Ideational Item

Re-industrialization on the Micro Scale

F. D. Buggie

Frederick D. Buggie is president of Strategic Innovations, Inc. in Wilton, Connecticut, and the author of a forthcoming book, *New Product Development Strategies,* to be published by Amacom in September 1981.

The bottom line is that any manufacturing firm is committed to the technology, production facilities, and processes which it already possesses—*not* to a market or a particular product line.

Nobody takes exception to the proposition that a company—*any* company—exists to serve its market. Further, we are admonished not to be near-sighted as to what or who our market *is*. The classic example of "marketing myopia" is the railroad companies, which should have perceived themselves, a half-century ago, as being "not in the railroad business but in the transportation business." In which case, of course, the railroad companies, in the early thirties, should have entered the trucking business and the airline industry as well.

I think not. I'd like to offer some leavening to that philosophy, from a pragmatic viewpoint, defining the "last" to which an individual company should stick—especially in these times—and at the same time assuaging the consciences of chief executive officers who have been feeling a little guilty about their lack of grandiose plans.

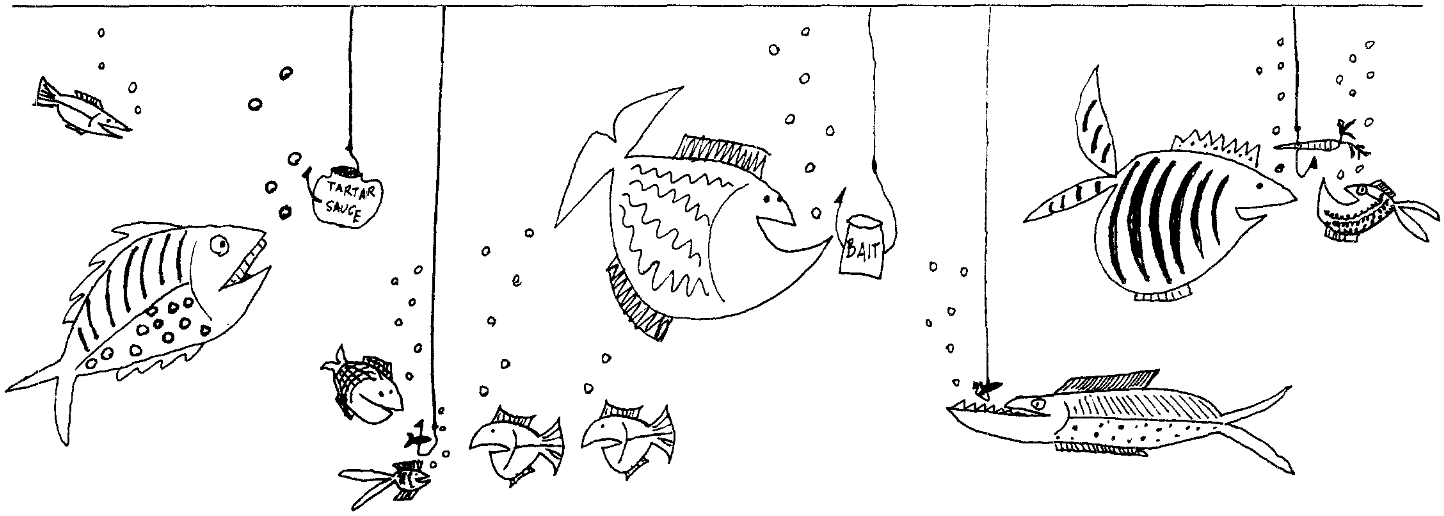
The following applies to manufacturing companies, and particularly to capital-intensive manufacturing companies. My main assumption—and this makes my point in advance—is that *producing* is capital intensive . . . *selling* is not.

Manufacturing companies, to a greater or lesser extent, have invested heavily in the machinery, material handling systems, and other supporting capital equipment, to produce their current products. Before that kind of investment decision is made, there is much planning, analyzing, predicting/forecasting, and assessing of future possibilities. Then, finally, it's time for biting the bullet, committing the funds—and implementing the management decision to go ahead: to enter the business.

The same sort of hard, decision-making activities likewise precede the expansion of facilities for adding capacity or upgrading and modernizing the plant.

Once you make the decision, and implement it, you're stuck with what you've got. You're committed—locked in—for some future period of time.

Now, prudent managers will cover their bets (on the future) by providing for some flexibility. If the projected market is 300K units annually or 8 million tons per year—whatever—prudent managers will build in capacity to handle volume greater than that, by some margin. Similarly, they will proba-



bly opt for a greater capacity than is currently required—for example, a new 120-inch mill, when the largest plate currently sold is 100 inches wide. Just in case things change.

So whether initiating the business, or expanding the business, the manufacturer commits, up-front, to a capability to produce—for some period in the future. The CEO has positioned the firm. The company has taken its stand.

