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Managing In A Slow-Growth Economy

Communicating better, cutting costs and globalizing production are among 10 actions you can take to improve business performance.

By [John S. McClenahan](#)

No matter what your industry is, or what your company's 2002 performance was, or whether or not you believe the Bush Administration's economic plan ultimately will be successful, 2003 cannot be a year of business as usual. This is the year you must further perfect the art of managing in a slow-growth economy. If you don't, you and your company just might not be around when better times return.

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"It takes tremendous confidence in what [you're] doing to avoid [the] trap... of being run by the market."

-- John Rittenhouse, KPMG

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Failure definitely is not part of Michael P. Driscoll's strategy. During the past two years, the president and CEO of Winchester Electronics, a unit of Northrop Grumman Corp., has sold-off or closed-out 40% of the company's products and moved 85% of the manufacturing of its remaining products to China, relocated its headquarters to Wallingford, Conn., and heavily bet the company's future on innovative high-speed, high-density copper connectors that are designed to be cheaper alternatives to fiber optics in such things as routers and mainframe computers. "I believe . . . we have extended the life of copper [connectors] 10 years," asserts Driscoll.

Winchester Electronics is not the only manufacturer making moves in a slow-growth economy that continues to cover most of the business world. For example, Gerber Scientific Inc., a South Windsor, Conn.-based maker of automated manufacturing systems, has improved operating efficiency, reduced debt and reemphasized innovation. Meanwhile, the building-products businesses of Paris-based Compagnie de Saint-Gobain have selectively been making acquisitions and capital investments to strengthen their market positions. For example, CertainTeed Corp., a Valley Forge, Pa.-based subsidiary, has acquired three roofing-product companies during the past four years.

Such bold, forward-looking actions are critical to both making the most of a slow-growth period -- the U.S. economy, for example, is likely to grow no

more than 2.5% this year -- and being well-positioned when better times arrive, stresses Elizabeth Padmore, a London-based partner with Accenture and the management consulting firm's director of policy and corporate affairs.

Rejecting the notion that companies can simply shrink themselves into improved performance, she urges executives to, among other things, continue their searches for new markets, looking for geographic expansion that leverages their companies' strengths in selected local markets. For example, through its Hindustan Lever Ltd. subsidiary, Unilever Group, an Anglo-Dutch consumer-products manufacturer, has developed a "whole portfolio of products" for India's relatively low-income market, she relates. With the cost of a box of soap powder "like a month's income" for the majority of the population, Lever is marketing the powder in single sachet-size packets that Padmore describes as "affordable and usable."

Such innovation is a product of much-needed strong, principled and supportive management, she says. Now is not the time for business leaders to be low profile -- despite their possible desires for anonymity in the wake of recent well-publicized failings of a few CEOs, emphasizes Padmore. "I don't think there's ever been a time when leaders [have] had to be so much in touch with people at every level of their organization."

That doesn't mean, however, a return to mid-20th century command-and-control. These days, a CEO or other senior corporate manager needs to be "a leader of other leaders," Padmore stresses. "If you really want to be successful, you've got to have bold but highly-principled leadership . . . that [forms] a kind of corporate glue and gives others the freedom, skills and capabilities that they need to go out and do all that's needed to be done."

Better Communication

For manufacturing companies operating in an economy compromised by worries over Mideast war, the bursting of the 1990s' technology bubble and a profound loss of trust in business leaders, no single step is likely to do the job. Nor will a single strategy work equally well for established names in such mature industries as steel and glass and for start-ups on the leading edges of biotechnology or information technology. "There is no one-size-fits-all scenario," emphasizes John Rittenhouse, KPMG's San Francisco-based managing director and national practice leader in operations performance risk.

What to do? Sitting back and waiting for the upturn is not a viable business option. Indeed, "it is those companies that act now -- in particular placing a real emphasis on innovation -- that will be best placed to succeed in the future," claims a recent Accenture report.

Alphabetically here are 10 specific suggestions for managing better in this slow-economic-growth world. The list appropriately begins with a recommendation that executives inform more and listen better, probably the most important step they can take.

Communicate. "Overly inform," urges Dave A. Jennings, president of Business Acumen Inc., a Stevenson Ranch, Calif.-based management consulting firm. It's "really critical" that management let employees know where the company is going and what expectations are, he says. But, he warns, don't let communication deteriorate into micromanagement. "As soon as you come in and start micromanaging, you are demotivating your employees."

Jennings also encourages executives to listen more. "Particularly if you are trying to improve manufacturing, pay attention to the people closest to production. Way too often, we tend to ask the supervisors [of] a line and not always ask the people who are out there doing the work," says Jennings.

