

A REVIEW OF THE:

SEVEN EXISTENTIAL THREATS

TO CONTRACT
MANUFACTURERS
THAT NEED
TO SCALE



Equinet
Growth Marketing

INTRO

The contract manufacturing (CM) sector is booming. From makeup to medical devices, cornflakes to consumer electronics, third party specialists are increasingly used by OEMs to help design, build and distribute their products.

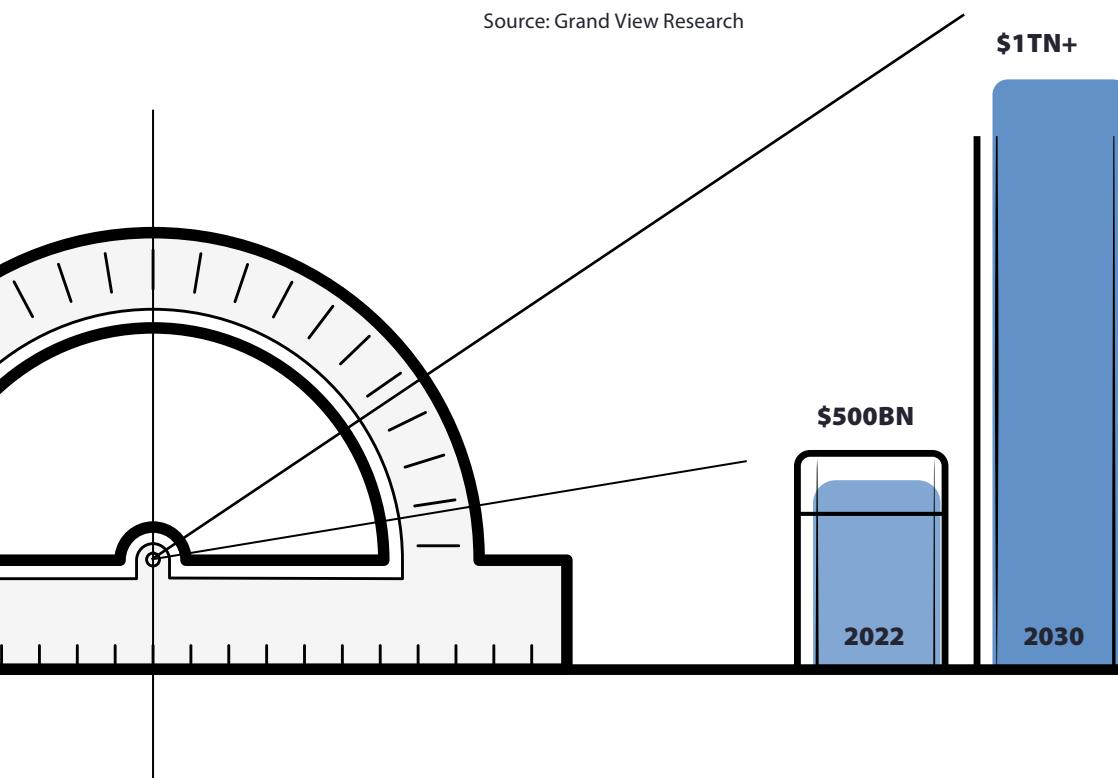
Taken together, multi-sector research from Grandview suggests the CM market could be worth up to \$2 trillion by 2030, representing more than 1.4% of annual global GDP. Some sectors, such as electronics design and manufacturing, are predicted to grow annually by nearly 10%.

And yet many contract manufacturers are still struggling to grow.

In mature markets with undifferentiated offerings, they're finding it hard to cut through and win new business. They're struggling to build sustainable pipelines, inspire long-term loyalty and secure reliable, recurring revenue streams.

The global EMS market was calculated at over 500 billion dollars in 2022, and is estimated to grow to more than a trillion dollars by 2030 (CAGR of 9.5%)

Source: Grand View Research



WHAT'S
STANDING
IN THE WAY

OF YOUR GROWTH?

While the industry talks about the transformative power of robotics and supply chains driven by AI and quantum computing - many CMs are finding it hard to commit to essential investment in the face of an unsustainable pipeline.

This paper looks at seven mounting pressures that prevent many contract manufacturing companies from growing and surviving in this fast-changing world.

Some are the result of intensifying global competition exerting pressure on pricing. Others are the result of fragmented sales data and siloed expertise making business blind to opportunity.

But all of them relate to a fundamental lack of customer focus - and the ability of CMs to respond to shifting demand with clarity and agility.

