



July 31, 2012

Mission Statement.

OK, the economy is in trouble, but do we really *know* how bad it is? Many of the media would have us believe that, as goes Wall Street, so goes the country . . . that the financial sector is strong and manufacturing is clawing its way back.

On the other hand . . . if you are unemployed you *know* it is serious and long term. If you are a senior citizen you *know*. If you have health problems you *know*. Home foreclosure, ditto. Living on credit cards . . . *en fuego!*

Through the arc of much of its history, the United States was able to expand its borders, grow in economic strength and reach out to the world. A robust economy provided for our citizens and made the nation a beacon of peace and prosperity to the world. It appears that such is no longer the case.

America's innovative and productive economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality.

How did it happen? What are we doing about it? What should we do about it?

In the pages to follow, I hope to explore these questions, find some answers and suggest a reasonable solution.

August 2, 2012

How did it happen? So. Korea.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **How did it happen?***

For me it started in 1985 while working on the turnaround of a small athletic equipment wholesaler. Up to that time all of the specialized footwear that the company sold was manufactured in Italy. In order to grow its business, the company engaged a small Korean factory to produce its own brand of footwear. The shoes were superior to the Italian-made models and sold at a much lower price. Life was good.

The good times were, however, short lived. Within the first year, Korean labor rates rose, product costs started to climb and competitors entered the market with production based in other Asian countries. What had been an exclusively Italian niche had, within less than

two years, moved to mostly Asian manufacturing, with little or no regard for U.S. shoe makers in the process.

August 2, 2012

How did it happen? France & No. Ireland.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **How did it happen?***

In 1985 we established a business to manufacture food scales for Weight Watchers and its franchisees. The specialized scales were designed and built around a mechanism produced in France.

Our U.S. company imported the mechanisms from France and sourced all the other parts and packaging from local U.S. companies. The scales looked great, worked great and Weight Watchers loved them. Life was good.

However, things were not so good for our French supplier. In 1987 they moved their production to a facility in Northern Ireland. Their costs went down; ours did not.

In fact, since we now had to pay with Irish Dollars, a currency undergoing a volatile appreciation, I was forced to buy Irish Dollar futures in an attempt to hedge the effects of rising costs. It was gambling and there was no good end in sight.

August 3, 2012

How did it happen? So. Korea & China.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **How did it happen?***

In 1989 we acquired an established office and commercial kitchen scale business. At the time of the acquisition the company held a dominant position in the office supply market. Its significant position in the commercial kitchen category had begun to slip. We merged our Weight Watchers scale business into that company.

As part of the effort to stabilize and grow our commercial kitchen business, we determined to introduce a line of bi-metallic kitchen thermometers. After researching the opportunity and laying out our product line, we reached out to a Korean manufacturer of high quality instruments.

With everything set, the last step was to go to Seoul, South Korea to finalize prices and visit the factory. I wanted to learn how the thermometers were made, in order to develop a meaningful quality assurance program for product arriving in the United States.

In Seoul, after a day of meetings, with cost and logistical issues put to bed, I mentioned to my hosts that I was looking forward to getting some sleep and starting out the next morning to visit the factory.

"Oh, no," they said, "we closed that factory year ago. Labor in Korea too expensive. Our factory now in Qing Tao, China."

August 3, 2012

How did it happen? Taiwan & China.

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Next up was a review of our U.S. manufacturing and our off-shore sources. We were getting our electronic scales and heavy duty mechanical scales from two producers in Taiwan.

Landed costs for these Asian products enabled us to sell at competitive prices and the quality was generally acceptable. Life was good.

Within the year, however, a major player in the home and medical scale businesses decided to enter our markets. Their sources were, for the most part, China-based.

Although the quality of these new, competitive products was not great, the company's marketing push was enough to cause our customers to look with a more critical eye at our products. We were able to hold on to most of our business, however, one major customer threw out our electronic line in favor of lower prices and the promise of better quality.

August 4, 2012

Pushing Back. No. Ireland.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **Pushing back.***

With our Weight Watchers business under increasing cost pressure from our French supplier, we decided, in 1988, to design a replacement mechanism and to produce all components in the United States. With costs and sales in U.S. Dollars and our supply lines shorter, our business was stable and more profitable. We were free to focus our energies on growing our market. Life was better.

