

# The Manufacturing Leader

Perspectives for small and mid-size manufacturers

## Personal Note:

From Rob Tracy

Welcome to Issue #4 of *The Manufacturing Leader*. It's now 2021, and I think we're all glad that 2020 is behind us. Time marches on, and we're seeing signs that we may settle into a newer, better, normal where it is safe and acceptable to see family, friends and colleagues.

With this issue, we're announcing the launch of a podcast to complement the newsletter. The podcast, which airs weekly, will interview the people that have written articles for this newsletter, and we'll do a deeper dive into the topics.

The name of the podcast is The Manufacturing Exchange, and you can find it wherever you get your audio. If you prefer, you can just go to [website: https://themanufacturingexchange.com](https://themanufacturingexchange.com), and you will find subscription links, or you can listen right from that webpage.

Please subscribe and share it with others that you think may enjoy it.

We're now in our 2nd quarter of publication, and it's a learning venture. Please share your thoughts and feedback with me.



## Is Your Strategy Still Solid? Nine Considerations for 2021 and Beyond.

By Rob Tracy

2020 is in the books, and the deployment of a vaccine has begun. We have spent much of the last year rolling with the punches. Some organizations faced precipitous drops in volume, while others struggled to keep up with demand. We were reactionary, responding to the changes and challenges as they hit us, one wave after another.

It's now 2021, and there is a light at the end of the pandemic tunnel. Some things may return to how they were before March 2020, but other shifts have been rapid and permanent.

Now is an excellent time to dust off your strategic plan and tweak it to face our new landscape's realities. Here are nine topics to spur your thinking:

### 1. Supply chain resilience

Many organizations were hurt last year due to fragile supply chains that were overly concentrated. Do your customers plan to build a more resilient or flexible supply chain? How will this impact you, and your supply chain?

### 2. Market shifts

Did your market see a dramatic shift in 2020? How did 2020 change consumer preferences? What does it mean to your business?

### 3. Remote work

Work-from-anywhere leaped forward in 2020 out of necessity, and I don't think that toothpaste is going back in the tube. How does this impact the future of your workspace, culture, and workplace policies?

### 4. Sales and marketing approaches

We've gone a year without trade shows and in-person sales visits. What does the future of sales and marketing look like for your organization? Should you switch away from a geographically structured sales force? Have trade shows become passé while content-based marketing approaches become more relevant and essential?

### 5. Balance sheet strength

How does your balance sheet look after 2020? Is repair work needed? How does this impact your plans for capital investment and growth?

### 6. Industry 4.0

Honestly, I haven't paid much attention to Industry 4.0 because I have perceived it as both academic and only relevant to the mega-corps. I have started to shift my view, and I think it's worth understanding and building into a long-range plan.

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### Expecting More from your Annual Audit

By Christopher Weaver and Kevin Cooke

Many manufacturing executives consider their annual audit to be a process that adds little value and distracts from management's priorities. However, despite required and time-consuming procedures that are part of every audit due to professional standards, a good auditor can tailor the process based upon your needs and provide valuable insights to your leaders. How do you achieve that?

#### Reset your (and your auditor's) thinking

You're accustomed to providing a product to your customers, but they don't purchase blindly. They expect value and price increases to be justified. Now think about your relationship with your auditor. Are you receiving value or just routine checks of the numbers and annual fee increases?

Part of expecting more is asking for it. If you don't express your goals, then your auditor may assume you're receiving what you need. Auditors spend their days examining the inner workings of many different businesses, giving them a unique perspective both high above the trees and down in the weeds. That perspective can be used in a way that both satisfies audit objectives and deepens your understanding of your business and industry. Consider making the following requests.

#### Engage in the planning process

Ask for a planning meeting to discuss the upcoming audit and share concerns or issues that may

be on your mind. Your auditors will be engaging with your team and reviewing all aspects of your operations in the coming months. Let them know about the areas where you'd like their insight.

#### Request a closing meeting to review findings

Ask for a closing meeting at the end of the audit to discuss those same issues and how your performance compares to industry peers. Their observations can help your team see things through a different lens, leading to new ideas, innovation, and improvement.