HOW
ARE
YOU



NAVIGATING THE SEVEN EXISTENTIAL THREATS?

TABLE OF CONTENTS

1. THE CHALLENGE OF DEMAND AND SUPPLY

How can you invest in transformative tech when sales pipelines are so unpredictable?

2. THE GROWING COMPLEXITY OF DATA

How can you pursue opportunities when sales data are siloed and inaccessible?

3. NAVIGATING PRICE COMPETITION

How can you avoid commoditisation when your customers can't see the value you bring?

4. LACK OF CUSTOMER ORIENTATION

How can you serve, delight and sell more when you are not 100% aligned with customer needs?

5. TRADITIONAL SALES AND MARKETING UNDERPERFORMING

Why are you pursuing the same old tactics when they deliver diminishing returns?

6. A LACK OF MARKET RESEARCH AND SIZING

How can you target new opportunities when you can't see where they lie?

7. COST OF RECRUITMENT AND SCARCITY OF TALENT

How can you attract the best when your brand is hidden from view?

1 THE CHALLENGE OF DEMAND & CAPACITY

Contract manufacturers only have so much capacity - often, it's concentrated around a small number of 'good fit' clients.

The bulk of revenue is generated from them - and most of your operational resources are devoted to them.

But if your company is going to expand your roster to absorb new, high-growth prospects - you must be sure you can meet that demand.

It can be tough to make those critical capital expenditure decisions, though. You need full visibility around your pipeline to confidently commit capital at the right time to:

- Buy new equipment
- Open up new lines
- Staff them with skilled workers

Expand too fast, and you could end up with significant unused capacity and idle lines costing you money.

Expand too slowly, and you won't be ready to service new clients as you grow - risking missed contracts, unkept promises and customer dissatisfaction.

Getting this balance right is the key to ensuring sustainable growth.

But, many contract manufacturers don't have the oversight or control around their lead generation and nurturing process to confidently underwrite that kind of strategic expansion.

Without the insight and tools to help build more sustainable pipelines, growth can look more like risk rather than the key to long-term success.

2 GROWING COMPLEXITY OF DATA

In today's digital jungle, there's data everywhere - but it's unstructured and littered across various platforms or silos.

Gartner says there can be up to seven platforms in any organisation where critical sales and marketing information may lie.

By 2025, the International Data Compression (IDC) states that 80 to 90% of all new enterprise data will be in unstructured formats and harder than ever to extract from digital platforms.

Across your website, socials, ERP and CRM systems will be reams of valuable information about prospects and customers that you may not be able to interpret or get access to with your current digital set-up:



72% of B2B companies say that managing data is one of their top challenges.

Source: McKinsey



Only 25% of B2B companies said they used data every week to understand customer needs.

Source: McKinsey

2. GROWING COMPLEXITY OF DATA

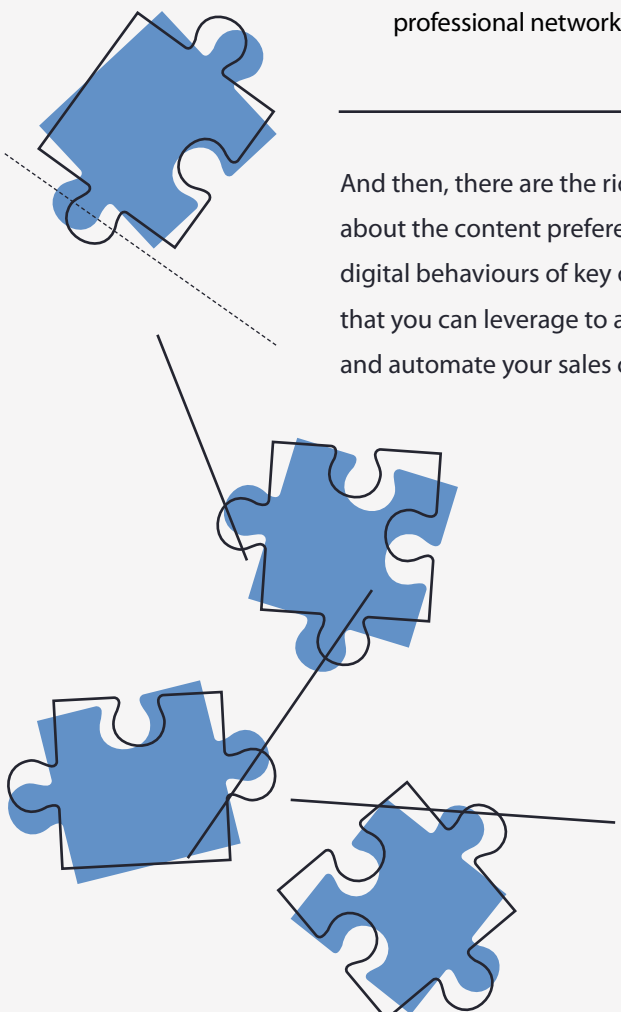
What's in your data?