August 4, 2012

Pushing Back. Taiwan.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **Pushing back.***

Reeling from the loss of a sizeable piece of our electronic scale business, I knew that I had to improve the quality of our electronic scales. But how?

The Taiwan manufacturer was of no help. They designed and built these scales the best that they knew. The product return rate was reasonable for them and they had no appetite for any additional effort. I wondered if I could bring production to our facility in Illinois.

With components produced locally and assembly in-house, I knew that we would find improvements. But what would that cost? Our profit margins were already tight; could we afford to pay more for quality?

As it turned out, that question went unanswered. Working with our local parts suppliers and bringing assembly operations into our Illinois facility, we were able to relocate production from Taiwan to the U.S. at a "real" cost reduction of 15%!

August 4, 2012

Pushing Back. Taiwan.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **Pushing back.***

A 15% cost reduction was great, however, we still had quality issues.

Once our local suppliers were in place and our assembly operation up and running (a 7% increase in full time U.S. jobs, with benefits), we were able to look at the factors that effected product quality.

With a histogram of product returns by reason and a fishbone analytical diagram, we were able to create an engineering profile of our best-selling product. We discovered that a design error in a metal supporting bracket accounted for a majority of customer returns.

Six weeks to re-design the bracket and modify the tooling, and when we received the new parts we were able to introduce them into our production immediately; scrapping our inventory of old brackets. No defective finished goods on the water, no defective work in progress in Taiwan and no defective brackets on order with the Taiwan supplier to worry about. Only \$100 worth of old parts into the trash!

Armed with an improved product, I re-visited our customer. Explaining in detail what had caused the returns and showing them our fix, we were able to win back their business. Life was good.

August 5, 2012

How did it happen? Management.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **How did it happen?***

In 1992 I had a series of in-depth conversations with the CEO of a leading maker of consumer scales: bathroom, kitchen, small office and medical. He was an accountant by trade and had, some years earlier, come upon an opportunity to buy a fast food chain out of bankruptcy. That leveraged buyout led to another buyout of a service business and finally to the acquisition of the scale manufacturer.

He impressed me with his focus on revenue and deal making. He hired excellent sales and marketing people, and barely tolerated manufacturing. Manufacturing cost him money; something was always going wrong.

His company had earned its leadership position and reputation, prior to his acquisition, by virtue of the quality of its products. During one memorable conversation he bragged that no one could buy quality steel the way he could. And that since his products were 85% steel, that gave him a distinct competitive advantage.

I thought it strange when, not forty minutes later, he began to extoll the virtues of buying from China. Something did not make sense. Since steel was 85% of his product cost, he could not account for their low prices. Even with a near-zero labor cost and lower quality China steel you could not account for the low, low price. And how did he account for the fact that he charged the factory back for defective products?

He had no answers to these questions and furthermore, he did not seem to care. He was buying products that were good enough, and at a price so low that he could afford to rent a separate warehouse to store the defective scales. And there the conversation ended.

August 5, 2012

How did it happen? China.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **How did it happen?***

I eventually learned how those China factories were able to sell at such low prices: after all was said and done, they were simply selling at a significant loss. Apparently the Chinese government was pumping money and credit through its banking system into their manufacturing base, without regard to profitability. No matter what it actually cost to produce, prices were arbitrarily set as low as necessary to get U.S. business.

Earlier this year, newspaper reports suggested that Chinese banks would withdraw their support and allow as many as 50,000 manufacturers of no-tech/low-tech goods to go out of business. That, at last, answered my question.

August 6, 2012

How did it happen? The Matchmakers.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **How did it happen?***

"Matchmaker, matchmaker, make me a match . . ."

America's infatuation with global outsourcing was not love at first sight. It began as if a few scattered drops of rain . . . and then more and more, and then everywhere. At first a trickle, then streams and finally rivers flowing toward the sea . . . creating an outgoing tide toward foreign lands.

