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Manufacturing -- Small

SIC: Unavailable**NAICS:** 31**Number of Businesses / Units:**
Unavailable

The Sector as a Whole

The Manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. The assembling of component parts of manufactured products is considered manufacturing, except in cases where the activity is appropriately classified in Sector 23, Construction.

Establishments in the Manufacturing sector are often described as plants, factories, or mills and characteristically use power-driven machines and materials-handling equipment. However, establishments that transform materials or substances into new products by hand or in the worker's home and those engaged in selling to the general public products made on the same premises from which they are sold, such as bakeries, candy stores, and custom tailors, may also be included in this sector. Manufacturing establishments may process materials or may contract with other establishments to process their materials for them. Both types of establishments are included in manufacturing.

The materials, substances, or components transformed by manufacturing establishments are raw materials that are products of agriculture, forestry, fishing, mining, or quarrying as well as products of other manufacturing establishments. The materials used may be purchased directly from producers, obtained through customary trade channels, or secured without recourse to the market by transferring the product from one establishment to another, under the same ownership.

The new product of a manufacturing establishment may be finished in the sense that it is ready for utilization or consumption, or it may be semifinished to become an input for an establishment engaged in further manufacturing. For example, the product of the alumina refinery is the input used in the primary production of aluminum; primary aluminum is the input to an aluminum wire drawing plant; and aluminum wire is the input for a fabricated wire product manufacturing establishment.

The subsectors in the Manufacturing sector generally reflect distinct production processes related to material inputs, production equipment, and employee skills. In the machinery area, where assembling is a key activity, parts and accessories for manufactured products are classified in the industry of the finished manufactured item when they are made for separate sale. For example, a replacement refrigerator door would be classified with refrigerators and an attachment for a piece of metal working machinery would be classified with metal working machinery. However, components, input from other manufacturing establishments, are classified based on the production function of the component manufacturer. For example, electronic components are classified in Subsector 334, Computer and Electronic Product Manufacturing and stampings are classified in Subsector 332, Fabricated Metal Product Manufacturing.

Manufacturing establishments often perform one or more activities that are classified outside the Manufacturing sector of NAICS. For instance, almost all manufacturing has some captive research and development or administrative operations, such as accounting, payroll, or management. These captive services are treated the same as captive manufacturing activities. When the services are provided by separate establishments, they are classified to the NAICS sector where such services are primary, not in manufacturing.

The boundaries of manufacturing and the other sectors of the classification system can be somewhat blurry. The establishments in the manufacturing sector are engaged in the transformation of materials into new products. Their output is a new product. However, the definition of what constitutes a new product can be somewhat subjective. As clarification, the following activities are considered manufacturing in NAICS:

Milk bottling and pasteurizing; Grinding of lenses to prescription;
Water bottling and processing; Wood preserving;
Fresh fish packaging (oyster shucking, Electroplating, plating, metal heat fish filleting); treating, and polishing for the trade;
Apparel jobbing (assigning of materials Lapidary work for the trade;
to contract factories or shops for Fabricating signs and advertising displays;
fabrication or other contract operations) Rebuilding or remanufacturing

as well as contracting on materials owned by others; machinery (i.e., automotive parts)
Printing and related activities; Ship repair and renovation;
Ready-mixed concrete production; Machine shops; and
Leather converting; Tire retreading.

Conversely, there are activities that are sometimes considered manufacturing, but which for NAICS are classified in another sector (i.e., not classified as manufacturing). They include:

1. Logging, classified in Sector 11, Agriculture, Forestry, Fishing and Hunting is considered a harvesting operation;
2. The beneficiating of ores and other minerals, classified in Sector 21, Mining, is considered part of the activity of mining;
3. The construction of structures and fabricating operations performed at the site of construction by contractors, is classified in Sector 23, Construction;
4. Establishments engaged in breaking of bulk and redistribution in smaller lots, including packaging, repackaging, or bottling products, such as liquors or chemicals; the customized assembly of computers; sorting of scrap; mixing paints to customer order; and cutting metals to customer order, classified in Sector 42, Wholesale Trade or Sector 44-45, Retail Trade, produce a modified version of the same product, not a new product; and
5. Publishing and the combined activity of publishing and printing, classified in Sector 51, Information, perform the transformation of information into a product where as the value of the product to the consumer lies in the information content, not in the format in which it is distributed (i.e., the book or software diskette).

Rules of Thumb

5 times SDE plus inventory

Pricing Tips

"For manufacturing companies with sales of \$1 to 5 million, a crude rule of thumb is 3 to 4 times SDE, assuming the company is reasonably well established and viable. As company size goes up, the multiple will go up."

Factors to look for: "Sales/profitability trends; SDE (and trends); industry trends; years in operation; fixed asset value, seller financing. Risk factors: technology, competition, industry trends."

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