Just consider what data the average contract manufacturing business is sitting on:

- ERP data: Contacts, firmographics, purchase history, buying behaviour
- Website data: Visits, dwell time, content preferences, interactions, content downloads
- Social data: Likes, interactions, shares, extended professional networks

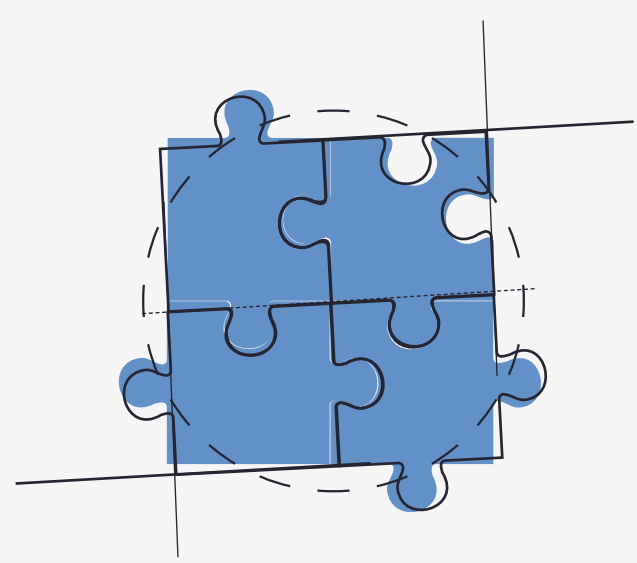
Taken together these sources could be giving your business powerful information about customers and prospects:

- Readiness to buy
- Decision triggers
- Renewal processes
- Upsell opportunities
- Internal and external business networks



And then, there are the rich insights about the content preferences and digital behaviours of key contacts that you can leverage to accelerate and automate your sales cycle.

But, without a single customer view bringing all this data together, these insights may be just out of reach. It could lead to confusion about where key revenue opportunities lie. It may be stopping you from progressing and closing more sales successfully.

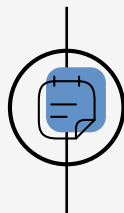


2. GROWING **COMPLEXITY OF DATA**

Data is a treasure trove of insight and information about customers, but it's simply inaccessible to many contract manufacturers.

But, the right digital tools can bring you visibility and control over the complete sales cycle. The opportunity is there to harness data to hyper-target prospects for sales and upsell.

CRM software can personalise and automate lead generation and nurturing strategies to speed up buying cycles. With the advent of AI, businesses can do this faster than ever. You should be able to make data-driven decisions with confidence.



A lack of a data-driven approach to sales and marketing could be fatal to your growth plans.

