



## Top 5 Economic Reasons Manufacturing Companies Fail

*Manufacturing, like other industries, is a business. With any business, there are successes and failures. There are numerous reasons behind a manufacturer failing, including neglect, inexperience, and economics (financial). Economic (financial) reasons account for approximately 80 percent of all failures. Based on my experience, this is due to the many more potential contributing factors to financial failures than the other two types of failures, but each one can be avoided. Five of the most common are:*

1. **No business plan / no strategic plan:** without a well-structured business plan, it's hard to develop direction for your organization and lead a cohesive team. By not setting the framework, you are potentially creating chaos. If you don't have a strategic plan, it's time to get your team together. Gather both managers and some staff within your plant. Create objectives and make them measurable. Then develop tactics associated with each goal. Communicate the overall plan to organization and set expectations. Conduct checks and balances and adjust accordingly.
2. **Lack of adequate capital:** many times companies start off under-funded. By not being clear at the beginning with your financial direction, it's easy to forget about things such as inventory and receivables. Work with a good CPA or accountant to create a pro forma. By projecting your cash flow for years 1 and 2, you will learn how much capital you will need on hand in order to survive.
3. **Not managing cash flow:** countless times businesses fail because they don't understand working capital. A company may buy a large piece of equipment because they think it will fulfill a need, but if the return on investment is not fast enough, this one piece of equipment that was "the answer" may affect that company's ability to "keep the lights on" and "keep their employees paid". Make sure you have enough short term assets to cover short term debt.
4. **Lack of a good marketing program to attract new customers:** if you don't get new customers and have repeat customers, your revenue will suffer. Once you know your company objectives, you will be able to create a marketing effort to align to those goals. Define your new customers by creating personas – layout what these new potential customers look like. Create different messages that appeal to each audience. Develop a

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For more information on how GaMEP can help you identify new customers and markets, contact:

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strategy and tactics using different marketing channels that your current and potential customers respond to. Produce re-engagement campaigns for customers you haven't heard from in a while. Just like the business plan – track and measure.

5. **Not having a diverse customer base:** if you have 80% of your business in one or two customers or one industry, it's time to diversify. What if that customer switched to a competitor? What if that industry took a major hit, like the recent housing issues? If all of your business was with that customer or industry, chances are your company would not last. First – look at your best customers. Define what they look like – go back to creating that persona and then as part of your overall marketing effort, figure out how to find more customers that look like that star customer. Second – look at your product – what other industries could it be applicable to? Or could you create a variation of that product that could be appropriate for another market? Know your strengths and capitalize on them.

*Not making my top 5, but other reasons a manufacturing companies may fail are: not managing inventory, accounts receivable, and financing; failure to understand the industry and the target customer; lack of knowledge about the competition and trends in the industry; not offering a unique product; not cost competitive; lack of operating goals and objectives; failure to measure goals and objectives; lack of skill in managing employees; no exit / transition plan.*

*I challenge you to take a look at your company and see how you measure up to each of these areas, but especially the top 5. Don't get discouraged if you see a gap. Remember, every company will have to work on at least a couple of these. Create a plan around the ones you need to improve upon and continue to implement, monitor, and be open to change. By doing so, you will help solidify the long-term success of your company.*

*Additionally, here is a great John Deere article that provides 6 keys to a winning manufacturing strategy.*  
<http://www.strategy-business.com/article/li00077?pg=all>

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