



Contract Manufacturing's



Resurgence

BY MATTHEW J. MOWRY

You name it, they make it, from metal machine frames to medicine capsules to circuit boards. Contract manufacturers provide—sometimes literally—the backbone for products made and delivered nationwide, yet data on their numbers and impact are as elusive as their visible stamp on the final products produced by their clients.

Many original equipment manufacturers (OEMs) use contract manufacturers to produce parts or even entire products. These businesses demand accuracy, a competitive price and prompt delivery—sometimes on the same day the order is placed.

“We’re a job shop. You give me a print, I’ll give you a price and delivery,” says Jack Gilchrist, president of Gilchrist Metal Fabricating Company Inc., a provider of large capacity machining and large CNC machining in Hudson. Whether it’s laser cutting, welding or stainless steel fabrication, the company can produce dozens, hundreds or thousands of identical and detailed parts to order.

While the government and industry associations track manufacturing by types of products and other measurements, there is scant data about contract manufacturing be-

cause it encompasses so many subsectors. But experts agree there is no mistaking the important role contract manufacturers play in NH’s economy and supply chain. “A lot of our manufacturers in New Hampshire are considered to be contract manufacturers,” says Roy Duddy, interim director of the NH Division of Economic Development. “Contract manufacturing is a pivotal piece [of our economy].”

The majority of NH’s contract manufacturers specialize in high precision machining, medical devices and electronics industries, says Zenagui Brahim, director of operations for the NH Manufacturing Extension Partnership, which provides training and resources to help manufacturers to grow.

“The majority of the jobs in OEM/contract manufacturing produce higher annual income than other market segments such as retail and hospitality. That annual income is essential to the success of local communities via business taxes, property taxes, and, more importantly, the spending power of the individual,” says Mitch Latva, president of the NH Machining Association, which has about 70 members. Latva is also CEO of Latva Machine in Newport.

And using contract manufacturers for production, says Gerardine Ferlins, president of Cirtronics Corporation in Milford, allows

OEMs to focus on sales and research and development. Cirtronics is an electronic assembly contractor.

Signs of Recovery

Despite being hit hard by the recession, many contract manufacturers are rebounding, with sales approaching pre-recession levels. “In the last quarter of 2010 and now, the companies I talk to are seeing the light at the end of the tunnel,” Brahim says, adding that the defense and aerospace industries in particular are funneling more business to the sector.

P.J. Noyes, a 140-year-old contract manufacturer and packager of capsules, liquids and tablets in Lancaster, also reduced its workforce in 2008 and 2009. But, in the last three months, the company hired 12 people, increasing its workforce to 115, and acquired another business that will likely lead to more new hires. Dennis Wogaman, COO of P.J. Noyes, says while 2010 was not the best year for sales, it was better than 2009. Just before the downturn, sales at P.J. Noyes peaked at close to \$20 million. By 2010, the company posted sales of \$16 million. For 2011, it’s forecasting \$18 million in sales.

“We’re seeing more inquiries, including more start-up inquiries. As the economy

has gotten stronger, they are more confident in making an attempt (at a new business)," Wogaman says.

Most of P.J. Noyes' customers produce daily use items—from dietary supplements to topical creams—that range in price from \$5 to \$12 and can be found in Walmart or chain supermarkets. With increased regulation, more of these companies are turning to P.J. Noyes to handle manufacturing as it already has the staff and processes in place to meet regulatory standards, Wogaman says. Its two biggest customers are GFK, a \$40 billion multinational corporation that hires P.J. Noyes to produce two-thirds of its Fiber Choice product line, and Can-Am Care, for which it produces glucose tablets for diabetics.

But there are still challenges. While revenue is rising, profit margins for many contract manufacturers are shrinking even though customers want faster delivery and higher quality.

David Metzemaekers, director of operations of Scott Electronics in Salem, says tighter margins over the past few years led the custom designer and manufacturer of semi-conductors, telecommunications, industrial and fiber optics equipment, to open a second facility in Mexico in 2002 to remain cost competitive. "In our business, margins are very tight," Metzemaekers says. Expanding to Mexico allowed the company to also hire six new people in the NH facility.