3 NAVIGATING PRICE COMPETITION

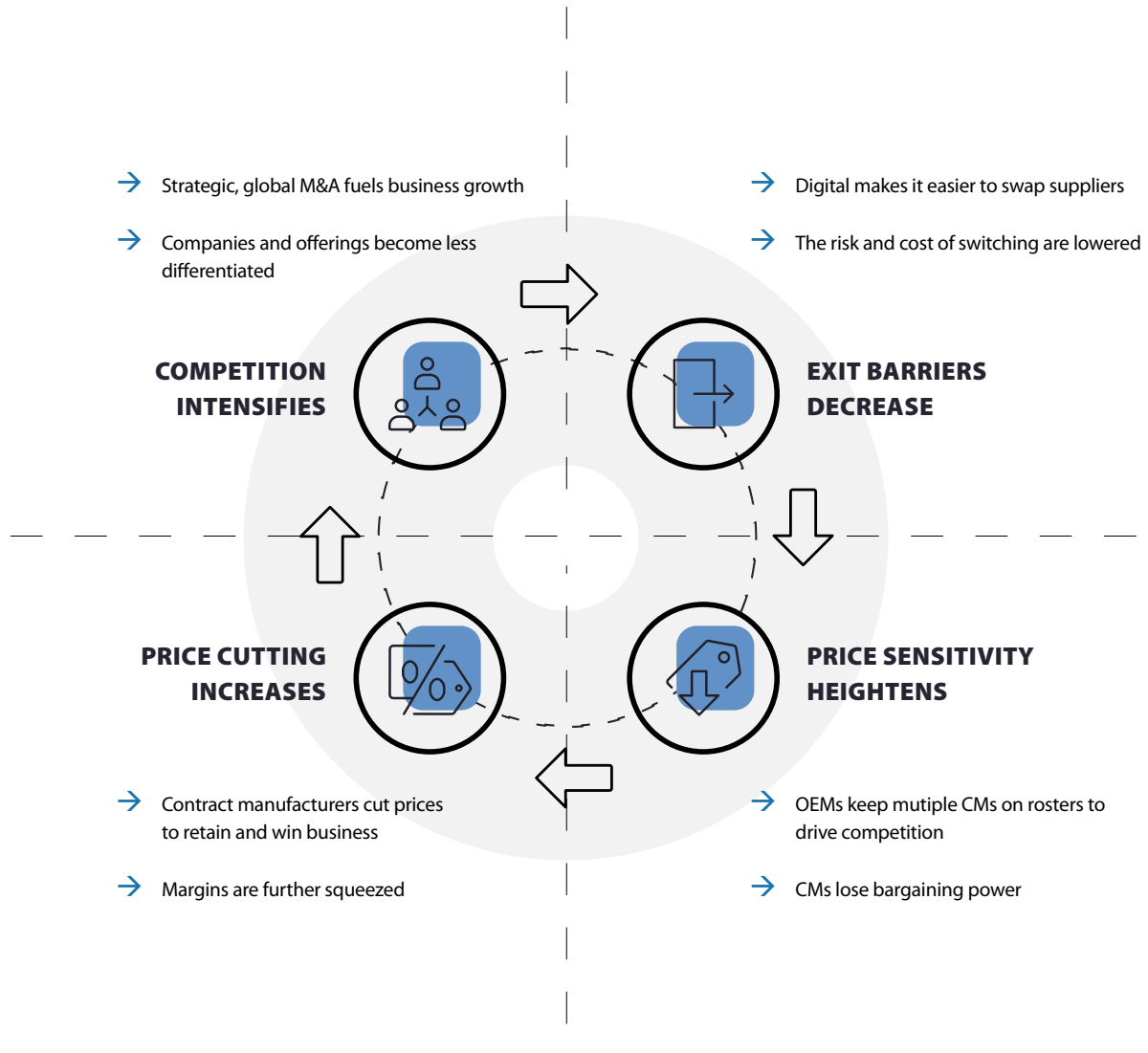
Contract manufacturing in all its forms is a massive international industry. Many companies are growing market share through mergers and acquisitions.

Competition is becoming more intense and global. Meanwhile, digital has made it easier than ever to switch between suppliers. This is leading to downward pressure on prices.

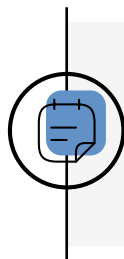
The Boston Consulting Group identifies the [vicious cycle of price pressure](#) that can take place in a mature market like this. As competition intensifies and companies consolidate, offerings become less distinctive, and pricing too often becomes the principal lever for winning business.

In a sector where companies have historically operated 'unseen', differentiation can easily be lost, and loyalty can be in short supply.

3. NAVIGATING PRICE COMPETITION



This cycle is a huge challenge for those who need to increase margins and grow the value of the deals they strike.



Now, more than ever, contract manufacturers must demonstrate the unique value they bring to the market to achieve long-term loyalty, more profits and more sustainable growth.

4 LACK OF CUSTOMER ORIENTATION

What do you know about your best and most profitable customers? What's driving their decision-making, and what do they value about your services?

Do you know where and how to concentrate your sales efforts to retain and find more of those 'right fit' customers? Do you know where you are wasting time chasing 'bad fit' prospects who will suck up your time and profits for no long-term reward?

Your company needs a 'customer 'or' market-orientation' to achieve this insight and grow sustainably in a crowded market.

Market-oriented businesses operate in listening mode. They pay close attention to internal customer data to understand their most prolific and profitable clients. They work to understand the unique value they offer to their customers. They dedicate themselves to finding a position in the market where they can best gain traction.

They grow their business by understanding and serving their customers' needs in ways other CMs don't.

But many contract manufacturers don't work in this way.

Instead, most CMs are 'service-oriented' in their approach. They spend time and energy pursuing leads of all kinds to fill their pipelines. They don't match their unique capabilities to changing market needs or target their messaging to speak directly to their ideal customers.