It started with a wholesale distributor looking for a less expensive product to sell, who found K. Bo Sang in So. Korea, who found a manufacturer eager to add a new product technology to their factory.

It started with a manufacturer wanting to add a product at the low end of its range, who found Joe N. in Chicago, who contacted a manufacturer in Taiwan.

It started with a manufacturer looking for products to broaden its product line, who found Richard R., an expatriate American, in Hong Kong, who contacted a manufacturer in Kowloon.

BS, Joe and Richard did quite well, putting U.S. companies in touch with foreign suppliers. They helped customers transfer technology and arranged logistics. They booked the orders and were paid . . . perhaps on both ends of the transaction.

They were not alone . . . and soon there was blood in the water. Long hours, but it was easy work . . . everyone wanted help in finding lower cost sources for what they themselves were making. And foreign companies and foreign governments were equally eager to sell at any price; so long as they got the business.

August 6, 2012

How did it happen? Sourcing Specialists.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **How did it happen?***

The frenzy of activity to source products from foreign factories gained mass and velocity through the 1990s and into the 2000s. First no-tech and low-tech products, then services, and finally high-tech products and services. The practice of outsourcing gained respectability and attracted legions of global sourcing specialists.

Today global sourcing is thought of by its practitioners as an “industry” unto itself. There are the International Association of Outsourcing Professionals, the Sourcing Interests Group and the Global Sourcing Council, to name a few of the organizations whose mission is to promote the movement of work from the United States to other countries.

It is an industry that works hard, every day, to take work and jobs out of America’s economic base. And yet, these global sourcing specialists are not solely to blame. They are merely agents of change; complicit with the managers of the clients they serve.

August 6, 2012

How did it happen? Management.

*America’s economic engine is compromised. Forces at work over the last 30 years have sapped our nation’s vitality. **How did it happen?***

Who are these managers, so eager to move work, eliminate jobs and close U.S. facilities? They are not the inventors, product designers, engineers and production specialists whose collective efforts built America’s economic base. Nor are they the investors who provided the capital.

It appears that our economy is in the grip of the “Me” generation. Men and women who are conditioned to manipulate the system and navigate their way to positions of influence. Accountants, salesmen and deal makers; very far removed from the factory floor.

Show a profit; short term will do, and move up. Keep the plates spinning, and move up. When something goes wrong, keep your head down, and move up. Keep moving up and up, and don’t look down. Work moved, and jobs and homes lost. Who cares? When the bubble bursts, bail out and hope for a soft landing. And, by today’s standards, that is what is called a job well done!

August 7, 2012

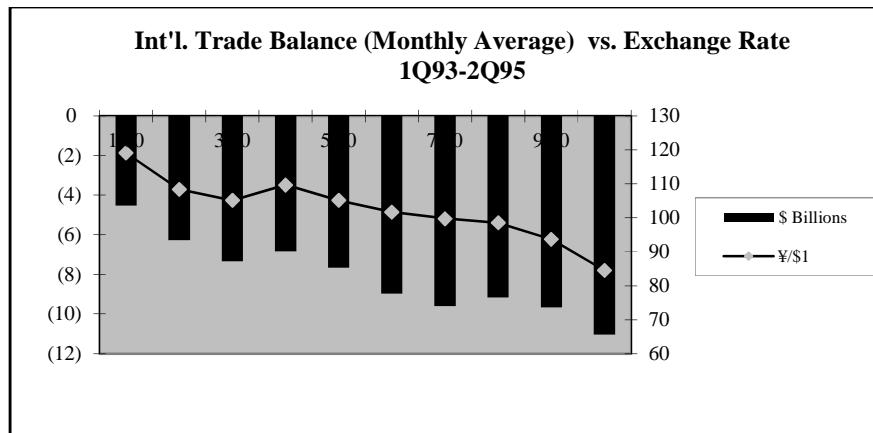
What did we do about it? Foreign Exchange.

*America’s economic engine is compromised. Forces at work over the last 30 years have sapped our nation’s vitality. **What did we do about it?***

Through the 1980s and into the 1990s, economists spoke mostly about our international trade balance and the strength of the Dollar. The conventional wisdom was that if

government would let the value of the Dollar fall, our U.S.-produced goods would be more attractive to foreign buyers and thereby improve our trade balance.