#### Is it really that simple?

Yes, but that doesn't mean it's easy. With that in mind, here are some sample discussion topics specific to manufacturers:

- Working capital efficiency – Excess working capital has a cost over time but can often be improved with focused efforts. Specific questions might include:
  - How does our inventory turnover (raw material, WIP, finished goods) compare to industry averages?
  - How does our receivables collection (days sales outstanding, e.g.) compare to our stated terms?
  - How does our cash cycle compare to others in our industry?
- Profitability – What really drives your profitability? For many manufacturers, there's a disconnect between job-level profit measurement and the bottom line. Aligning the perspectives of sales, operations, and finance around the elements

that drive profitability can pay big dividends.

- Capacity management – Capacity management not only impacts how inventories are valued and costing rates are set; it may also be the single largest driver of profitability. If you aren't already collecting objective data in this area, ask your auditor about the metrics they used during the audit process, and the metrics used by other companies.
- Capital structure – For a privately-held business, the right capital structure is critical to striking a balance between risk and return. Too much debt can increase risk; too little can limit opportunities. Ask your auditor for industry benchmarks to help guide you to a balanced approach.

#### Expect more, receive more

The above won't necessarily make your annual audit any more enjoyable, but it can certainly increase the effectiveness and benefits of the time and money you're investing in the process. Your auditor can be a valuable resource – you just have to ask them to help you.

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# The Manufacturing Leader

## Perspectives for small and mid-size manufacturers

### Growing Your Company Means Growing Your Salespeople

By Mike Braun

The success of your sales team can impact the success of your whole business. Here are three common Challenges we see arise within your sales team when you are trying to grow your company.

#### Open Territories and Positions

According to Repsly, "64 percent of organizations feel they are either ineffective (31%) or only somewhat effective (33%) at territory design." Open Sales Territories or positions are among the most common factors that hurt companies' ability to grow. When no one is calling on the customer, the chances of them growing is about zero. When there are not enough people to take advantage of the opportunities available, you lose revenue.

If you have open positions, get them filled. The longer a job is available, the more opportunity you create for a competitor.

You'll want to field the team first and then upgrade and improve it continuously.

#### Enough Salespeople

To grow your business, you need to have the right amount of salespeople. You can ask your team to sell a million more in 2021, but unless you take into account their sales capacity, they won't be able to hit that goal.

Sales Capacity is the average

amount of revenue/margin your salespeople should be able to bring in at any given point. Knowing your team's capacity allows you to create the space required to generate more leads, close more deals, and manage time more effectively.

Make sure you and your sales leader sit down with your superstars and explain that you understand that they have developed these opportunities initially but, to grow, assignments sometimes need to change.

If you do your research, set expectations early, listen to what your team has said, be mindful of strong customer relationships, and create a fair and open transition plan. This will allow you to grow your company even quicker.

#### The Right Type of Salespeople

Although two classic types of salespeople are often categorized as hunters or farmers. Hunters – go out and find new clients. Farmers - grow existing accounts. You need both types to grow your company.

Hunters are also known as the go-getters. They get their sales energy through "hunting" or the thrill of chasing new opportunities.

However, if you only have "hunters," you will often find yourself with a retention problem. You will always need to keep finding new business, and customer relationships can sometimes suffer. According to Convince and Convert, "79% of marketing leads never convert

into sales. Lack of lead nurturing is the common cause of this poor performance."

In contrast to the hunters, farmers are more focused on developing long-term relationships and find ways to expand within them.

If you only have "farmers," you will find yourself unable to fill your pipeline, smaller deal sizes, and no new market growth. This can create an annuity effect where the salesperson is happy and busy managing their accounts while the company ceases to grow. According to Small Biz Genius, "82% of businesses that fail do so because of cash flow problems."

It would be best to find a balance within your company between farmers and hunters to maximize your growth.

#### In The End

To grow your company, you need to focus on filling open positions "field the team," increasing your overall capacity to make enough space for pursuit work toward an appropriate balance between farmers and hunters.

*About the author: Mike Braun is a founder and co-owner of Pivotal Advisors. A sales execution firm dedicated to building the best sales organizations on the planet. Over the past 30 years, Mike has had the opportunity to provide hundreds of organizations with methods and strategies to achieve consistent sales growth.*

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# The Manufacturing Leader

## Perspectives for small and mid-size manufacturers

### Developing a Winning Automation Strategy

By Paul Neblock

Many manufacturers are starting to turn to automation to address increasing competition and a lack of skilled production workers. COVID and retiring Baby Boomers have exacerbated the labor shortage and made a more urgent issue.