4. LACK OF CUSTOMER-ORIENTATION

They use their website and digital presence to focus on themselves and their capabilities. Their marketing talks about what they 'do'. They spotlight their services, facilities and equipment rather than how they help customers achieve and exceed their goals. In doing so, they risk losing the attention and loyalty of their most important audience.

On the other hand, market-oriented brands place their ideal customer at the centre of their story. These brands are positioned in the marketplace as their customers' ultimate support and resource. As a customer-focused brand, their sales and marketing function seek to help and guide prospects through the sales cycle, from consideration to purchase. Their customers gravitate towards them as they support them in their decision-making process.

SERVICE-ORIENTATION
Focus on you
Your company
Your services
Your facilities
Your pricing

MARKET-ORIENTATION

- Customer focus
- Their challenges
- Their needs
- Benefits they feel
- Value they gain



You are focused more on your business so your view is restricted



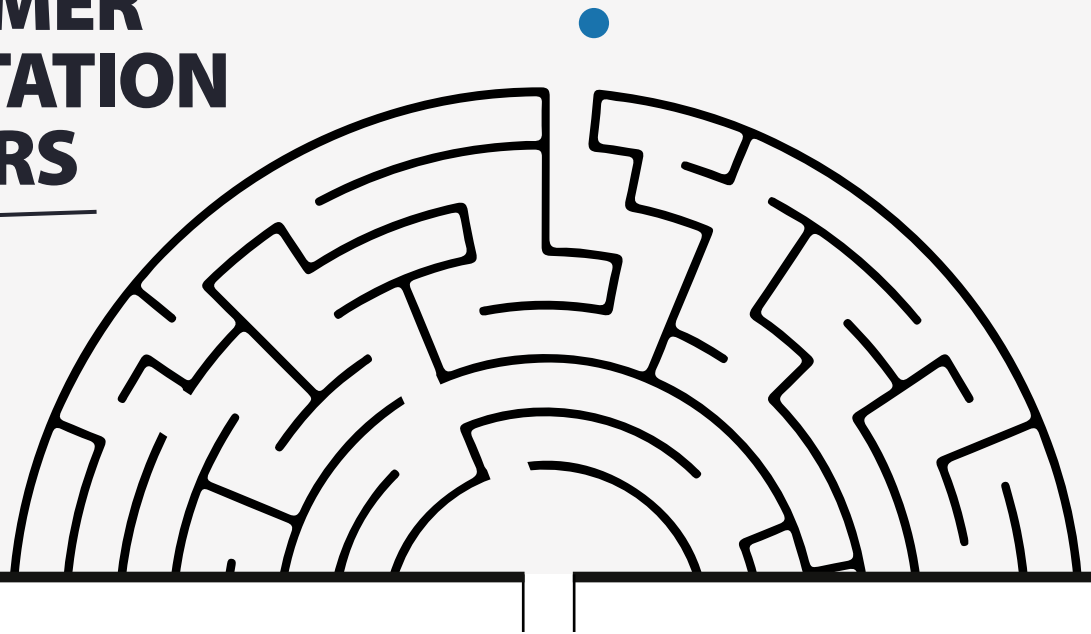
You now address the bigger picture – what's important to your customers



Customer-orientation is the key to differentiating your brand in a changing marketplace and driving more 'right fit sales'.

CASE STUDY

WHY CUSTOMER ORIENTATION MATTERS



The history of manufacturing is littered with stories of companies that didn't respond to changing customer demand and paid the ultimate price.

And it's often down to a long-term loss of customer focus.

Just think about the US machine tooling industry. America once supplied 95% of the domestic and 30% of the global machine tool market, but between 1981 and 1986, one-third of [all U.S.](#)

[tooling manufacturers went bankrupt.](#)

US market share was slashed by half at home and abroad as foreign competition and agile ways of working disrupted domestic producers.

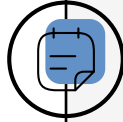


"As competition came in to exploit the new opportunities, most American manufacturers couldn't or wouldn't change to meet the new customer needs."

CASE STUDY

WHY CUSTOMER ORIENTATION MATTERS

Inflexible, product-oriented manufacturers lost relevance in the marketplace and their ability to respond to new challenges:



"As the old manufacturers lost market share and financial problems increased, quality and service got proportionally worse. As foreign products had more success in the American machine tool markets, customer service deteriorated. The emphasis, particularly in larger companies, shifted to the shipment schedule and cash flow to survive."

