



2009 – Precision Machining Industry Shoots the Rapids

By Miles Free, Director, Industry Research and Technology • mfree@pmpa.org

The year 2009 will be remembered by many of us as a teacher—a cruel teacher, perhaps—but a teacher, nevertheless.

There are several important lessons that we learned as an industry, as small- to medium-sized businesses and as manufacturers. For most of the year, our industry was on an inflatable rubber raft and subjected to many seen and unseen challenges. Here's the report of our raft ride in 2009:

We're all in this together. This is perhaps the most positive and most important lesson of 2009. What happens in Detroit doesn't stay in Detroit. It affects Wall Street, Main Street and gets muddled up on Pennsylvania Avenue. Like it or not, we are all tied together by legal, financial, credit, manufacturing, supply, marketing and monetary systems.

Like a crew on an inflatable raft trying to navigate the rapids, surrounded by white water hiding rocks beneath the surface, we are all certain to be affected by what happens anywhere in the economy. Management focus on internal business matters was necessary but insufficient. Making sense of the external realities and contexts of our businesses was critical to sustaining our enterprises and our capabilities amidst the volatility, uncertainty, complexity and ambiguity of the world we faced this year. Just like a critical awareness of the river is important if we are to keep the raft afloat.

It's not about supply; it's about demand. Probably the most important lesson for the entire economy is that demand and not supply is the real driver. You can have the capability to produce for a 16 million-vehicle annualized auto

market. But if the annualized rate is below 6 to 8-million, your ability to supply is seriously overrated.

Yes, the transformation that the North American auto industry underwent was a singular experience in our lifetimes (we hope). But the fact remains that it is demand, and not the ability to supply, that keeps our machines running. Those folks who thought that "if they build it, orders will come"...well, their rafts took in a lot of water and bumps on the rocks in the first half of the year.

Cash is king. Obvious, isn't it? Today it is. But late in 2008 and early in 2009, many people still equated "line of credit" with "cash." Cruel teacher that 2009 was, many of us had to make dramatic, enterprise-wounding cuts. We did so in order to conserve cash when the lines of credit were yanked and the value of the collateral (on which the credit lines were based) evaporated as everyone tried to slam the door on risk exposure to automotive manufacturing.

On a raft journey, having good equipment helps assure that you make it to your destination. In our business journey this year, it was as much our cash as our equipment that helped assure our sustainability.

Reorganizing the business doesn't change the attitude. One would hope that seeing one's management practices lead to bankruptcy would cause executives at the bankrupt companies to rethink their attitudes and practices—especially towards the suppliers on whom their businesses depend. That didn't happen.

At the time I am writing this, Delphi, Visteon and others are trying to force egregious payment



terms and conditions onto the suppliers that have kept them operating. If there was no shame in bankruptcy, why should we expect anything other than hubris on payment terms? It's pretty difficult to navigate the raft over obstacles when half of the crew not only doesn't pull its weight, but also works deliberately to handicap those who do.

The benefit of time. The benefit of time is that it gives us a perspective that makes everything clear. This perspective shows us how we were challenged to get it right the first time. It also shows us that the decisions we made sooner and not later to adjust our operations and costs were crucial to our continued survival. It shows us there are people we can trust and people (like bankers who unilaterally withdraw agreements and financing) we cannot trust.

Our employees have shown that they are people we can count on for our enterprise. Some of our customers, too. It will be good to get out of the rapids-drenched, inflatable raft that was 2009. Here's hoping that in the year ahead, for the precision machining industry, 2010 is more like the Teacup Ride at Disneyland.