In its 25,000-square-foot Salem facility, Scott Electronics employs 90 and generates \$10 million in annual revenue. "If you hung on, last year was probably a good year for you," says Scott Metzemaekers, adding that 2010 was the best year in the company's 25-year history. "We see that growth being stable and we may increase. ... We're looking to hire more people. Hopefully we will see a five to 10 percent growth in sales at the minimum."

Among Scott Electronics' larger customers are Hypertherm in Hanover and Analogic, a medical and homeland security technology manufacturer in Massachusetts.

Cirtronics is also on the upswing. While the recession delivered a 30 percent drop in sales, the company experienced a 54 percent increase in sales this past fiscal year. "Supply chain was a problem. During the recession, factories stopped producing and started selling off inventory. They took time ramping back up," says Paula Papineau, vice president of sales and marketing.

Cirtronics is certainly ramping up. Ferlins, the president, says she expects to end FY 2011

in June with approximately \$50 million in revenue, a significant increase from the \$32 million it posted in FY 2010 and slightly above the \$46 million it posted for FY 2009. "We have tight margins though. It's not the same margins [as before the recession]," Ferlins says.

In the past year, Cirtronics hired 45 people, bringing the number of employees to 186—back to pre-recession staffing levels. Papineau says Cirtronics is currently adding employees and most likely will add new equipment this year. "We will reinstate our second shift," she says. "We're feeling very good with the market and the strength of our backlog," which she notes is bigger than their 2007 backlog. Papineau points out that some industries were not hit as hard during the recession. Those less hard hit include medical



Jason Crook uses an AOI inspection machine to check the quality of circuit boards at Cirtronics Corporation.

and homeland security, while the semiconductor industry is just beginning to recover. "But it's come back strong," she says.

Strategies for Success

Looking to the future, contract manufacturer say diversification and quality improvements are critical. "They have learned they need to diversify their markets and need to reposition themselves in the marketplace,"

Brahim says. "Some are positioning themselves as solutions providers instead of making one product (or part).

As the clients get more value, [manufacturers] are better able to compete in the marketplace. They [also] do it by leaning their operations to be able to respond to the pull of the client. That's the most important thing they need to do."

For contract manufacturers whose offerings were not diverse, Brahim says the recession "was a wake-up call." The Metzemaekers did diversify, and doing so helped them to survive. About 25 percent of Scott Electronics' customers produce medical products, 15 per-

cent are in homeland security and the rest are in industrial, solar and semiconductor markets.

Gilchrist Metal Fabricating, whose customers run the gambit of defense, deepwater drilling, concrete precast, medical devices, power transmission, paper pulp processing and boat construction, makes sure no single industry accounts for more than 20 percent of its business at any given time. Similarly, Cirtronics maintains a customer mix of 25 percent in homeland security, 25 percent in medical, and 25 percent in semiconductors, with the balance of its customers in high precision and other industries.

The contract manufacturers interviewed for this article agree that adopting lean manufacturing practices, essentially finding and eliminating waste, helped them cut costs and

pass savings on to customers. Doing so also helped them be more competitive in the marketplace and mitigated shrinking profit margins.

Not that cost savings are always the goal. Lean manufacturing also saves time by shortening production cycles. Gilchrist says his company developed a multitude of processes that speed delivery to customers. "It's not necessarily being less expensive, but the time that is more important to a customer," he says. "Everyone wants everything yesterday," adds David Metzemaekers. "Hypertherm orders in the morning and it ships in the afternoon."