What had worked for much of the twentieth century was, however, no longer working.



By the 1990s, we had entered a period of rampant work displacement. The fact that the holders of foreign currencies had more U.S. purchasing power was of diminishing importance. The goods that they wanted to buy were being produced in a foreign factory.

America's economic base, its manufacturing sector, continues in steady decline.

August 7, 2012

What are we doing about it? Tax Credits.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **What are we doing about it?***

With the country's businesses, government and media fixated this last decade and more on profits and the financial sector, efforts on the part of government were of little help in slowing manufacturing's decline. Whether state-based or Federal, most government action came in the form of growth incentives, or relief for effected companies. Tax credits for research, capital improvements, hiring and training, and tax relief for manufacturers facing foreign competition did little.

Tax credits, well intentioned though they may be, can do nothing for the legions of manufacturers struggling just to stay in business. Without profits tax credits are almost worthless. One could argue, in fact, that government intervention actually enabled the very management behavior that gave force to the flood of global sourcing and work displacement.

August 8, 2012

What more can we do? A Natural Process.

*America's economic engine is compromised. Forces at work over the last 30 years have sapped our nation's vitality. **What more can we do?***

One answer to that question might be: "Nothing" . . . just let nature take its course.

By that I do not mean that tax credits for research, capital improvements, and hiring and training will do much to turn things around. And tax relief for hardship caused by foreign competition merely exacerbates the problem. Rather, it is an acknowledgement that foreign sourcing is not necessarily all that it is cracked up to be.

Say you make the decision to buy product from a factory in the Pacific rim. Maybe you close your U.S. factory or maybe you don't. The product looks good, the quality is acceptable and the price is right. It's like driving out of the showroom with a new car, and life is good.

However, just like that new car, your global sourcing arrangement does not stay "new" for very long. Inflationary pressures on product cost are relentless: workers want more money and benefits, worker productivity may be low, rework and reject rates may be high, timeliness of delivery may be erratic, transportation and fuel costs trend higher, inventory investment levels increase, and communication, command and control costs may become a burden.

In addition, if you have a product quality issue that requires a part change, who will eat the cost of the "defective" product in containers on the water, and the defective work-in-process at the factory, and any defective components on order with foreign subcontractors?



Every outgoing tide eventually turns and flows back. The forces that took work and jobs away from the U.S. will one day abate, and the work and jobs will return. Trouble is, this natural process is just too slow. The manufacturing sector needs help to heal itself.

August 9, 2012

An American Manufacturing Initiative.

I believe that American manufacturing can successfully compete with foreign-based factories.

From the time in the 1980s that I first visited factories in Pusan, Taipei and Kowloon I was impressed with the fact that old, rundown and crowded buildings could be made to turn out quality products. Their workforce was hard working and capable, and the owners and managers totally dedicated. In one factory I noticed a bedroll under the owner's desk.

If we are to bring factory work back to the United States we must emulate that early Asian model. Many cities have the right mix of building-stock, labor, transportation, manufacturing know-how and government support to enable motivated business executives and managers to take back manufacturing business from beyond our borders.

Our industrial corridors include many older, rent-depressed buildings that are easily accessible from blue-collar neighborhoods. In addition, transportation service providers provide efficient, low cost means of bringing in raw materials and shipping out finished goods.

We are also home to a population of knowledgeable manufacturing executives and managers with experience encompassing ISO 9000 quality standards and world-class, JIT and lean manufacturing techniques across a wide range of industries. In addition, there are any number of university-based teaching and consulting programs that are focused on the problems facing local area businesses.

