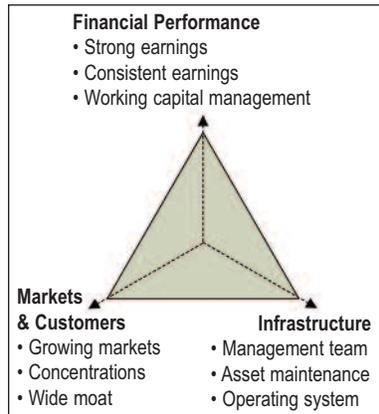


# Managing the 800-pound gorilla

In the 2012 *Manufacturing & Distribution Outlook* report conducted by CliftonLarsonAllen, nearly half of the manufacturing and distribution leaders surveyed said their growth strategy is focused on increasing domestic sales. Illinois serves as headquarters for many of the nation's largest manufacturers. This includes chemical, food and machinery manufacturers, as well as metal fabricators, electronics, plastics makers, etc. As an Illinois manufacturer, chances are you're either currently doing business with or are seeking to do business with an 800-pound gorilla customer or two. You know who these gorillas are — they're the cornerstone customers that helped you grow, but also the customers that would jeopardize the survival of your company if they were to leave. You love them because they pay the bills and keep your business going, but they're also a demanding and brutish bunch. Those big customers have power, and they're not afraid to use it. They'll dangle the promise of volume and riches while simultaneously making demands that shave margins that are already razor-thin. For most manufacturers, playing with this type of customer is a fact of life, but the stakes are high. If you play your cards right, big customers can be a vital part of growing the value of your company. But if played poorly, relationships with big customers can be a value killer.

The Value Triangle is a simple model to show the three key drivers of enterprise value: financial performance, markets and customers, and infrastructure. In order to grow the value of the business, we need to expand one or more of these dimensions. Through their sheer size, 800-pound gorilla customers can dramatically change the shape of a company's value triangle.



On each corner of the value triangle, 800-pound gorillas can create a paradox. They simultaneously enhance and detract enterprise value.

As simple as it may sound, the key to working with 800-pound gorillas is to leverage the value enhancers while minimizing the value detractors. This is a classic case in which the concept is easy, but putting it into practice is very difficult. Two

common traits our most successful job shop clients have in dealing with these customers are: 1) A clear understanding of the financial engine of their company, and 2) An increased level of operational agility.

### Financial engine

The accounting profession has done a disservice to many manufacturers over the years by advocating standard cost systems. Many of these cost accounting systems are based on concepts that were developed in the 1930's and 40's, when labor costs were 70 percent of the total cost of the product. Manufacturing has changed considerably since that time, but costing methods haven't. Unfortunately, costing methods that many manufacturers use can lead to bad business decisions. One of the most common effects of the traditional costing methods is to underprice the most complicated and

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	ENHANCES VALUE	DETRACTS VALUE
Financial Performance	800-lb gorillas buy in high volumes which creates substantial revenue. The loss of this volume would significantly damage financial performance.	The 800-lb gorilla is always shopping for the lowest price and squeezing margins.
Markets & Customers	Many 800-lb gorillas are "A-list" customers. Doing business with A-list customers credentializes your business.	Relationships with 800-lb gorillas often develop into a significant customer concentration, which increases risk.
Infrastructure	800-lb gorillas often demand world-class performance from their suppliers, which forces the supplier to improve their capabilities and infrastructure.	800-lb gorillas often demand infrastructure that adds costs but adds minimal value.

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## GORILLA

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sophisticated products, while overpricing the simple products.

Rather than focusing on standard costs and individual product profitability, we encourage our clients to evaluate the profitability of a family of products using a technique called value-added analysis. Value-added emphasizes the direct costs of manufacturing a product while focusing on available capacity. Value-added analysis gives a much clearer picture of how pricing decisions will affect financial performance.

800-pound gorillas are aggressive in their negotiations and demands for cost reductions, and the costing clarity provided by value-added analysis can give you the business insights that you need to enter the negotiation fully armed.

### Operational agility

When it comes to operations, 800-pound gorillas are very demanding. They know what they want, and they want it now. It may be a shipment

that they need to expedite, demands for cost reductions, a schedule that needs to change, a product spec that needs to be revised, a new requirement in the quality certification, or risky terms and conditions requirements. In the end, 800-pound gorillas are not terribly concerned about the impact of their demands on your business. The customer is always right. Just ask them.

In order to serve these customers effectively, your organization must be agile. Webster defines agility as the “ready ability to move with quick easy grace” — this is an apt description of the capability that must be built into your organization. If you sell to 800-pound gorillas, you need to respond to their demands. It’s only a matter of how gracefully you do it.

There are many actions you can take to increase agility, including the application of lean principles, but it starts with making agility a priority to the leadership team. We see many leadership teams that are so singularly focused on the piece cost (see the Financial engine section on page 11) that they make decisions resulting in the organization becoming

less agile. A leadership team that does not put agility as a top priority will tend to make decisions that are more appropriate for a mass production shop rather than a high-mix, low-volume job shop.

### Conclusion

800-pound gorilla customers are a paradox. You love them and you hate them. They can enhance value or they can destroy it. These large customers can be the foundation of or an essential component for a company to survive, but the waters are dangerous and must be navigated with care. It can be done. There are many examples of small manufacturers that have built very healthy and sustainable businesses working with large customers. However, there are also countless businesses that have ceased to exist because they didn’t navigate the waters safely. If you deepen your understanding of your financial engine and become agile, you’ll find you can grow profitably and enterprise value will be enhanced through all of your customer relationships, not just the big ones. ■

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