The situation that faced the US machine tooling sector is similar now for many contract manufacturers worldwide. Providers face disruption

from dynamic global competitors with powerful end-to-end offerings. And a familiar pattern of denial and price cutting is happening as a result:



"When foreign competitors gain significant market share, there are usually cries of unfair practices and an appeal to the government for protection or subsidies. This is usually followed by grim acceptance, and then an effort to lower costs and compete on price."

In the US tooling manufacturing sector in the 1980's only one company bucked the trend and continued to grow. The [HAAS tooling](#) company adopted an agile business structure and a relentless customer focus to ensure it could navigate the new industry landscape. And it still survives and grows today.

The lesson from HAAS is that significant shifts in competitive intensity don't have to mean annihilation. But customer orientation is central to remaining relevant and integral to your clients' futures:



"Monitoring customers and markets is now a matter of survival. To survive and grow in the new economy, manufacturers need good external information to know where to find new opportunities. And they need real-time information to change their services as fast as their customers demand."

5

TRADITIONAL SALES & MARKETING IS **FAILING**

Many contract manufacturers are seeing diminishing returns from their traditional sales and marketing activity.

As sales and margins flat line, CMs are doubling their outbound efforts. They're hitting the exhibition circuit harder, ramping up sales calls and visits and running more one-off 'activation campaigns'. But one-off sales pushes are just not moving the dial long-term.

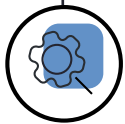
So, what's going wrong?

The world has changed. Outbound sales techniques are failing. Customers and prospects are suspicious and resistant to traditional sales drives. They are researching competitors online and making more buying decisions way before they interact with real-world sales teams.

Statistics show that prospects are up to 70% of the way through their buying decisions before they are ready to speak with sales.

57-70% of the B2B buying journey
is now taking place before buyers
engage with sales Source: Gartner

70% COMPLETE



Customers
due diligence
begins

Through this period,
customer needs are well
scoped, priorities are set,
requirements are largely
defined, solutions are
compared, and price is
initially benchmarked.



Customer's
first contact
with supplier



Customer's
purchase
decision

Most CMs are unprepared for these challenges. Sales, marketing and account management teams are siloed. Teams are not working with each other to identify and create the content their prospects need to navigate the buying

challenges ahead. They haven't got the digital strategy to be discovered by those they need to connect with most. They can't automate and accelerate their customer's journey across long and complex sales cycles.



And the problem is becoming systemic:

- Right-fit customers aren't finding CMs
- Leads are being lost
- Sales resources are wasted on short-term revenue fixes
- Revenue becomes lumpy and non-recurring
- Investment in marketing is limited
- More sales opportunities are lost

Without better cooperation and coordination between sales and marketing, you won't ever emerge from this cycle. But get this alignment right, and you can accelerate your sales growth.

Companies with strong sales and marketing alignment are [67% better at closing deals](#) and generate [209% more revenue from marketing](#).

[87% of sales and marketing leaders](#) say collaboration between the two teams enables critical business growth.

5. TRADITIONAL SALES & MARKETING IS **FAILING**



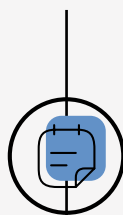
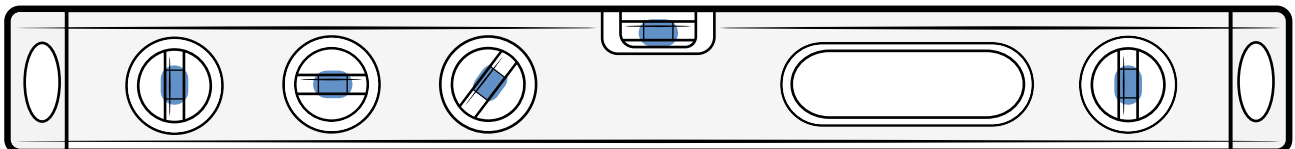
When your sales and marketing team work together, their activities can become more self-sustaining. Teams can work in alignment to identify right-fit leads and build a larger brand narrative

that keeps prospects engaged and interacting with your company. As the researchers Binet and Field put it, B2B sales and marketing efforts can dovetail to produce powerful revenue results:

“Brand communication creates enduring memory structures that increase levels of demand and reduce price sensitivity. Sales activation triggers these memories and converts them efficiently into immediate sales.”

Working as one, teams can generate the right content for your audience, give them the brand experiences they need and continuously deliver campaigns that achieve your sales goals.

But it is not easy to achieve this kind of alignment.



