Five Capabilities Mid-Sized Manufacturers Need to Build

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Mid-size companies, with revenues between $10 million and $1 billion, are expected to outpace larger companies in growth over the next 12 months, according to recent research [1] by the Ohio State University Fisher College of Business and GE Capital.

These companies account for a third of the nation's gross domestic product, more than 41 million jobs and are considered a leading indicator of America's future competitiveness. Mid-sized companies added 2.2 million jobs between 2007 and 2010 (a period of economic crisis), while big businesses shed 3.7 million jobs during the same period. Although mid-market companies may not dominate the headlines, they are the engine of the American economy. This article identifies the advantages that mid-sized manufacturers have (to drive their growth) and the key investments they need to make in continuing to maintain this growth.

Mid-sized manufacturing companies have three very big advantages over larger companies. They have:

1. Focus. Unlike large companies, a mid-sized manufacturing company offers a narrow range of products and services, allowing it to maintain a sharp focus. As a result, its business and market strategies are more crisp, resulting in a better potential to out-execute the large manufacturers.
2. Speed. The ability to move faster than larger companies to take advantage of a new market opportunity is one of the biggest advantages of mid-sized manufacturing companies. The likely presence of an entrepreneurial founder

(or a family member) running the day-to-day operations, coupled with smaller size, allows mid-sized companies to move quickly when they identify a new opportunity in an existing or related market segment.

3. Closeness to customers. Customer relationships and satisfaction are important for any business's success, but mid-sized manufacturers (especially those that are family owned) take it to the next level by connecting with the customers they deal with, emphasizing the community and accentuating the personal touch. Their sharper focus and smaller size enable them to stay closer to their customers.

As we discussed above, the primary source of a mid-sized manufacturer's competitive advantage is its ability to stay close to its customers, be nimble and offer superior service, while still making respectable margins. But as such companies grow, they begin to get squeezed from both sides — they can no longer be as flexible and personalized as their smaller competitors, but at the same time, they do not have the operational sophistication to compete with the big boys. This affects their ability to grow at the pace they want. How can they counter it?

A mid-sized manufacturer needs to do the following five things right, so it can continue to successfully compete and maintain its growth rate:

1. Hire the right managerial skill set. As an organization grows, it needs managerial talent who know how to scale the company to the next inflection point. Lack of such skills within the company has tripped many companies that were very successful when they were small, but are now struggling. Mid-sized manufacturers also need managers who know how to grow their business internationally. Easy growth in revenues and profits from an expanding domestic economy is gone — so mid-sized companies have to build their presence in the fast-growing emerging economies. As a result, they need to hire managerial talent that has done this before and knows how to navigate these new waters.
2. Gain access to cash and working capital. Most mid-sized companies need access to sufficient working capital to fuel their growth. While financial discipline ensures they have sufficient cash on hand, it is often not enough to fund their growth. Challenges to improving working capital performance remain, partly as a result of mid-market firms deriving a large volume of business (57 percent) from bigger companies. This imbalance, according to an American Express study, affects their ability to negotiate better deals and payment terms, requiring them to tap into financing arrangements outside the company. As a result, mid-sized businesses need to continuously evaluate and build relationships, with banks and capital markets, to fund their cash and working capital needs.
3. Deploy technology that provides insights into business performance. Mid-sized companies have limited resources. Therefore, they cannot afford to make many mistakes. They need visibility into what is working well, so it can be quickly capitalized. They also need visibility into what is not working well, so it can be rapidly addressed. For example, if their managers have analytics technology that provides clear visibility into planned vs. actual

revenue, costs and spend for new products introduced in the last 12 months, they could easily identify poor performers and quickly shift the spending away from them until their issues were addressed. Without the benefit of such information, it may take longer to make such decisions, and they may continue betting on poor performers. Continued success also comes from getting everyone in the company on the same page, using the same set of assumptions and seeing the same version of the truth. For example, if engineering, sales, finance and marketing organizations use the same analysis on marketing pipeline trends, quarterly sales performance and profitability by various segments, they are more likely to share the same conclusions, and be aligned on priorities to maximize growth and fix problem areas.

4. Look bigger than they are. One of the greatest challenges for a mid-size company is to find a way to profitably scale their operations. They now need to look big in the eyes of their large customers — where the average lifetime contract value is highly prized and will provide fuel for their rapid growth. But in order to successfully acquire such customers, they must appear seasoned in all aspects of their customer interactions – from marketing campaigns to sales force interactions with customers to after-sales support and service. Examples include being able to segment the prospect base and deliver highly customized marketing campaigns to them at a caliber one expects from large companies; enabling sales people to have ready access via their mobile phones to information, such as pricing or configuration or shipment dates, providing for rich customer interactions; and providing specialized support to VIP customers by routing calls quickly to the best support people and rapidly escalating unresolved issues. Customer relationship management (CRM) technology implements such capabilities, so organization will appear seasoned and operationally sound to the bigger prospects.
5. Improve operational capabilities and deploy changes rapidly. In order to scale successfully, mid-sized manufacturers also need to develop operational sophistication to predictably deliver the right product to the right customer at the right time in the right quantity at the right cost. It requires extremely tight integration between the front-office (sales, marketing and service) and back-office operations (engineering, planning, procurement, manufacturing, distribution and finance) to coordinate all aspects of the supply chain to meet customer commitments. It requires eliminating any information silos within the organization and across the supply chain, so nothing can fall through the cracks. But that is not enough. Agility, one of the sources of competitive advantage of mid-sized companies, cannot be sacrificed in favor of well-defined and integrated processes. Mid-sized organizations need to ensure their technology is flexible, so they can quickly deploy process changes to support rapid deployment of new initiatives or rapidly respond to shifting market dynamics.

Mid-sized companies are the growth engine of U.S. economy. A mid-sized company that develops these five capabilities can continue to successfully compete in the market against companies of all sizes and grow its business.

What's your take? Please feel free to comment below! For more information, please visit www.sap.com *[2].*

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