

Job shop owners offer advice on getting started in the business.

Cutting it Your Way

► BY MIKE PRINCIPATO

Business ownership has long been a cornerstone of the American Dream. And more people than ever are pursuing the dream.

According to the U.S. Department of Labor, approximately 10.5 million Americans were self-employed in 1996. That number is projected to grow to 11.6 million by 2006.

Statistics show that small and start-up businesses are truly driving the U.S. economy by creating more jobs, shipping products overseas and winning federal contracts.

Against this backdrop, it is only natural that a machinist working for a boss in a shop would wonder what life as an owner would be like.

The machine shop owners interviewed for this article shared their thoughts about the industry and offered suggestions to those considering opening their own shop.

Location, Location, Location

The determination of where to physically locate a machine shop may be one of the most critical steps in getting started, according to industry experts. They say that proximity to both customers and suppliers should drive this decision.

"Location is very important when you are starting out if you don't have a customer base established," said James Kutz, owner of M&J Machine Shop Inc., Akron, Ohio. "You either have to

be near your customer base or you wind up traveling a lot."

Beyond that, Lynn Turner, owner of Turner's Machine Shop, Phoenix, said that workforce availability is another factor to consider when setting up shop. "One problem here, with regard to location," he said, "is most of our job candidates typically live too far away from the shop. If you're not located near where people actually live, you'll have difficulties getting people to drive long distances, especially with

traffic the way it is nowadays."

In terms of the actual facility itself, Eugene Aaron, owner of Aaron Machine Shop, Grand Prairie, Texas, said would-be owners should consider both present and future needs. "Be sure you build it big enough for expansion," he said, "and make sure the concrete floor is heavy enough for the weight you plan to put on it."

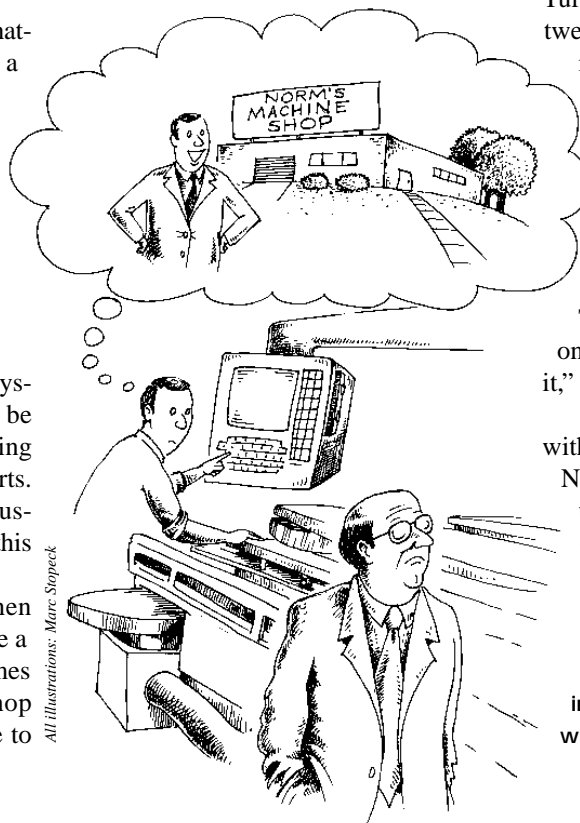
Money Changes Everything

The key for fledgling shop owners, Turner said, is striking a balance between their debt load and revenues. "It is tough," he said. "You need to have enough money because you might have to carry customers 30 to 90 days to get their work.

"I have seen a lot of shop owners get so heavily financed that when the money doesn't come in, they go out of business. They need to grow slow and not take on so much debt that they can't make it," Turner said.

Bill Proehl, a commercial lender with Vista Bancorp Inc., Phillipsburg, N.J., said he always advises startups to consider cash like blood. "Without cash, a machine shop dies, no matter what the business' income statement says."

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All illustrations: Marc Sipeck

Ken Yancey, CEO of the Service Corps of Retired Executives (SCORE) Association, Washington, said that organizations like his can help prospective business owners properly predict their capital needs right from the start and avoid difficulties later on. SCORE offers one-on-one counseling and group training for small and start-up businesses through 389 field offices across the U.S.

"It is very important to make sure you adequately project your capital needs, and certainly starting a machine shop is capital asset-intensive," Yancey said. "Most businesses fail because they underestimate their capital needs at startup."

Yancey said it takes time to build a client base. In the meantime, the would-be shop owner needs to ask himself if he has enough working capital until an independent cash flow is established.

Equipment costs are probably the highest hurdle for new machine shop owners to leap. And even if they succeed, it will assuredly remain an ongoing challenge for decades to come.

Turner, who started his shop in 1966, said, "You're never equipped for the job that comes in the door. It is a constantly changing field, and you constantly need newer and faster equipment."

Thomas Huth, a foreman with The Machine Shop in Fort Wayne, Ind., said that those considering opening up a shop should just accept that bills for equipment are going to be a fact of life.

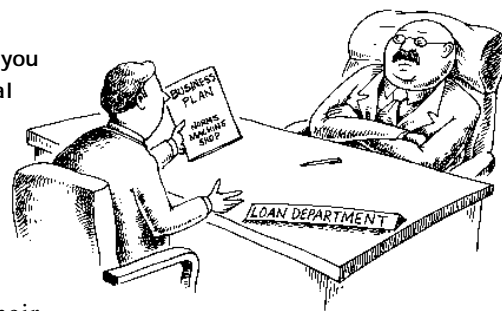
"You always will have machine payments," said Huth. "The big problem is that a new CNC machine lasts about 10 years before you have to throw it away and buy a new one. It costs you more to repair it than making payments on a new machine." He added that making payments on one or more machines is "pretty much a constant thing."