As buying cycles get longer and more complex, sales, account management and marketing must work together as unified ‘revenue operations’ teams to identify, nurture and close the right growth opportunities.

6 LACK OF MARKET RESEARCH & SIZING

Contract manufacturers need hard data to understand the size of their available market and identify the verticals where they can grow most sustainably.

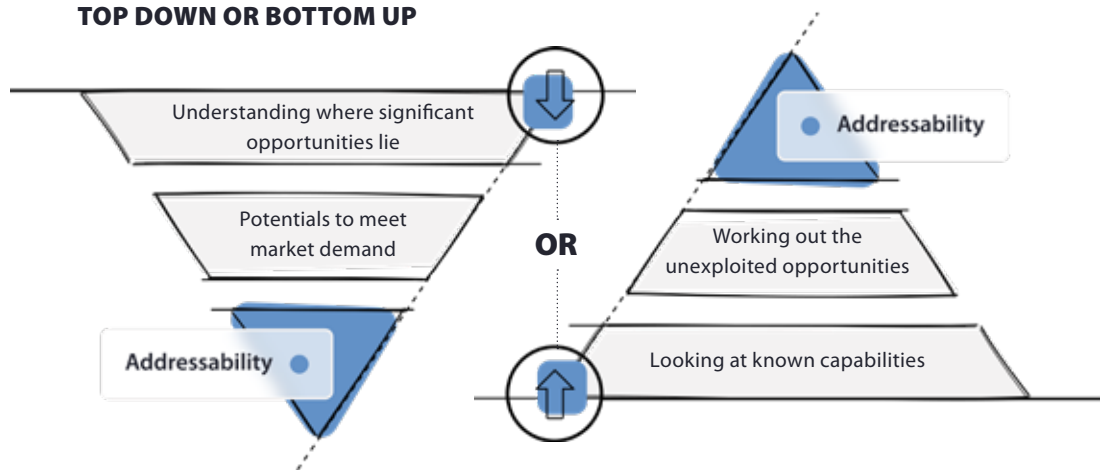
Market research and sizing is the process of using internal and external data to determine your total addressable market (TAM) - the segments where your particular business has the potential to sell more, more profitably and in the long term.

You can take a top-down or bottom-up approach to market sizing.

You can first look at the macro data to see where your industry's most significant opportunities lie, narrowing down your potential to meet market demand according to your specific capabilities.

Or you can start with your company itself, looking at your capabilities first and working out the unexploited opportunities where you could address market needs most effectively.

HOW TO CALCULATE TOTAL ADDRESSABLE MARKET – TOP DOWN OR BOTTOM UP



6. LACK OF **MARKET RESEARCH & SIZING**

Each process requires insight and data around your capabilities, client relationships, and the profitability of the deals you currently strike. But it also requires access to in-depth industry data, possibly including areas where you do not have expertise.

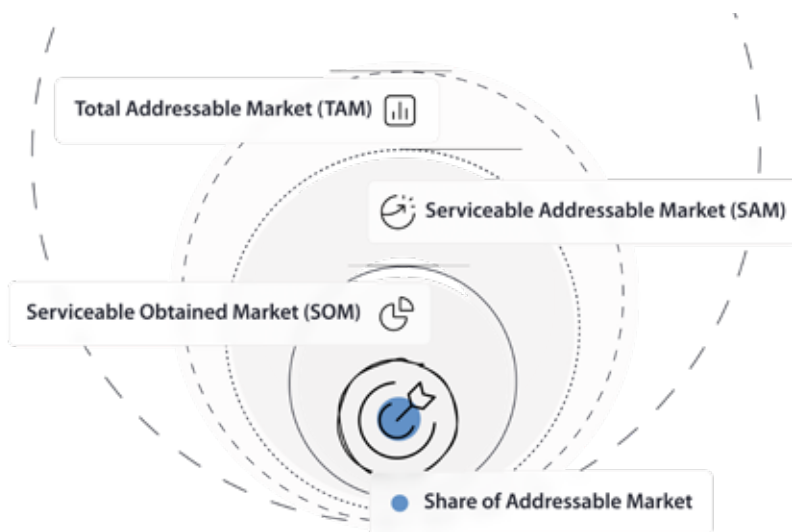
Get this process right, and you can confidently project revenue available to you in new and exciting areas and gain insights into the value of various sub-segments.

These insights can drive and inspire investment in your business, and they can give you direction to refocus your branding and marketing efforts to speak to market segments who need your services.

Getting hold of comprehensive and reliable industry data can be difficult and expensive, especially for niche markets or emerging industries.