Some time later (and that's significant!) these production facilities will come on stream and be available to produce something. Something? The particular line of products the company is selling in the marketplace. The company is "there."

And it will be there, for some time to come. As a company does not quickly begin producing, it also does not soon cease, or change the nature of, its production operations. You have to feed the baby. Once committed, you're asset-bound! You have to keep the machinery-working . . . on *something*. You have to get your bait back!

On the other hand, marketing operations are not that phlegmatic. You can decide to enter a market, and do it, in pretty short order. You can spend the necessary promotional dollars; you can tie in with sales-rep organizations that already have an established reputation in their field; you can hire some marketing/sales people who know their way around in a particular market. A manufacturer can develop a good strategy to penetrate any new market, whether or not the company has ever been there.

You can also get out, pretty quickly. The company can summarily abandon a market, new or old, and walk away and bury the bodies. There will be no tangible evidence of the excursion—no fixed, in-place reminders of a bad decision, a faulty prediction, on the part of management. Older, more-specialized employees can be retired, retrained, or fired; younger, more versatile, employees can be reassigned and absorbed.

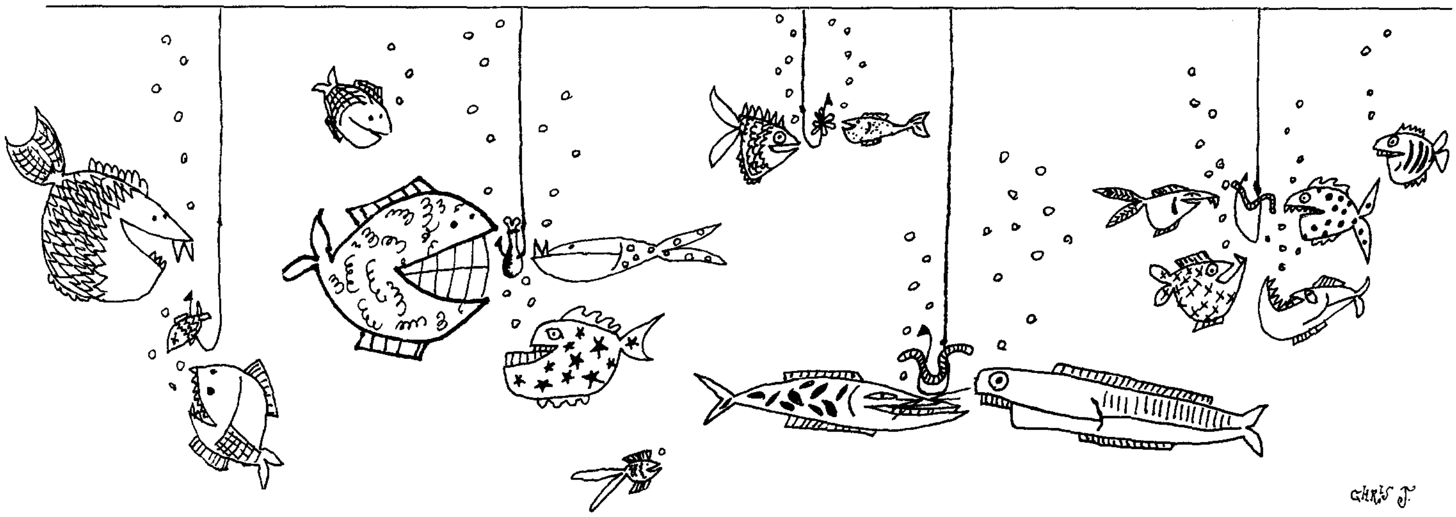
There is nothing to protect your marketing strategies either, except "getting there first"—pre-empting a position in the marketplace. No patents, no special secret process, formulae or know-how, no unique machinery or "black art" can be relied upon to maintain your position in the market.

The bottom line: any manufacturing firm is married to the technology and the production facilities and processes which it already possesses . . . at least in the short run. And it is *not* married to any given market; the company is free and able to exploit/capitalize on its production capabilities in *any* market.

The New York, New Haven, and Hartford Railroad should not have gone into the airline business in the thirties, and they didn't. American Can Company should not have gone into the glass bottle business, but they did, because they perceived themselves as "being in the container business." It didn't work out. What did they know about glass bottles! No hundred-year-old lock company has yet entered the business of manufacturing new, high-security, rotary-disc cylinder locks. The new locks take a different kind of equipment and processes, than the old pin-tumbler locks: equipment more suited to a mechanical-watch manufacturer (which, incidentally, needs that kind of product to manufacture, more than they need an electronic watch line that they don't know a lot about).

For their own good, manufacturers should not get too sophisticated in their management philosophizing. Their continuing to engage in the same genre of production process will gain a lot more credibility in the marketplace than making a decision which is viewed as hedging their bet on the same market they have served for years, when the underlying technology moves on.

