he said. He recommends using a sales history to find out whether you’re making a profit on each customer.

Consider dropping the unprofitable ones, he said, or make plans to turn the situation around.

Collins also advocates keeping a customer database by Standard Industrial Classification (SIC) code, the national numerical index of businesses categorized by product and service. Seeing which industries are buying your product allows you to target certain markets, he said. “It may even reveal some new markets where your product is being used in a way you hadn’t thought of, he added.

Another tool is analyzing lost orders from existing customers and price quotes that didn’t translate into sales. “If your estimating department does 50 price quotes per year at \$500 per quote with a ten percent success rate, that means you’re spending

\$225,000 on unsuccessful quoting,” Collins said. Find out why you didn’t get the orders and make whatever changes are necessary to improve, he said.

Use your salespeople to dig up new market opportunities, and create incentives by making it part of their sales compensation, Collins said. By talking with customers and prospects, salespeople can discover unmet needs. “These can lead to a product improvement or even a new product, service or market,” he said.

You must understand how existing customers view you, Collins said. Randomly call customers to find out where you can improve. For a real eye-opener, Collins created a one-page form he calls the acid test, “where customers are asked to rate you--along with your top three competitors--on product, service, price and quality.”

Your most valuable customers deserve special treatment, Collins said. In industrial markets, 80 percent of the volume comes from just 20 percent of customers. He advises every manager and owner to call on key customers in person from time to time. It’s important for executives to hear directly from the marketplace, he said, “or else they tend to get insulated and complacent.”

Washington Manufacturing Services, an organization that helps manufacturers become more competitive, sponsored the Richland seminar. To arrange customized evaluations of manufacturing businesses, contact Gary A. White at gawhite@tricity.wsu.edu or 372-7614.

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