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Small is just right

A go-slow strategy

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Mark Ludwig and Kirk Schuch's components business is ensconced in a former slaughterhouse whose smooth brick and mortar walls bear witness to its grisly past: It can easily be hosed down. Maybe all small businesses should have walls like that — because, as everyone knows, a young company can bleed its owners white.

But Schuch and Ludwig are determined to keep those walls as clean as a brand-new ledger. They are foregoing bank loans and other potentially addictive financing. They have deliberately proceeded with their specialty component company on a pay-as-you-go basis.

"Rather than go to the bank and slit our wrists and having our blood flowing out over a banker's table," Ludwig says, dripping a bit with metaphor, "we said, 'Why don't we start small and work this thing one step at a time, so we can have enough equipment and enough money so that we can do what we need to do — and not be so ambitious that we become so quickly over leveraged.'"

Few might have willingly gone this route in the go-go '80s when loans were more available. But, in the go-slow '90s, this may be the strategy of choice. Their company, TriMet Industries L.C. on Cass Road south of Traverse City, has exceeded its \$10,000 revenue goal for its first month of business. Their secrets? It helps to have customers right from the start. And it helps to be small, with a core of expertise.

"On our first day we shipped \$3,000 worth of product," Ludwig says. "We were manufacturing the day we opened our doors. We bolted the equipment down and we were running. After five weeks we have four customers, up from two."

The partners' abhorrence of debt may be good business. It may also stem from their experience with a military automotive parts manufacturer. Ludwig, a turnaround expert, took charge at a Mancelona supplier of military auto parts. It was so heavily leveraged that their best efforts failed to save it. "We increased shipments by 40 percent and reduced the staff by 20 percent. . . . But the plant eventually didn't make it because it was overleveraged. There were some jobs

that were not profitable, and then the military business just stopped."

Schuch, who worked at the company, and Ludwig got an up-close look at what debt can do to a company. "The company had lost a \$1 million a year for the three years prior to my arrival, and it was pretty much out of money.

"They were shipping out \$5 million a year in components, and they had \$4.5 million in debts at reasonably high interest rates, and they were supposedly making 10 percent on shipments. You just have to run those numbers, and you know there's nothing left. And they actually were losing 20 percent."

The partners didn't want that kind of debt for their business. Neither did they want to pay for a high-price existing business. "Rather than buy someone else's headache — and paying a premium for that — we decided to start up our own company," Ludwig says, adding that he put some of his own money into TriMet.

The pair figured that their expertise alone would be nearly enough to launch the business. Ludwig, the company's president, holds a Harvard M.B.A. and has undertaken a number of business turnarounds, and Schuch, the executive vice president, worked for more than a decade in the metal componentry field. "He really knew what he was doing,"

Ludwig says. "He had learned pretty much all you can learn about how you can work with metal."

Specialized metal and plastic componentry was the ticket, they decided. From their past work, they knew that many manufacturers in northern Michigan need certain parts that they may not be able to produce themselves. If a product has nine parts, they might not have the expertise to produce the tenth. "Our business is almost like a service business or a job-shop business," Ludwig says. "Our customers may need some brackets, some fittings, or some housings." One product is the mechanical workings of a watertight door that individuals with disabilities can use to enter and exit a bathtub.

In early March, TriMet had one employee, and was in the process of hiring a welder. Ludwig expects much of the future customer base to emerge out of their previous business contacts.

The goal will be to provide solutions, or as Ludwig puts it, "intelligent subsystems." "Your margins on subsystems are greater than commodity components," he says, "but you don't have the end-user headaches." He also foresees the manufacture of prototypes. "I like it for two reasons. Number one, it has reasonable margins. Number two, when they go into production, the company might say, 'They designed the fixturing, and they may be able to work with us.'"

Ludwig says he is not turning his back on commodity parts or products that might be well-suited for northern Michigan — especially those related to outdoor recreation or environmental processes.

Still TriMet is mostly counting on the subsystem business to grow quickly, Ludwig says. "In our 2,500 square feet we can go to half a million dollars," he says. "We might be jammed to the walls, but we'll get there."

And the blood-spattering is likely to be a thing of the past.

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