Most manufacturers do not have an automation strategy. This gap in planning results in failed projects, lost improvement opportunities, and disappointment with automation from business owners. Having a well thought out strategy that is implemented vigorously ensures increased competitiveness and growth opportunities.

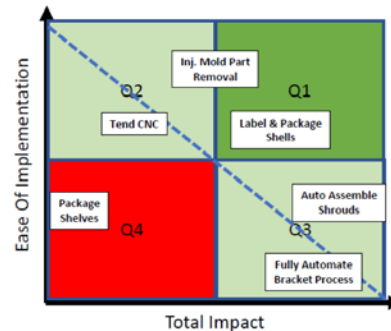
#### Steps to Create an Automation Strategy?

##### Secure Experienced Technical Resources

An automation strategy is similar to an Information Technology Strategy in that it requires special technical knowledge to evaluate processes, develop alternative solutions, estimate impacts, and assess implementation risks. As a small or mid-size manufacturer, you will likely not have all of the expertise in-house that you'll need. For this effort an experienced third party should be actively involved. This person should be able to advise the executive team about, automation alternatives, risks, and required organizational support.

##### Identify and Prioritize Improvement Opportunities

Analyze the product groups, process flows, and performance related data to identify and prioritize improvement opportunities. Identifying likely project risks, assessing process variability, and contacting potential automation suppliers for feasible solutions should be part of this effort.



A four-quadrant prioritization map can be used to compare and contrast opportunities in a facilitated team meeting. Project risks should be included in any rating of Ease of Implementation.

##### Determine Support Skills and Resources for Success

Introducing automation for the first time can be quite painful if key process insights and support elements are not in place. Part and process variability must be characterized and controlled, equipment, molds, dies, and fixtures must be maintained to a high level, and the automation itself requires routine maintenance and programming.

Specific skills are needed for each

of these areas and may not be in the current organization. Ignoring these or under-investing in support can cause project failure with a large loss of investment.

##### Build a Pro-Forma Financial Model

This should include each improvement opportunity, the estimated investments, additional support resources, and projected impact on KPIs. This forms the baseline for measuring actual performance once the strategy is implemented. Leading firms build this projection into the budget once the funding has been approved and project timing finalized.

##### Finalize and Integrate with Other Initiatives

Once this hard work is done it is critical to summarize the strategy and communicate how it supports and is integrated with other key business imperatives such as Continuous Improvement, New Products, or business expansion.

##### In Summary

Before diving into an expensive and risk automation initiative, step back and examine your strategy and its key elements. Most risks can be avoided and project success assured by following this proven process.

*About the Author – Paul Neblock is Partner at APEX Management Partners, LLC with 30+ years of experience implementing automation strategies Paul@apexmanagementpartners.net 847-558-9008*

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## Perspectives for small and mid-size manufacturers

### Practical advice for mid-market manufacturers embarking on a digitization strategy

By Martin Cloake

One of the best things about the time I spent in my early career, working at a mid-sized manufacturing plant, was how simple it was to get things done. Once plant leadership and the operators were on board with a plan, the only thing holding me back was having enough hours in a day.

Although I am proud of our technology at Raven, I know that the real results and improvement depend on the teams' actions on the shop floor—not our technology. Technology can only help if a strong continuous improvement culture exists. It's a tool, not a magic wand. If you're implementing new tech at your plant and are worried about getting a good return on investment, here are a few hard-earned tips to remember.

#### **Focus on the goal – rapid improvement**

Disregarding Industry 4.0 and other tech trends like AI, IoT, and the cloud feels like a risky proposition today; but hanging back from the rush for innovation may be the best choice in many cases. The consequences of a large, unsuccessful digital transformation project can be catastrophic both financially and culturally.

Over-scoping technology projects comes from an obsession with technology. Some people become so enamored with the technology that they lose sight of the goal. The goal is not to digitally transform; our goal is to accelerate

improvement. Technology can help, but it's a vehicle, not the destination.

#### **Start small and keep it simple**

When implementing new technology, start simply, and get operators engaged from the start. Make the initial implementation so easy that there is virtually no learning curve and operators are the ones pushing for more features and functionality.

The key is for operators to see that the tool is theirs to wield. Once they realize that highlighting the issues with data forces their leaders to fix problems, you'll have their genuine buy-in.