Jim Bradford, former president and CEO of United Glass Corp. and now associate dean and clinical assistant professor of management at Vanderbilt University's Owen Graduate School of Management, Nashville, Tenn., urges managers to get out of their offices and walk around the factory floors -- as well as communicate to shareholders, suppliers, bankers and plant communities. "During difficult times, it's important to probably redouble [the] effort, so that you are getting to everyone," he stresses. "No one likes surprises, [but] people are usually willing to pitch in and help, if allowed or encouraged."

Cut costs. Actually before the economic slowdown began, Columbus, Ohio-based Mettler-Toledo International Inc., a maker of precision balances and scales, implemented a strategic sourcing strategy, reducing its supplier base to a smaller number of higher-performing, higher-volume firms and lowering transaction costs. Chaska, Minn.-based Entegris Inc., which provides products and services that protect and transport critical components, has removed fixed and variable costs by realigning products and facilities to better meet customers' needs during the downturn. Gerber Scientific initially pared its so-called SGA expenses, its selling, general and administrative outlays. "Currently, we're more focused on the cost-of-goods-sold side, [seeking] efficiency in our supply chain," says Marc Giles, the company's president and CEO. And that "will continue to be [our focus] for the next one to two years," he adds. However, "reducing costs at the expense of quality is almost never a good strategy," stresses Ron Norelli, founder and CEO of Norelli & Co., a strategic management consulting firm in Charlotte, N.C.

Get closer to customers. Mettler-Toledo has strengthened the direct relationship with key accounts in the U.S. and around the world. That "helps you truly understand what's going on in those customer segments and better react to it," stresses Bob McNaughton, general manager of strategic accounts in North America.

Globalize. Cut costs -- for the long term as well as the short term -- by moving manufacturing from existing high-cost locations to low-cost locations elsewhere in the world, urges Atul Vashistha, CEO of neoIT, a San Ramon, Calif.-based firm that advises companies on offshore business operations. "This is not about cutting costs one time. This is about fundamentally lowering your costs of manufacturing," he says. However, due diligence on prospective suppliers is crucial, he cautions. Be sure offshore suppliers can "get the product right" and that you are not allied with a sweatshop, Vashistha stresses.

Maintain confidence. The performance certification requirements of last year's Sarbanes-Oxley legislation along with constant calls from securities analysts and expectations for ever-higher stock prices puts enormous pressure on CEOs and CFOs, notes KPMG's Rittenhouse. "It takes tremendous confidence in what [you're] doing to avoid [the] trap . . . of being run by the market," he states. "The best CEOs, CFOs and EVPs [keep] confidence in what they are doing and [successfully] manage the external forces."

Manage risks. Now is the time to conduct a risk and readiness assessment of people, critical suppliers and manufacturing processes, advises SQA Services Inc., a Rolling Hills, Calif.-based provider of such services. "Many production lines have sat idle for a long period of time, and there are going to be some surprises when they crank them back up," predicts John McNeil, SQA's engineering vice president.

Partner. "You can't go at it alone in this type of economy," contends Winchester Electronics' Driscoll. "You need to have a set of value partners." For his company that meant contracting out much of manufacturing. Nevertheless, not everyone is walking the value talk. "While senior managers understand the importance of working with their supply base . . . they are still

using exchanges [and] going for anything that will lower the price rather than asking the question, 'How can I leverage the expertise of my suppliers?' " notes Robert E. Spekman, a professor of business administration at the University of Virginia's Darden School in Charlottesville.

Promote hope. In a slow-growth economy it's important to give professional workers a sense of opportunity. "They're going to be asking the question, 'Can I grow here?' and so it's a great time for career discussions and [for management] to support people in their careers," says Business Acumen's Jennings.

Train. "When you reduce [the number of] people -- and we have taken about 7% of our workforce out of the organization -- you need to make sure that the troops you have left are skilled to be able to go about executing on your business plan," says Jim Dauwalter, CEO of Entegris. "It's re-educating those that are redeployed as well as learning better how to use the resources we have already invested in." For example, "you can go in and make sure you understand how to use your computer to fullest extent or how to use that new CNC machine," Dauwalter says.

Weed-out workers. Getting rid of the low performers seems to be a no-brainer. "Those people are going to drag everyone else down," states Jennings. But he advises also that you say good-bye to superior performers who are a pain in the workplace. "If you've got the high-performer who is so hard to work with that they are affecting the productivity [of good workers], you've got to look seriously at [letting] them [go], too."

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