Unless it works for you, there's no point in stubbornly defending your share of a given market. The point is to keep doing what you're best at. If a new technology comes along which effectively supplants your product—your "approach-to-filling-the-customer-need"—the management decision you face is not necessarily choosing between the options of fighting the competition or joining them. You don't have to resist the inevitable. You don't *have* to try to learn to do something you've never done before and something your capital equipment is not suited to.



There's a third option: You can walk away from it. You can concentrate on an objective more profitable—figuring out how best to redeploy your fixed assets into new, productive uses.

The record shows that, by and large, the major breakthroughs in any "industry" (read, "market served") have come from sources or companies *outside* that industry. Don't fight it. And there is no reason you have to hop (late) onto the bandwagon of those who are eroding your market. There are other options available—other markets, perhaps new needs—that your company and its production facilities can satisfy.

In the literature of corporate planning there is frequent reference to the "strengths and weaknesses" of an individual company being analyzed. It should be made clear that concern for "weaknesses" has to do only with maintaining the current business, and has nothing to do with future growth into new fields. It's essentially a defensive posture. Similarly, in the case of analyses of "threats and opportunities" that face any given company, the "threats" relate only to the possible diminishment of market share, or total sales, of current products.

For solid corporate growth, it is necessary to adopt a positive thrust, exploiting the company's strengths—and capitalizing on relevant opportunities available.

A firm's strengths should serve, in part at least, to determine its goals, rather than being looked on merely as the means to achieving those goals.

If you accept this proposition, the question then becomes: "What can our company produce with our current facilities and equipment, besides more of the same—additional models and variations (product-line extensions) of what we are now producing—and natural by-products of the process?" The answer may be, "Quite a number of other products!"

Philosophically, your current product line is just one avenue by which you have chosen to exhibit the capabilities of your available production equipment and the technologies in which you have competence. There are others . . . almost certainly!

There may not be a whole lot of other things you can produce with *all* of your machines and equipment, in exactly the same condition, and in the same sequence of processes, as you are now using. As is, in effect, they define your present end product. But to the extent that your capital equipment is not dedicated to the manufacture of one product, and to the extent that the various operations are, or can be utilized as, batch processes rather than continuous, interdependent, in-line processing, to that extent your facilities can be adapted to the manufacture of other products.

New dies, new molds, new jigs and fixtures, a different order of operations—maybe a new raw material. But use the capital equipment you've got! That's your main, leverageable asset. You have to keep your main machines working—those that you (especially) know how to work!

Which are your "main machines," the assets you are most interested in keeping productive? That's simply a function of three attributes of any individual piece of capital equipment: 1) How big an investment does it represent? 2) How new is it? 3) How unique is that piece of equipment? That's where the payoff is. That's obvious.

But the valuable insight is that the firm's management should not look at one of its plants, the product of which is outmoded or suddenly facing grim prospects for future revenue growth, and ask, "What can we produce in that plant?!" Rather, the proper inquiry is: 1) What is the equipment in that plant that is most important to keep in action? 2) How must it be modified to do a new job? and 3) What additional capital equipment should be purchased, to combine with and support that equipment?

It is essential to do a thorough job of market research prior to committing to the production of the new product. Impelled by the strong desire to utilize certain equipment, it is possible that you could end up manufacturing something you love to produce, but nobody wants! In other (and more) words, you have to ascertain, as best you can, that there will be sufficient volume of sales at a price level adequate to cover your variable costs and make at least a

> "The bottom line: any manufacturing firm is married to the technology and the production facilities it already possesses . . . . And it is not married to any given market."

significant contribution to the fixed burden of the capital equipment, under those conditions.

For starters, you have to recognize that you will be serving new customers and facing different competitors, and the game may be played quite differently from the way it was with your former product.

The new product will possess its own combination of properties. Care must be taken not to adopt too simplistic an approach to the marketplace. You can't go to "the" market with a story on the features, functions, and benefits of this new material, or chemical, or gadget, or system, or whatever. There probably will be a *number* of different markets for the new product or variations of it. Certain features/functions may offer great benefits to the users in one market, and be totally irrelevant in other markets.

For example, a new composite material may be used for its high strength/weight ratio in one application, and for its good lubricity in another. The corrosion resistance of a new high-security lock may be very important for cruise ship operators, and totally irrelevant to hotel owners.

The market researcher should "go fishing" in several markets and be sensitive to feedback on perceived value of any of the attributes of the proposed new product, in its various applications. It is likely that different volumes of sales, different prices, and different promotion and distribution policies will be applicable to the (essentially identical) product, when sold in different markets for different purposes. The capital equipment you use to manufacture it won't know the difference . . . and that way, you can keep your "main machines" humming. □