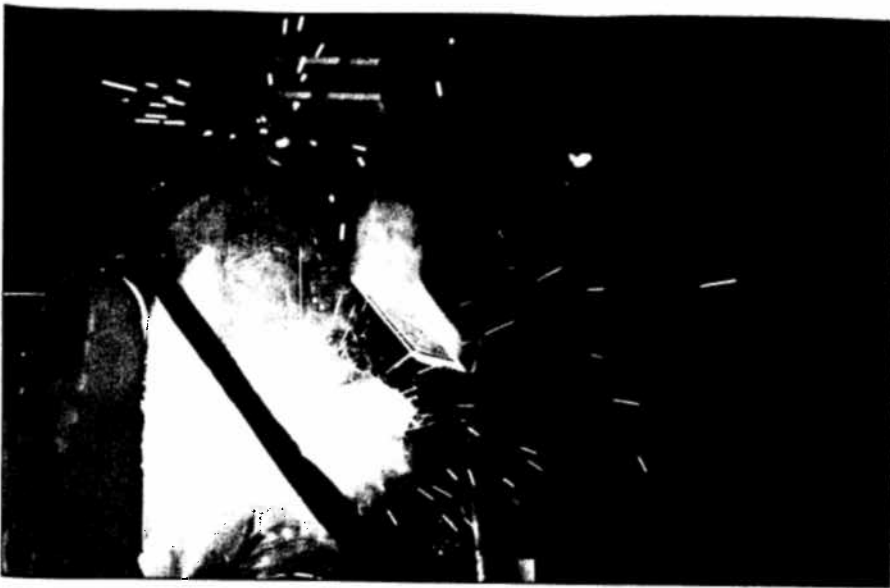
Becoming faster and more efficient means investing in technology. Gilchrist says the

company added robotic welding equipment this year. "With the robot, a 20-minute part is now a four-minute part and a one-hour part is a 15-minute part," he says.

The NH Department of Resources and Economic Development offers a variety of services to help contract manufacturers compete. "We have an energy efficiency program that saves these companies hundreds of thousands [of dollars]. We have huge efforts going on in job training," Duddy says. "We've trained over 7,000 employees over the last couple of years through the New Hampshire Job Training Program."

DRED can also assist companies with issues ranging from marketing to financing to technical procurement to helping companies land government contracts. The NH MEP also offers manufacturers training in best practices, from lean manufacturing to Six Sigma to supply chain, as well as growth services, such as commercialization and technology acceleration.

The Internet also plays a critical role. About 30 to 40 percent of Gilchrist's business comes from Web traffic, and the company invests heavily in search engine optimization. Likewise, almost all of P.J. Noyes' marketing is done online.



Welders working at Gilchrist Metal Fabricating Company

CHRISTINE CARRIGAN

For Cirtronics, being employee-owned helps, says Ferlins. "It does encourage employee retention and participation, which saves the company in the long-term as you are not out recruiting," she says.

Looking Ahead

While business is gearing up, contract manufacturers continue to face pivotal challenges. Brahim says a big hurdle facing

contract manufacturers is the lack of skilled workers. Brahim is a member of the Governor's Advanced Manufacturing Education Council, which makes recommendations to the NH Department of Education in regards to advanced manufacturing programs. "We graduate fewer and fewer engineers in the country than other developing countries," Brahim says, adding students need to be encouraged to take more math and science

courses. Ferlins says some of Cirtronics' competition isn't necessarily in China, but in other states, making taxes, health care, energy costs and education crucial policy points. She says the NH Legislature should scrutinize the effect regulations will have before putting them in place. "I ask the Legislature to be careful when they balance the budget not to do so on the back of businesses. Please look at your own expenditures," she says.

Contract manufacturers will continue to invest in developing cutting-edge technologies to be competitive, says Latva, but they need more support when it comes to workforce development and freedom from time-consuming but mandated reporting requirements being passed down from Washington. "Currently we do not have enough qualified entry-level personnel at this point or enough CNC machinists to fill the open positions we have," he says. "Aside from raw labor expenses, we are dealing with high energy, benefits, and business taxes."

And like many contract manufacturers, Latva is cautiously optimistic. "Although we cannot say one market sector is moving more than another there does seem to be a more positive trend emerging," he says. "I would not say that the market is moving toward a solid rebound either. I believe only time will tell." He says it is unclear if the orders contract manufacturers are currently receiving are the result of companies committing to solid capital investment plans or merely a re-stocking of the shelves. ■

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