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## Insight Into the Manufacturing Sector

MANUFACTURING

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Many of the business headlines in recent weeks have been somewhat concerning. While major market indices have plowed forward, news of slowing growth in China and fears of a slowdown in the U.S. economy have surfaced and have caused some to begin talking about the need for another market correction. Prices for major commodities such as steel and energy have slid. Consumers are less bullish than they were a few months ago as world-wide worries persist.

The Oracle of Omaha, Warren Buffet, saw over a billion dollar decline in portfolio wealth as some of his larger holdings waned. According to the Private Bank, this week, The Wall Street Journal writes that quarterly profits and revenue at big U.S. companies are poised to decline for the first time since the recession, as some industrial firms warn of a pullback in spending. Profit and revenue are falling in tandem for the first time in six years. Analysts expect Q3 earnings to decline 2.8% over a year ago, while sales are expected to fall 4%--the third straight quarterly decline. U.S. multinationals are facing multiple headwinds, including a slump in energy prices, which has dented business investment, a slowdown in global growth, and a stronger dollar, which is eroding the value of overseas profits.

But while some larger manufacturers are projecting lower growth, some smaller manufacturers have continued to see and project growth and profits. Don't get me wrong, one would have to be naïve to think that smaller businesses would be impervious to a pending economic slowdown, but perhaps a new model for American manufacturing will prove to be more resilient in a downturn.

The future of manufacturing in America may be hinged on the idea of having multiple, smaller-scale production plants, where the focus is keeping headcount manageable, maintaining exemplary on-time delivery rates and building customized product. I'm not suggesting that gone are the days of the large manufacturer that employs thousands of people across a handful of very large production facilities, but there are some real benefits of operating smaller across more locations in today's manufacturing environment. One could challenge whether the business model is scalable and could translate into large profits, but the concept is not unreasonable given advances in today's technology such as 3D printing, access to real-time data and enhanced connectivity. Indeed, it has become much easier to manage vendors, customers and a smaller labor force across multiple smaller-scale locations with today's technologies.

## ADVANTAGES TO MULTIPLE SMALLER-SCALE PRODUCTION PLANTS

- The ability to react and adjust to a customer's ever-changing demands is not compromised when trends are identified early and shared quickly across an organization with multiple smaller, much more nimble, manufacturing locations. Capital is not tied up in large quantities of inventory that could become obsolete or result in gross profit declines if customer demands shift to a different product.
- Managing a workforce of 50 people or fewer at a location can be much easier than dealing with a large organized labor force. I draw the parallel to a smaller headcount in the classroom making a huge difference in learning and productivity. One can extrapolate from the correlation that a smaller workforce may result in greater creativity and spur innovation, which is essential in today's manufacturing environment.
- If a product launch in one location proves to be highly successful, the high demand can be spread across multiple locations very quickly.
- The ability to provide customized product often results in higher margins. The short is that customers will pay more if they feel they get what they want when they want it. Companies that can achieve on-time fulfillment rates and produce a customized product have an edge that some large-scale production facilities don't have. Changeover rates at smaller manufacturers can be a fraction of the time it takes for a large manufacturer to switch to customized production.
- A smaller company's culture with empowered employees can be a much more productive environment.
- Companies with small plants can operate in smaller locale and can tap a ready-to-work pool of hard-working employees with good moral and family values.

America's manufacturing landscape has been changing for quite some time. The success of manufacturers operating with multiple, smaller scale plants is one model that seems to be working for some and may just be a model for the future.

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