

## Suppliers shift gear to survive

By Hal Weitzman in Chicago

Published: October 4 2010 19:18 | Last updated: October 4 2010 22:47

The bulk of the more than 2m US manufacturing jobs lost since the start of the recession have occurred at smaller companies, as thousands of small and medium-sized firms have been forced to cut back or fold.

As well as the drop in demand, many smaller companies have complained that loan conditions have become so tight they are effectively shut out of credit markets.

In many cases, what marked out successful smaller manufacturers from their unluckier peers was their ability to adapt by expanding into new product areas and tapping new markets, spurred by a concern that customers might go out of business.

As a result of the recession, the new norm in the US supply chain is more diversified suppliers, less dependent on a handful of big local customers.

"In a recession you can definitely increase your market share if you know what's going on in the supply chain and how to deal with it," says Richard Rubin, president of Maxi Container, an industrial packaging supplier in Detroit.

Maxi, a third-generation family owned business that had traditionally served the chemical and paint industries, had at least a dozen close competitors two decades ago, Mr Rubin says.

Before the recession, two rivals survived – and both closed in the past two years. When some of his long-standing customers cut back severely on their orders, went out of business altogether or moved their facilities to Mexico, Mr Rubin says he realized it was time to get serious about diversifying his customer base.

He found new clients in the food and pharmaceuticals industries that offset the lost orders from his traditional customers.

While Maxi expanded using its existing facilities, other smaller companies have taken over struggling firms in sectors they did not previously serve.

In the early part of the downturn, Keats Manufacturing, a metal-stamping company based in the Chicago suburbs, took over a plant in Florida that made parts for the defense industry, a sector that now accounts for 7 per cent of Keats' total revenues.

**Don Ascione, owner of Continental Steel and Tube Company**, a metals distributor based in Fort Lauderdale, Florida, went further, expanding into the chemical business by starting a new company, **Continental Chemical USA**, to service the oil and gas industry.

While some of his traditional customers have slashed their orders, the new business is growing at a rate of 25 per cent a year, Mr Ascione says.

The hunt for new sectors and customers has also led small and medium-sized suppliers to look for customers beyond their traditional geographic markets. Mr Ascione, for example, doubled the proportion of his revenues that came from international sales in the past two years to 40 per cent, winning new clients in Latin America and a contract to supply Ferrari with titanium for its Formula One cars.

James Davis of Industrial Specialties Manufacturing, an Englewood, Colorado-based maker of fittings, valves and other parts for customers such as Yamaha and Honeywell, increased his company's international business by one-third during the recession, gaining his first customers in Brazil and India and expanding in Japan, Korea and China.

Small companies say the relative ease of marketing through the internet has enabled them to find new customers more easily than in the past.

Customer-friendly websites and web-search optimization tools are critical nowadays, says Mr Eggemeyer. "Traditional sales methods don't work so well anymore and they're very time-consuming," he says.

The diversification process has come at a time when many large manufacturers are in a multiyear process of slimming down their supply chains in search of efficiency.

However, Tim Hanley, industrial products leader at Deloitte, the consultancy, says the way the recession ravaged the small and medium-sized sector could make some big industrial companies rethink that strategy.

"Bigger companies are doing more of a supply-chain risk assessment and thinking hard about whether they're comfortable with the financial position of their suppliers," he says.