Moreover, some markets are in perpetual flux, with disruptive innovations threatening to alter the landscape for your organisation and sector radically. Macroeconomic and geopolitical elements, like China's stance on Taiwan, have huge implications for contract manufacturers within the semiconductor domain. It presents both formidable challenges and potentially lucrative opportunities. Make the wrong choices now, and you can go down deep and expensive rabbit holes in the search for growth.

You must validate your findings as much as possible through ongoing discussions with industry contacts and expert research. Regularly update your market sizing model to account for new data, trends, and market developments.



Contract manufacturers looking to remove themselves from flatlining segments must find expert partners to help build data-driven growth plans.

7 COST OF RECRUITMENT & SCARCITY OF TALENT

Research by Make UK says there are currently 95,000 live vacancies in the UK manufacturing sector alone, with a severe talent shortage making the industry an employees' market.

In the same report, they estimated £21 million a day was lost in output in 2022 due to unfilled vacancies, a drop of £8 billion in UK GDP over the year.

Across the world, it's taking more time and money than ever to fill vacancies. The average manufacturing role in the US costs \$5,159, and the time to appoint a new worker is over 60 days. Deloitte says there will be 2.1 million unfilled jobs in manufacturing in the US by 2030.

With the rise of Industry 5.0 and a new era of generative AI promising to transform the CM world, the race is on to attract the best and most creative individuals to your business. But it's not a question of throwing money at the problem.

Recruiters realise that job moves are not just based on salary anymore but increasingly on values and business culture. A company's working practices and its ethical and environmental records can all figure in candidates' minds when applying for jobs and choosing where to work.

7. COST OF RECRUITMENT & SCARCITY OF TALENT

Millennials, in particular, say they will turn down jobs if a company's values clash with their own.

Your website and social feed are a shop window for customers and workers alike.

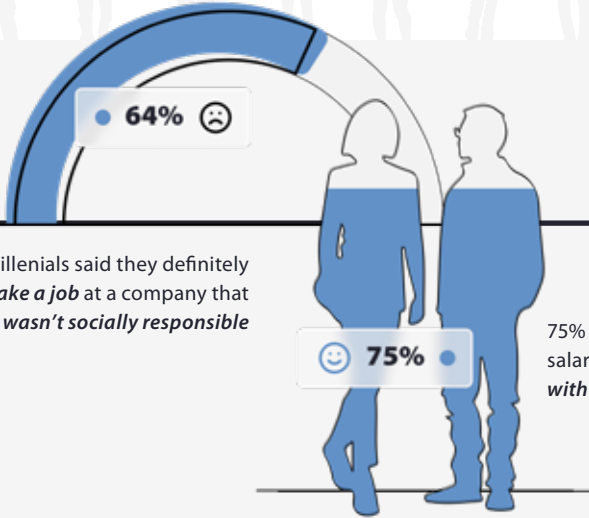
So, what are they saying about your brand and what you stand for?

Does your brand speak to your mission and purpose - does it give a sense of your unique personality and priorities as a business?

Are you giving prospective employees reasons to come and work with you over your competitors?



If your 'brand' is no more than a set of features and a rate card - a bland echo of every other business in the contract manufacturing sector - you're missing a critical opportunity to engage and inspire the talent that should be driving your future growth.



64% of millennials said they definitely **wouldn't take a job** at a company that **wasn't socially responsible**

75%

75% said that they'd take a smaller salary to work at a company **with environmentally responsible policies**

Source: [Unily: Future of the Sustainable Workforce](#)

IN 2024 CONTRACT MANUFACTURERS **NEED TO BE MORE THAN 'ANOTHER SUPPLIER'**

Contract manufacturers have never been household names. But then again, they were never meant to be.

For decades, they've operated beneath the radar. Clients preferred it that way, and their loyal suppliers have obliged, becoming instead the unsung heroes of industrial growth.

But, new threats and opportunities in the manufacturing world mean contract manufacturers (CMs) can no longer afford to be invisible suppliers in the value chain.

Their status as discrete middlemen is threatening their ability to thrive and grow.

But, it doesn't have to be like this.

NE

This is not the end - it is the beginning. If you recognise these existential risks you might want to explore how to overcome them.



To that end you can [download a copy of our *Unsung Heroes*](#) – A plan for growth for contract manufacturers.

Or, take the next step below.



Next Steps

Schedule a Discovery Consultation

Book a FREE consultation to review your setup and situation

Begin your Journey



Equinet
Growth Marketing