

**CASE STUDY:**

**Texas Based Manufacturing Company (TBMC)**

The company information has been anonymized for this posting.

## ABSTRACT

In 2010 a small Texas based maker of control room consoles was looking for new markets for its products. The company undertook a project that would result in significant future growth, but only after significant challenges were met and significant changes were made were implemented. This Case Study demonstrates how careful research, creative strategic thinking, effective communication and building strong relationships directly led to the firm's transformation and success.

The company's leadership recognized the resources available to them and effectively avoided several major pitfalls. Although it is a small, family owned enterprise the company demonstrates remarkable diversity of thought and a very intelligent approach to problem solving.

## TBFMC BACKGROUND

TBFMC, LLC is a manufacturer of industrial grade furniture for control rooms, operations centers and command centers. The company is located in a Houston, Texas suburb. In 2010 TBFMC had \$4.7 million in sales to clients scattered all over the world, most were large general contracting companies. The company was, at that time, a small family owned operation with 9 employees. Manufacturing of the company's designs were outsourced to a precision fabricator in Houston.

TBFMC was founded in 1997 by veteran Honeywell sales manager. The team provided a key competitive advantage for the company, with years of experience and an eye on the cutting edge of technology and trends, they clearly understood the needs and concerns of their target customers.

TBFMC's furniture is purpose built from stainless steel and designed for constant 24/7 use over decades of service. Specialized features can include shielded channeling for cables, various footings, a choice of virtually any color of paint or powder coating and full customization to fit any application. These differentiators allowed TBFMC to carve out a small, but lucrative niche.

## THE PROCESS

In 2010 TBFMC was looking to expand revenue, they brought in a student, Gary White, to conduct research and assist in devising a strategy for expansion. Gary examined their current customers for common traits. He found that 85% of their customers were in the US, 10% in the Middle East, and the rest scattered throughout Europe and Asia. The top 20% of customers were responsible for 95% of revenue and almost all were mid-sized to large regional general contractors who were involved in industrial or infrastructure construction. With this data Gary was able to develop a profile of their target customers. He then began using business information services such as Hoover's and Dunn & Bradstreet to identify target companies in 3 high growth regions, The Middle East, Asia and Latin America. Some areas were quickly ruled out for various reasons; Brazil and China would require the company to form new entities and manufacture their products within their borders, this was not something that TBFMC was in a position to do as a company. Mexico was ruled out due to security concerns, as were Israel and Pakistan.

In April of 2010 Gary found a hotspot for target companies, 22 were operating in Panama City, Panama.

#### THE OPPORTUNITY

In 2010 Panama was just over 2 years into the Panama Canal Expansion Megaproject (Appendix B). The \$5.2 billion initiative passed by Panamanian voters in 2006 had begun in October of 2007 and was well underway (Funke 2016). The cluster of target companies that Gary had discovered were all somehow involved with the expansion project. They included established American, European, Brazilian, Colombian, Mexican and

Panamanian firms who had set up offices in Panama, as well as a few that had formed just for the project.

While the expansion project was a once in a lifetime opportunity for TBFMC, in both potential sales and in the close proximity of so many potential future customers, Panama was a good choice for TBFMC for several other reasons;

1. Since the opening of the Canal in 1917 Panama has been a trade hub, and serves as a gateway to Latin America (Appendix C).
2. Since the ouster of dictator Manuel Noriega in 1989, the country has experienced increased stability, decreased poverty and sustained economic growth.
3. Since 2000 the Panamanian economy has grown at a rate of nearly triple that of the US economy.
4. Panama and the US were in the midst of working out a free trade agreement (USTR 2016)..

Panama was (and is) an up and coming economy, developing quickly and experiencing monumental growth. The internal market is ideal for TBFMC, but the “crossroads” of the canal brings many other opportunities as well.

The TBFMC team was unsure how to get started in Panama so they decided to contact the US Department of Commerce’s International Trade Administration. The US Commercial Service deploys teams to embassies all over the world to promote US businesses and provide services to US firms seeking to do business in that country. Services include, market research, company and individual background screening and even introductions.

