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more intimate customer relationship management.

Pick your battles

So what should smaller manufacturers do if they cannot stomach the risk of high investments to support predominantly contract-based work? In our experience, picking your battles is the first step to overcoming that.

Use existing strengths to carve a niche in a promising field with good volumes and margins that presents a higher barrier to entry. It can be as obvious as televisions, telephones or energy devices, or it can be a simpler, more visionary focus, such as the Internet-based technologies used to monitor and control devices in the cutting-edge field of the Internet of Things.

Begin by picking one or two winning products and pouring heart and soul into developing them and your capacity and capability to produce them – beyond the reach of anyone within a thousand-mile radius. After that, go about process improvements incrementally and within your current means, getting ever closer to zero waste.

Developing markets

Once you have the capabilities that will let you compete on equal terrain, tell the world about them. Effective marketing is the simplest way of maximising volumes. As businesses mature, black economic empowerment is another sure-fire way of increasing your share of the addressable market in South Africa.

Survival of the fittest

With economic conditions worsening, we foresee significant market attrition and consolidation. The winners will be those with the foresight to pursue the right investments and business directions, constantly improving their efficiencies and opening up ever greater addressable market areas.

A balanced risk approach

In order to be sustainable, South African contract manufacturers should serve a mix of consumer and high-end niche markets, allowing themselves to be led by market intelligence to ensure a reasonable chance of success.

Risk and reward

Consumer and niche markets present very different risks and rewards. Ultra-competitive, fast-moving consumer markets offer high volume opportunities at lower margins, whereas slower-moving specialised niche and industrial markets are less cut-throat and offer lower volume opportunities but can have higher margins.

The inherent risks in these markets should tell manufacturers whether they are more suited to one or the other. In that regard, there are two kinds of contract manufacturers – the risk averse and the risk-hungry.

Risk-averse

Many will balk at the risks of consumer markets, instead focusing on manufacturing one or two high-end products very well and serving a captive market in that way.

Niche markets prize quality over anything else, which raises the barriers to entry and takes the pressure off the manufacturer to produce goods fast and at high volumes, or to hold large amounts of stock at high risk of orders not coming through.

But with margin comes the drawback of lower volumes. In these instances, in order to build a sustainable business, manufacturers must focus on increasing their value-add in the form of excellent customer service, trusted advice and a close business partnership.

Risk-hungry

On the other end of the scale are manufacturers for the consumer market. Despite the promise of high volumes in this game, many bite the dust due to low margins, fierce competition, working capital pressure and the high risk of stock losses.

Whereas niche manufacturers have the luxury of producing goods to order, consumer manufacturers produce commodity items amid fierce competition, often winning or losing a deal on price or availability. This means footing the bill for stock in the hope that it will be sold, and players must be super-efficient (low-cost) and responsive to customer needs.

Do both

So what can a company do to overcome the respective drawbacks of each choice? The answer lies in a clever blend of the two approaches.

On the one hand, manufacturers should maintain a solid niche focus to anchor the business. Customers paying for high-end expertise and quality assurance will tolerate make-to-order, and this leg of the business will provide the dependable income the company needs to keep ticking over.

But to reach the next level, manufacturers must increase their appetite for risk. The way to do so intelligently is to scope out reasonable opportunities, prepare potential customers and jump on the opportunity. This approach requires market intelligence, negotiating skills and hunger.

It's a balancing act and companies will need to pick their battles wisely.

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