

Executive Summary

Forging *New Partnerships* is a strategic look at the external market and internal management challenges facing small and medium manufacturers (SMMs)* as they position their businesses in larger, more expansive value chains. It is based on extensive interviews with a cross-section of SMM executives, survey data and a special roundtable discussion with SMM executives. The report—

- examines how the new value chains differ today from the supply chains of the past and the critical role of SMMs in it;
- shows how SMMs can leverage new opportunities to grow profits, expand into new markets and delight customers; and
- offers SMMs a valuable resource section that will help you network and find the strategic partnerships discussed in the report.

The many best practices cited in this report are drawn from interviews with NAM members, results of an annual survey by RSM McGladrey and insights from the NIST Manufacturing Extension Partnership (MEP). The NAM and the Institute also convened a roundtable discussion with a dozen SMM leaders where we discussed their business models and the major themes in this booklet. What we learned at that dialogue is reflected in these pages as well.

This report comes at an appropriate time: U.S. manufacturers today have ever-better opportunities for growth domestically and internationally. More is being produced in the United States now than at any time in the past, while exchange rates make U.S. products increasingly in demand abroad. U.S. goods exports were more than \$1.023

trillion in 2006, nearly doubling over the last decade from \$612.1 billion in 1996.ⁱⁱ

Working successfully within the supply chain is key to capitalizing on these new opportunities. Yet, the way manufacturers relate to each other in the supply chain has changed. The **old supply chain** connected mostly domestic suppliers to producers who assembled and/or transformed those components into a final product and sold it to the end consumer. It was a vertically organized structure with mainly components flowing through the supply chain while product design, pricing and service were dictated and managed by the final producer. Primary responsibility for innovation and value creation resided with the Original Equipment Manufacturer (OEMs).

Today, manufacturers are part of a **new value chain** that is a more complex matrix of interdependent corporate relationships and the workforce that makes them succeed. Innovation and value are created at all levels of the chain and in collaboration with external partners. In the new value chain, SMMs are more than just “build-to-print” suppliers. They are integral partners that help create the new technologies, products, services and business models that are vital for success, here and abroad.

Forging New Partnerships offers practical insights and strategies for SMMs to optimize their opportunities in today's value chain, including these:

- **Cultivate an innovation culture** at your company by offering unique incentives and rewards to employees who bring forth innovative ideas. As part of this

* Small manufacturers (500 or fewer employees) and medium manufacturers (500 to 2,000 employees, unless otherwise noted in this report) make up the vast majority of all manufacturers (99 percent) and account for 40 percent of U.S. production value. There are about 295,000 SMMs in the United States.

culture, implement lean manufacturing to help better compete while keeping employment flat and reducing costs.

- **Succeed with overseas sales** by supplying your customers when they set up overseas operations and winning new markets by offering a better product than local overseas businesses. To jumpstart exporting, use the resources of the Manufacturing Extension Partnership (MEP) and the U.S. Foreign & Commercial Service.
- **Tap your local community college** both for new talented workers and as a potential research partner for new products. One SMM calls her strategic partnership utilizing her local college's technology assets "compute to compete."
- **Use often overlooked financing options** to grow your business, such as government programs and tax benefits.

This report gives SMMs these tools and many more, showing the ways you can succeed and thrive if you take the right steps.

To make this report as relevant as possible for today's busy SMM executive, we have included several features that will help you focus on tangible results:

- **SMM interviews.** Our interviews with SMM executives are used throughout the report to show that the goals of greater innovation, new markets, a skilled workforce and new financing are very doable and within the reach of all SMMs. For example, too many SMMs have shied away from finding overseas markets for their products. The interview with Schloss Engineered Equipment demonstrates how one SMM harnessed the services of the federal government to find those overseas markets. And the sidebar interview with the CEO of Power Curbers gives a five-step process for identifying an overseas market niche and then finding the right partner there to help you succeed.

- **A matrix that matters.** In the report's conclusion, our authors have combined the best practices cited in the report into a matrix that shows where your company may fit in the new value chain, ranging from weak links to partner links. It assesses your effectiveness with both suppliers and customers and is good to look at not just today but six months or a year from now to gauge your success. Use it as your own internal report card.
- **Resources for SMMs.** In the final section of the report, we have pulled together suggestions for you to consider in partnering for success. Do you think you have something that the U.S. Department of Defense could use? We tell you how to find it through PRO-Net. Do you wonder who to first contact about getting started with sales abroad? Four export-specific Web sites are identified that will help you get going. There are similar resources for getting the new skilled workers you need and suggestions of where to turn if you want to hone your innovation edge but have some technology-related hurdles. While many of these are Web links, almost all of the sites have contact information so you can speak to a representative to answer your own specific questions.