TBFMC decided on the “Gold Key Service” described on the USITA website as follows;

*“The Gold Key Service provides U.S. firms traveling to a foreign market with up to five pre-screened appointments to establish relationships with potential overseas agents, distributors, sales representatives, business partners and other local entities in-country.”*

For a sliding fee based on the company’s size, the USCS provides a guide and introductions to potential partners and customers as well as a liaison to facilitate the meetings (USITA 2017).

In September of 2010 Gary White was moved from researcher to consultant and accompanied the management delegation on their first trip to Panama for a 2 week “Gold Key Service”. During the visit the TBFMC team met with 13 potential customers and/or partners. The meetings included The Panamanian Weather Service, The Federal Police and the Canal Authority and the General Contractor as well as several smaller contractors. The team returned to Texas optimistic and loaded with contacts were but faced with some hard questions..

## THE HURDLES

It was apparent that price was going to be an issue, while it was true that TBFMC’s products were superior, when dealing with contractors, budget is the primary factor. They would be willing to pay a premium for the added features, but only within budgetary constraints, TBFMC’s prices were too high for the market.

The team was faced with a critical problem; how could they lower their costs? The major growth is in emerging markets. Industrial and infrastructure construction were booming in developing economies. The competitors that were capturing these markets had an inferior product, but they leveraged the lax regulations and lower wages of these emerging markets to reduce their costs, and subsequently their prices were so low that TBFMC simply could not compete.

TBFMC had never done their own manufacturing, but the fabricator they used was a massive operation and TBFMC represented only a small part of their total business. The fabricator had an experienced staff and a well developed knowledge base and served as a manufacturing partner offering input on materials and designs, as well as constant process improvement to reduce waste and costs. The belief was that it would be difficult to find a fabricator of this quality in Panama, or anywhere outside of the US.

The primary concern that Gary and the TBFMC team had was the protection of their designs. TBFMC's consoles have very specific design features that the company has developed over the years based on input from customers. This was, after all, the primary differentiator for the company's products.

#### ZONA LIBRE

In May of 2011 the TBFMC team returned to Panama for another "Gold Key Service" trip, this time meeting with 6 fabricators and touring their facilities, and meeting with various government agencies to discuss IP protections and the "Zona Libre" or "Free Zone" (Republic of Panama 2017) .

The Panamanian government established several “free trade zones” within the country. These areas were set up for companies to do warehousing, manufacturing or assembly of products without officially importing them into the country. This reduces significantly the costs, time and paperwork associated with exporting and offshoring (USITA 2017).

## COMMUNICATING THE SOLUTION

Through the introductions provided by the USCS liaison Gary and the team began to cultivate relationships with various officials within the Panamanian government that assist companies in doing business within the country. These relationships would soon prove invaluable. On this second trip the TBFMC team met with representatives from a Portland, Maine based fabricator that had moved its manufacturing to Panama’s Colon Free Zone in 2004. The company was a supplier of stainless steel fixtures, furniture and precision parts chiefly to the shipbuilding industry.

Gary began to reimagine the TBFMC supply chain. Through the strong relationships that the team had established with government agencies, detailed due diligence on and careful planning with strong contingencies, the company developed a new vision and a new direction.

## TESTING THE THEORY

TBFMC struck a deal to have the new fabricator make the consoles for any orders received from the Canal Authority, or any of the contractors associated with the project.



They hired an experienced, local project manager and began submitting bids with the help of the fabricator. The company began receiving orders and the fabricator began making any panels that had the company's special features in its Maine facility in the US and the rest of the components were made and the consoles were assembled in Colon, in Panama. Additionally, the company began to source its steel in Panama rather than the US. The combined savings lowered the manufacturing costs by more than 30%. Suddenly, TBFMC's superior products were also very cost competitive.

#### CHANGE AND COMPLIANCE

TBFMC began manufacturing in Panama in October of 2011 with orders from the Canal Authority. They kept the Panama operation separate, just accepting orders associated with the government and the Canal until March of 2014 when they moved all manufacturing to the new fabricator. The company effectively worked out its new supply chain, tested its new fabricator, learned a new business culture and regulatory environment and sold an additional \$1.8 million over that 3 ½ year period.

## RESOURCES

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Images of the completed Panama Canal (Panama Canal Authority 2017).