#### **Create a culture of CI & engagement**

It's easy to get obsessed with KPIs and metrics, especially when these are the initiative's benchmarks of success or failure. We need to remember that a healthy process predicts good performance, and an unhealthy process predicts poor performance.

When it comes to continuous improvement, the best way to measure the health of the process is to see what actions people are taking. Are managers attending standups? Are daily boards being maintained? Is 5S being maintained? Are operators labeling downtime events? Is maintenance responding to alerts?

If these things are happening, it is highly likely that your KPIs will also be going in the right direction.

Once the KPIs start going in the right direction, expansion of the initiative is the natural next step.

#### **Stop calling it digital transformation**

For many of us, investing in digitization can seem daunting. Fortunately, medium-sized manufacturers don't need to invest hundreds of thousands of dollars to see the value. If we invest in our continuous improvement culture, our teams will demand better tools to help them find and solve problems more effectively.

1. Start small, accelerate fast
2. Focus on engagement
3. Hold your technology provider accountable to produce ROI

Manufacturing is still fundamentally a people business. If you have a good CI culture, then consider bringing in digital tools to help them be more effective. If your CI culture needs help, fix that first before investing in technology.

*Martin is the CEO and Co-founder of Raven.ai. Raven.ai's platform delivers increased profits and 10X+ ROI to top global manufacturers by guiding actions with real-time insights. Martin is a Mechanical Engineer, an experienced executive, and an award-winning technology entrepreneur.*

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*Nine Considerations for 2021 Strategy*

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Companies like [Raven.ai](#) are making advanced intelligence technologies approachable and affordable for smaller manufacturers.

### 7. Acquisitions

Were acquisitions part of your plan before 2020? With all that has occurred, how should they fit into your future? Acquisitions tend to be big bets that can take years to execute and even longer to unwind if things don't pan out well. Now is a great time to reflect on your acquisition strategy to determine if a new direction is appropriate.

### 8. Ownership transition

Most small and mid-size manufacturers have an end-game in mind. It may involve transitioning the business to the next generation, selling to a strategic buyer or private equity group, or even an ESOP. Has 2020 shifted your thinking or timetable? You'll want to start preparing years in advance for an ownership transition.

### 9. Social norms

The pandemic took the headlines in 2020, but social unrest was close behind. Are social issues shaping your company and strategy? Should they? This is a difficult topic, and I think today's hypersensitivity and cancel-culture has done more to quash conversation than to enable it. However, your

employees will want to know where you stand relative to social issues.

You may find that your strategic plan is in perfect working order, and the events of the last year were nothing more than nauseating turbulence. On the other hand, you may find that there are elements of the strategic plan that require substantial rethinking. There is no time better than the present to do the hard work to chart a better course.

*About the author: Rob is a consultant that focuses on helping leaders of small and mid-size manufacturers address their biggest challenges and achieve their goals. He specializes in custom-tailored operating systems and strategic consulting. He can be reached at 651-398-9280 and [rob@robtracy.net](mailto:rob@robtracy.net)*

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## Favorite Books of 2020

*By Rob Tracy*

There's a change underway. A couple of years ago, I would have been sorting through my long reading list to select the very crème de la crème for a 'best of' list. However, this year when I perused my list, the number of books that I read was down quite a bit. In 2020, I read more fiction, and I listened to more podcasts. Perhaps my choices were a way of escaping the mess that was 2020, or maybe the way that I consume information is changing. We'll need to see if this is a permanent shift. Next year, this list may include my favorite podcasts, blogs, and Youtube channels rather than being solely focused on books.

Even with a drop in my book consumption, there was one book that I can heartily recommend:

### **Atomic Habits, by James Clear**

*Atomic Habits* guides you through the process of breaking bad habits and creating better ones - one small step at a time. I read the book through two lenses - a personal lens and a professional one. Mr. Clear gives practical advice to address your personal habits, and we all have habits that need tweaking.

From a business perspective, the book made me think about how we go about making changes in our organizations. In many cases,

we just expect people to change their behaviors, some of which are deeply engrained. And when people struggle to change, we label them as resistors, or worse yet, we truncate their careers.

When someone on our team is struggling to change, it might serve us well to reflect on our own struggles to change our behaviors.

Now, I'm off to the gym for at least the next three weeks.