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Cutting your way to prosperity may cost you your business

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We've probably all heard about the jobless economic recovery. The Midwest, normally a stronghold of manufacturing business, is being especially hard hit. But it should come as no surprise. Increasingly, Midwest manufacturing jobs have been going to the southern U.S., Mexico, and more recently, China.

Outsourcing is seen as an easy way for businesses to cut manufacturing costs. But the decision to outsource should be strategic more than financial. Manufacturers need to realize that moving to shrink their labor force also affects other operations.

Unless you're in a straight commodity market, many factors besides cost go into a purchase decision. Speed of delivery is one. Remember, China is a slow boat from North American markets. Some companies believe large inventories offset the penalty of longer delivery times. But carrying large inventories in many cases raises costs and puts companies out of sync with their just-in-time customers.

Customer service is another important factor. Obviously, eliminating jobs jeopardizes this value-added service, and that can hurt sales in the long run.

Manufacturers have three types of costs to consider: labor, materials, and overhead. Most companies focus on labor to reduce overall costs because the size of the workforce has an immediate and direct budget impact. This, of course, explains the massive layoffs so common today. Companies want to point to their quarterly profit and loss statements as proof of cost cuts. Perhaps instead they should focus more on boosting revenue through greater efficiencies and less on cost cutting; the bottom line will take care of itself. To begin, carefully examine your processes and resources, both on the manufacturing and business sides.

Here are a few helpful tips:

1. Invest in equipment maintenance. Unplanned machine downtime is much more expensive than planned downtime.
2. Don't make across-the-board budget reductions. It's highly unlikely that equal cuts in every area will have equal impacts on the company overall. "Fair" is not the objective, "effective" is.
3. Consider the long-term impact and goal. Labor may be the easiest, quickest target, but improving processes may have greater, long-lasting positive impact.
4. If a capital expenditure is justified based on labor reductions, make sure the labor will really go away or be used elsewhere profitably.
5. Before increasing the rate of output from a piece of equipment, make sure you understand the impact that increase has on other equipment and on inventory flow.
6. Question everything. Much of the work we do is because "we've always done it this way." Don't do things that cost more than the value provided, unless legally required. Use the time to do something that matters.
7. Visual, simple, and real-time information communicates quickly and effectively in many cases. Don't make it fancy unless there are real benefits to doing so.

In essence, look for bottlenecks, streamline wherever possible, and eliminate waste. Manufacturers are often frustrated at how difficult it is to manage costs and stay competitive. But trying to cut your way to prosperity may cost you your business.

Fulcrum ConsultingWorks Inc. is a manufacturing consulting firm.