Leasing equipment instead of buying it is also an option, according to Kutz, a shop owner since 1974. "It is probably the most popular method for newer shops," he said.

Indeed, some shops go so far as to acquire equipment and then look for work to accommodate it, Kutz added. "It's tough to find the business and then go into hock for the machines, but that's the best way to do it." He also recommended that would-be shop owners

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— Ken Yancey, Service Corps of Retired Executives Association



concentrate on building up their business. "Don't spend your profit ... throw it back into the business," he said.

Pounding the Pavement

Huth said building a good client base is the biggest challenge his shop faces on a day-to-day basis. Sometimes the hunt for customers means literally going out and knocking on doors.

Kutz, whose shop receives roughly half of its business from larger machine shops and the other half from selling its line of hose- and tube-processing equipment, feels that the Internet has become a good promotional tool. "We have tried a little bit of everything," he said, including distributing flyers and placing advertisements in newspapers. "The Internet has provided an easy way to do things."

Kutz said a reliable source of business can come from manufacturing representatives. Usually their fee is 5 or 10 percent of the job, but they only get paid after they sell the product. "We trust our rep to get us the best price for our product."

Through the years, however, Kutz has learned that timing is, perhaps, the biggest factor in determining whether his shop does or doesn't land an order. "You can beat on a customer's door for 5 years and nothing will happen. But if you get him out of trouble just once, he will remember you. I have gotten more work that way than any other," he said.

Keeping Employees Happy

The difficulty of finding skilled labor is a universal lament among machine shop owners, and the smaller shops often find that they are putting the time in to train people only to have them take that training to a larger organization where they can pull down higher wages.

"There is not enough good help around," said Huth. "We're just a small job shop, and it's hard to pay the wages that a large shop or corporation pays."

One weapon to combat this type of turnover, said Turner, is to be sure and pay attention to compensation other than salary. "One of the things job shop owners overlook are the benefits," he said. "If you don't offer good benefits, (such as health insurance and paid vacations) you are flat out not going to have employees. Benefits are as important as wages."

Kutz understands why employees move on to larger firms and advises would-be shop owners to come to grips with this reality. "Every once in a while you come across a very talented person—maybe one in 20—and it's only natural that after 2 or 3 years he would go to a bigger shop that is paying more and has better benefits."

But complaining about labor is not going to solve the problem—it is just something that a machine shop owner has to deal with, according to Aaron, 78, who has scaled back from running two seven-employee shifts during the shop's heyday to just him and his 72-year-old brother.

Labor headaches, in Aaron's mind, are inevitable. After spending up to 18 months training employees, he said they have sometimes quit without notice. Of course, this in no way relieves



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—Machine shop owner Lynn Turner, *Turner's Machine Shop*

the shop owner who has to have an order filled tomorrow.

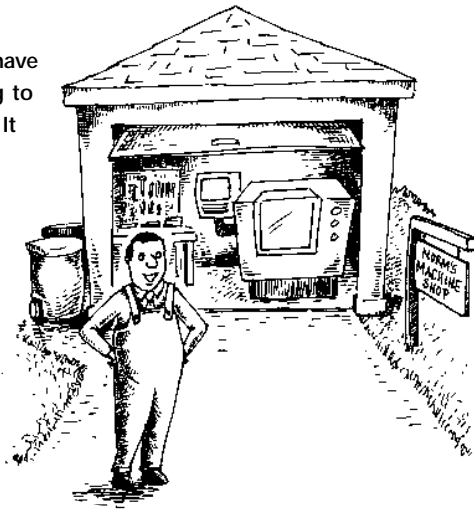
"If you've got a job promised for tomorrow," Aaron said, "the customer is not going to call up and say 'Did your employees show up?' All the customer wants to know is, 'Are my parts ready?'"

The Long Haul

Current owners say would-be machine shop owners should be aware that the road ahead will be bumpy.

"It is a struggle," Turner said. "You have to be dedicated, and you have to be willing to work more than you would anywhere else. It is not a job; it is a lifestyle."

After more than 45 years in the business, Aaron said that his biggest challenge has been collecting payments from customers. "You depend on your



income for the work that you have produced, and if enough customers take 30 to 90 days to pay, you could run into some trouble," Aaron said. And he's blunt about the hard facts of life in this business: "The customers have their parts and they don't care if your shop makes it or not. I had to borrow money to make payroll when I had \$10,000 or \$15,000 on the books that I had trouble collecting."

Huth added, "There are a lot of headaches. Sometimes you must use

your own savings account or personal credit cards to get through bad periods."

Aaron also emphasized that being in charge doesn't mean you get to sit behind a big desk in an air-conditioned office. "It is a very competitive business," he said, "and I always knew I'd have to get in and earn my wages. You can't sit back and do nothing."

Kutz said that running the shop is actually the easy part. Filling orders has never been as difficult as finding customers. "Once we have a customer, we keep them. I have had most of my current customers for over 20 years," he said.

In the end, Kutz said you must enjoy the work and the challenges.

"I love getting up in the morning and coming in here," he said. "They will have to carry me out of here. If you don't love being a machinist, I'd advise you to get the hell out of this business."

About the Author

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