

# Building a new model

Lessons learned from the manufacturing industry **Interviewed by Matt McClellan**

**T**hree main challenges face the manufacturing industry today, and they are forcing manufacturers to change the way they do business.

“The industry depends on customer spending and retail sales so that change can occur quickly within an economic downturn like we’re in now,” says Michael Trabert, CPA, CVA, a partner with Skoda Minotti. “Another challenge the industry is facing is the competition from low-cost countries like China and Mexico, which can have high production and low costs.”

Lastly, the cost to power equipment and produce heat and energy becomes one of the larger expenses to manufacturing companies, adds Trabert. The rising cost of energy will force the industry to make changes to cut down on those costs. However, companies throughout the industry have developed solutions to these problems.

*Smart Business* spoke with Trabert about how the manufacturing industry has adapted to face those challenges.

## How has the manufacturing industry adapted to these challenges?

The industry leaders have successfully controlled the inventory levels and accurately forecasted demand in the future so they could more effectively handle a downturn in the economy. Second, successful companies are utilizing technology to compete with foreign companies or to outsource non-primary production items. Lastly, they have upgraded factory and equipment to become more energy-efficient and reduce energy costs.

## What are some other ways successful companies can adapt?

There are definitely some solutions out there. One of the biggest ways companies have adapted and succeeded is through specialization of products. Some companies have built factories abroad or outsourced production of high-volume, low-technology products to the low-cost countries. The more specialized, high-tech processes in the production cycle are still produced domestically. This reduces their manufacturing cost but allows them to maintain product quality.



**Michael Trabert, CPA, CVA**  
Partner  
Skoda Minotti

## How can manufacturing companies better manage their vendor relationships?

Another thing companies are doing to adapt is diversifying their vendors. Companies must diversify their vendors because in an economic downturn there is an increased possibility these companies may close or shut down production. They need to have other means of getting materials for production so they have more than one source for supply.

Oftentimes, they have a backup vendor anyway, or maybe a second source of supply. But they need to expand those sources of supply.

Most companies know what products they need and know of a number of suppliers; but they just work with one or two. During these times, they really need to increase the number of companies they work with or have the ability to work with. They should have them in the on-deck circle, so to speak.

## How can the use of technology create a competitive advantage for companies?

A competitive advantage can be gained by constantly and continuously investing in technology. Technology will allow

companies to fight competition from foreign companies by using more automated production operations, including robotics and computer control systems that can help produce high-volume products with lower labor costs.

The investment in technology should not only be in the plant with the machines, but in the education of the employees to run these machines. Technology will also allow companies to reduce energy costs by using newer and more efficient machinery.

## How can a company justify a technology investment with a substantial initial cost?

This is particularly an issue with companies that are answering to a number of stakeholders, private companies with nonworking investors, where they are more concerned about the short-term return and profits. However, the management team that is on the ground every day is more able to see the benefit of a more long-term strategy. In management meetings, those executives need to take a forward-looking approach because, in the near term, they are spending dollars and not getting that immediate return. But over the long haul, they are going to save on labor costs, utility costs and time. Management buy-in is needed to look to the future and not just focus on the near-term.

They really need it to be part of their overall technology strategic plan. It shouldn't be a piecemeal program. Like any business or strategic plan, it needs to be well thought out for the long term with certain goals and milestones throughout the process.

## What is the most important lesson that can be learned from the manufacturing industry?

The most important lesson that can be learned from manufacturing is that companies cannot sit still. They must constantly be looking to improve.

Never be complacent. The processes may be tried and true and may work now, but the industry can always change, processes may become inefficient, so they may need to be improved upon. <<

**MICHAEL TRABERT**, CPA, CVA, is a partner at Skoda Minotti. Reach him at (440) 449-6800 or [mtrabert@skodaminotti.com](mailto:mtrabert@skodaminotti.com).

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