



Starting Up: Factories Cut Small Businesses Some Slack

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By **Diana Ransom**

MANUFACTURERS WEREN'T ALWAYS so receptive when small-time inventors or entrepreneurs came calling. But these days, they willingly answer their calls and offer them discounts and other perks.

Contract manufacturers, which produce everything from baby dolls to potato chips, are scrambling to keep their factories busy even if it means taking on smaller, less profitable production runs. "It is certainly not as profitable to set up and tear down assembly operations more frequently, but they are realizing that the opportunities for large, multiyear purchase agreements are few and far between," says Tom Merle, vice president of product innovation at Continuum, a design consultancy in Boston that works with manufacturing firms.

CaliBaja, a manufacturer based in El Centro, Calif., used to only work with companies that would sign one- to five-year contracts or place large orders. Now they're taking smaller, one-time projects, says company spokesman Nick Caras.

Orders nearly came to a halt a few months ago at **Pacific Plastics & Engineering**, a medical device contract manufacturer in Monterey Bay, Calif. "Many of the venture capital-backed firms that weren't further down the path [of product development] were having their funds yanked," says Stephanie Harkness, Pacific Plastics' chief executive. As a result, the company boosted its turnaround time for existing clients from six weeks to a matter of days. "If they're in a crisis, we rearrange how we meet their demands," she says.

Drew Greenblatt, the owner of industrial wire basket-maker **Marlin Steel Wire Products**, says his contract manufacturers are cutting prices by 60% to 70% and turning around products in a "jaw-dropping" amount of time. "What used to be a two- to three-week turnaround now happens in just two to three days," he says.

Even more striking is that manufacturers are extending payment deadlines to accommodate companies that have less cash on hand or are even in financial distress. According to Raleigh, N.C., financial research firm Sageworks, the average length of time that manufacturers extended credit to customers or clients jumped to 42 days last year from 40 days in 2007.

While a two-day difference may not seem like much, the impact on a company's operating cash flow can be significant, says Michael W. McNeilly, director of advisory services at Sageworks. For example, a company with \$10 million in annual sales will see its cash flow reduced by \$55,000 if it takes an extra two days to reel in receivables, he says.

"Manufacturers just want to get orders for something," says Ahmed Darwish, founder of Los Angeles fashion accessories maker **Factorybrand**. He's been able to negotiate more favorable terms on some of his own manufacturing contracts, in some cases, extending his 30-day pay period and securing the ability to place smaller orders. Those smaller inventories could enable Darwish to get rid of his company's warehouse space, saving the company thousands of dollars each month. "It really lets small businesses like mine compete where they couldn't compete before," he says.

Of course, there are tradeoffs. Anytime you leave part of the process up to someone else, you're losing a little control, says Urban Wemmerlov, director of the Erdman Center for Operations and Technology Management at the Wisconsin School of Business in Madison, Wisc. Product quality could also suffer and deadlines could be missed. To help prevent problems, it's important to visit the facility and see what type of quality-control systems they have in place, he says.

Darwish knows firsthand just how important doing such due diligence can be. When he signed on with a Chinese manufacturer a couple of years ago, he didn't visit the factory. Instead, the manufacturer sent some test products, which Darwish had assessed for quality. While the initial products passed muster, what ended up getting shipped to stores did not, he says.

One way to prevent such a fate is to form a joint venture or partnership with manufacturers by splitting the profits and the costs, notes Wemmerlov. That way, each entity has a stake in the product's success or failure.