

# CRAIN'S

## CHICAGO BUSINESS

# Products find a happy home

*Firms adopting profitable 'orphans'*

By H. LEE MURPHY

When Sauer-Danfoss Co., a maker of hydraulic power systems for off-highway vehicles, saw sales of its aging Series 20 product line declining three years ago, it faced a tortuous dilemma: keep making the products at a loss or drop them and risk incurring the wrath of customers suddenly unable to find replacement parts.

Ultimately, the Ames, Iowa-based company settled on a third option.

Sauer-Danfoss found a smaller precision machining specialist, Quality Control Corp. on Chicago's Northwest Side, to produce a key mechanical sealing device that prevents oil from leaking around the motor shafts. Additional work was farmed out to other small manufacturers.

Sauer-Danfoss saved its Series 20 product line and kept its customers happy while satisfying its own accountants, who had worried about the costs of maintaining the line in the face of shrinking sales.

Quality Control President and CEO Gregory Willard has a name for this outsourcing phenomenon: "orphan products."

He and other small manufacturers increasingly are being called on to churn out products no longer welcome at their mother companies. The term has been adapted from the pharmaceutical industry, in which big drug companies give up rights to breakthrough products valuable in curing exceedingly rare diseases but whose

narrow focus gives them little commercial appeal.

"Sauer-Danfoss could better utilize its manufacturing space for new products. We took over the product they had been making and they got to clean out their plant and put in new automated machining equipment for much bigger production runs," Mr. Willard says.

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Quality Control, meanwhile, has become proficient at shepherding short runs of products through its precision equipment, then resetting the machines for something else.

"For small companies like ours, a low-volume product can seem much more significant. We are set up here to make a profit on jobs of all sizes," says Mr. Willard, who estimates that 20% of his company's \$30 million in annual sales comes from orphans.

That share is likely to rise as Mr. Willard negotiates deals for a half-dozen more orphan projects. "Every company I talk to admits that it has orphan products it would like to get rid of," he says.

Indeed, Sauer-Danfoss is poised to shift production of an entire transmission to Quality Control soon. It will be a complex task, involving some 200 component parts and close cooperation with other subcontractors.

"When we started manufacturing this transmission for a customer, we were

promised that the volume would run to thousands of units a year," says Gary McConeghey, manager of purchasing at Sauer-Danfoss. "But the annual volume is running closer to a few hundred units instead."

Many big manufacturers have been selling off their factories and paring back in-house production capabilities.

"Every manufacturer is constantly faced with make-or-buy decisions. Is it better to make it yourself or buy it from somebody else?" says Bruce Braker, president of the Tooling and Manufacturing Assn. in suburban Park Ridge. "Increasingly, the large original equipment manufacturers are viewing themselves as product designers and developers and marketers. They don't want to be making all the small component parts themselves."

Robert Weisheit, chairman and owner of Robert C. Weisheit Co. in Franklin Park, a precision machining firm serving the telecom and aerospace industries, says he has watched companies such as Schaumburg-based Motorola Inc. steadily yield more of their manufacturing responsibility.

"About 15 years ago, 75% of my customers had the capability to make the parts I was producing for them in-house if they elected to do so," Mr. Weisheit says. "Now, maybe 10% of the companies I deal with could make the parts themselves. They're much more dependent on me now."

Still, Mr. Weisheit is ambivalent about orphans: Unit volume is usually

in decline, and there is little prospect for growth. On the other hand, he notes, there typically is little competition from other firms in the orphan arena, and foreign suppliers are generally too far away to be a serious alternative.

"Not a lot of people want to make orphans," Mr. Weisheit observes.

Joel Goldberg, president of Kaan Engineering Inc. in Chicago, decided on a new strategic focus in 1993, when he saw larger companies turning to outsourcing.

Kaan, a precision machining shop with 33 employees, intentionally cut back its lineup of customers but forged deeper relationships with those remaining.

When Atlas Electric Devices Co. in Chicago closed down a New Jersey plant three years ago, the firm consid-

ered discontinuing something called a falling-weight impactor, a device that tests the tensile strength of sheets of polymer plastics. Atlas was making just 10 units a year, and at less than \$10,000 each, they hardly seemed worthwhile.

Then Kaan stepped in, offering to make the impactors for Atlas. Kaan scooped up the tooling, gauges and test equipment Atlas had been using and installed them in its own plant. Now, the company schedules just two weeks each year for impactor production, then shuts down the machines and turns them over to other tasks.

"We train our people here to bounce from project to project. We've developed that expertise," Mr. Goldberg says. "When you're only in production a couple of weeks a year, you need to anticipate what orders will be far out in

the future."

It also requires a reorientation by machining shops toward more assembly work. An orphan assignment often requires a contractor to find subcontractors to make some of the components, then assemble the pieces into a finished product.

"We're specialists at metal fabrication," says Thomas Bertsche, sales and marketing manager at precision metal components firm Camcraft Inc. in Hanover Park, which makes orphaned carburetors for a large Midwestern engine company he declines to identify.

"We aren't specialists in procurement, which is what a good orphan manufacturer often has to be," he adds. "But we're willing to do light assemblies here and give our clients as much service as possible."



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