Caught In The Jaws Of Change

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A 1987 report “Technology and the American Economic Transition” from the Office of Technology Assessment predicted that “during the next two decades, new technologies, rapid increases in foreign trade, and the tastes and values of a new generation of Americans are likely to reshape virtually every product, every service, and every job in the U.S.” The report warned “these forces will shake the foundations of the most secure American businesses”.

It has been more than 20 years since that report and the jobs, products, and services have changed beyond most people’s imagination. But I don’t think that anybody predicted what would happen to America’s small communities as a result of large manufacturers closing plants, sourcing foreign products, and forcing cost reductions.

Delphi (previously Delco) is still the largest U.S. auto parts supplier, but of the 185,000 people who used to work for Delphi only 50,000 are left. Dayton, Ohio, was once the headquarters for Delphi, but they hung on too long trying to save the factories and union jobs. Eventually Dayton lost 40 percent of its population

In Newton, Iowa, Maytag was purchased by Whirlpool, which decided to close the Newton plant with 3,800 well-paid workers in a town of 15,000 people. The production has gone to Mexico, and the town leaders are trying to diversify into wineries, a cheese plant, and maybe an auto racetrack which will provide 1,000 low-paying service jobs.

In 1986, Oscar Mayer had a meat packing facility in Illinois, which paid the local people $13 per hour with good benefits. Cargill Meat solutions purchased the plant and immediately lowered the wages and began hiring immigrant labor. There are 2,500 workers in the plant making $13 per hour 22 years later and the town’s population is now 35 percent Mexican. Cargill is the largest employer in the area and pays a lot of taxes, but some locals feel it is legitimized slavery.

These changes are hardest on small rural towns in the Midwest and South. Many are just one large plant away from being devastated economically. When the plant closes, the people have to either commute to large cities for a job or accept a low paying service job. Sometimes the only employer is Wal-Mart. (This is the double whammy for most towns because it provides low paying jobs — often at 50 percent of what a manufacturing job would pay — and a big store like Wal-Mart can eliminate what is left of the main street businesses.)

America needs to get away from spending all of the time and money to attract large foreign companies to build manufacturing plants in their states. These large plants cost the state enormous amounts of money and taxes to land and they only help a small part of the state.

One answer is to focus on retaining and expanding their small and midsize manufacturers (SMMs). SMMs offer good wages and benefits (the average manufacturing wage in the U.S. for 2007 was $57,000). These jobs are technical, but a better alternative than most service jobs. These family-owned and privately held SMMs may be the last hope for trust and security. SMMs are already a part of the small towns.

We Need a Paradigm Shift

The old paradigm of being loyal to your customer, depending on a few large customers, and focusing all of your resources on improving your operational systems to reduce cost and waste are not working. We have learned that we can't expect large manufacturers to have any loyalty to the nation, the suppliers, or to the small communities. Many towns and suppliers waited too long in hope business would return like the old days. The small manufacturing suppliers were also in denial about global changes and waited too long to find alternatives.

It is time to think differently about how we can stop the decline of American manufacturing and consider new ways to grow in this globalized world. If we are to have a chance at growth, all manufacturers need to examine the obstacles to growth with unflinching reality.

Contrary to the doom and gloom scenarios, SMMs can compete in the new economy and against foreign competitors — but they need to adopt new strategies to compete.

Profiling Your Customers — First, SMMs need to do a good review of their customers. Profiling means identifying between the bad and the best customers. Because of the pressures of globalization, many customers will not be good customers. In their efforts to survive, some customers will demand too much from their suppliers and can inadvertently put you out of business. So continually finding new customers and even firing some customers is necessary for survival. This is perhaps the most important change, yet it has many ramifications.

Diversify: Find New Customers and Markets — Finding new customers and markets means taking an aggressive approach to expanding the number of customers in existing markets and also finding new markets. It usually requires expanding sales out-of-state and developing some method of generating inquiries. It will require new methods for prospecting and sometimes new sales channels, or in some cases even the first outside sales person. This will, in most cases, automatically lead to changes in products and services.

Use a Different Kind of Organization — The pyramid or functional organization used for so long to efficiently manufacture products will (by its very design) not work. This traditional manufacturing organization (known as a functional organization in textbooks) worked pretty well when the markets were stable and the same product lines could service most customers. It also worked well when there was a sufficient demand to keep the organization's utilization at high levels. It doesn't work so well

for finding new customers and markets, or when low price competition enters the market.

There are too many levels of management. It is too bureaucratic and the decision making is too slow to compete in the new economy. The biggest problem with the pyramid model is its inability to recognize and exploit new market opportunities.

Joe Kumpf, of Minster Machine in Ohio, recognized this dilemma when his company decided they had to diversify into new markets with new products. Minster changed to a new type of organization that works well, in a dynamic environment, and in new markets. It is a flat organization with multi-functional groups (divisions) with the ability to find and exploit new product and market opportunities. I call this new organization a Prospector organization. Prospector organizations are flat, have many business units or divisions, and are decentralized.

*Sell **Value** Not Price* — Trying to be the low cost manufacturer in a market overrun by foreign suppliers is not a valid strategy. SMMs need to learn to sell value.

John McFarland, Chairman and CEO of Baldor Electric, says, “We try to build our strategy around providing our customers with the best value. We define value as having four components: quality, cost, service, and time and in an equation of customer perception or **Cp = (Qp x Sp) / (C x T)**.”

Where:
Quality (Qp) — is perceived by each customer differently
Service (Sp) — is also perceived by each customer differently
Cost (C) — a very measurable variable
Time (T) — a very measurable variable.

McFarland says, “We believe that we can increase value if we increase quality and service. Baldor also increases the customer’s perception of value when they continuously work at decreasing costs and time (delivery). Some customers put more emphasis on one component than another, but they all want all four. Additionally, we don’t believe that customers only buy where they get the best price. They buy where they get the best value.”

He adds, “A good example of this would be Toyota. Toyota is taking market share from GM, Ford, and Chrysler, and is charging a higher price for their cars than any of these three competitors. So why doesn’t the lowest price get the order rather than the highest price? Because customers buy where they perceive they get the best value and today in automobiles many people perceive that Toyota offers that.“

Focus on Workforce Education and Training

A report by the National Association of Manufacturers, “Keeping America Competitive,” states the baby boomer generation of manufacturing employees will be retired within the next 12 years. The report predicts 10 million new workers will be needed to replace the baby boomers by year 2020. The shortage of skilled workers is most serious for jobs such as machinists, technicians, electricians,

engineers, and people who can maintain and operate automated lines.

This problem can be an opportunity for SMMs because they can create new training programs that can attract business. Every economic development agency who wants to retain and expand their supplier manufacturers, should look at how they can help SMMs develop the technical employee for 21st century manufacturing

There are always opportunities in the chaos of great change. But globalization and the large customers have forced a new paradigm on American suppliers. Growing — or even surviving — in the chaos of change will require new thinking and new strategies.

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