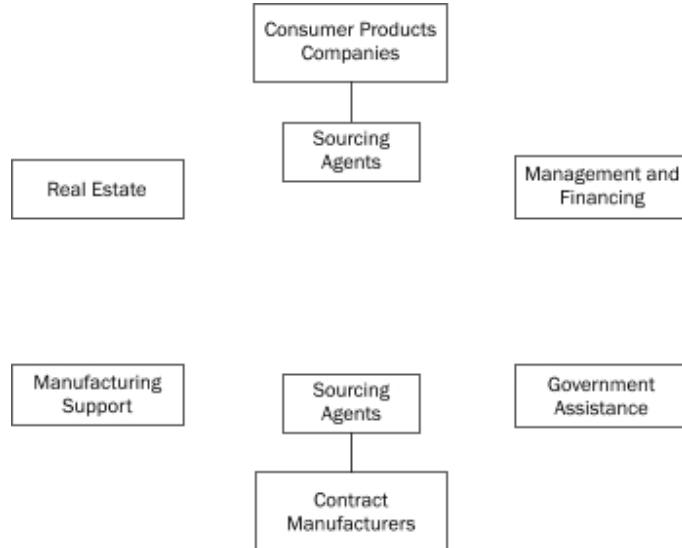
Finally, Federal, state and local governments have established an array of programs intended to assist and support the development of our industrial base.

August 10, 2012

An American Manufacturing Initiative.

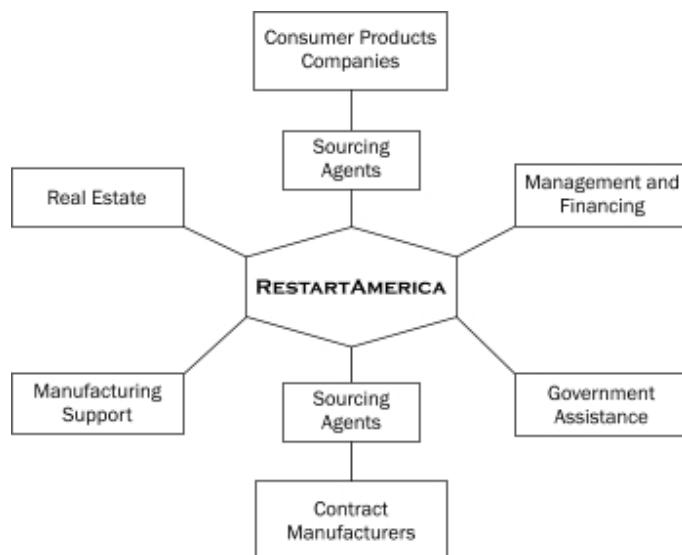
The tide is turning on global outsourcing and we have the resources needed to welcome back the work from abroad.

Trouble is, everyone is waiting . . . buildings sit empty, waiting for tenants; manufacturing support and government programs are in place, waiting for applicants; contract manufacturers are waiting for work; and management and capital mark time, waiting for opportunity.



Add to this picture the consumer products companies and their agents struggling with a tarnished and decaying sourcing model, waiting for relief and not knowing what course to pursue.

There needs to be a catalyst that can connect and coordinate these resources. An entity that would show the consumer products companies a way forward. An entity that would marshal resources and map out a U.S.-based manufacturing solution.



August 21, 2012

Restart America: An American Manufacturing Initiative.

Whatever form Restart America takes, we first need the will to get started.

The desire to bring work back to the United States is surely there, but it lies dormant. We need to wake up the idea and energize the will to do something about it. With Restart America as a rallying point, the President, state governors and big city mayors could each utilize their “bully pulpit” to rally the manufacturing sector and motivate its customers.

“Nothing happens until somebody sells something.”

August 22, 2012

Restart America: An American Manufacturing Initiative.

The manufacturing sector is not a “Field of Dreams.” If you build it they may or may not come . . . most likely, not! As I suggested in my August 10<sup>th</sup> post, “everyone is waiting . . . buildings sit empty, waiting for tenants; manufacturing support and government programs are in place, waiting for applicants; contract manufacturers are waiting for work; and management and capital mark time, waiting for opportunity.”

Would you invest your own money to start up a factory, if you then had to go out and search for orders? If you were a bank loan officer, would you lend money to do so? No, and no!

If, however, you went to that banker with orders in hand and a business plan showing how you would turn those orders into profit, chances are you would get your loan; and be willing to put some of your own money in, to boot.

The billion dollar question is, “How do we go about getting orders from U.S. companies for goods that are now being produced in foreign factories?”

August 27, 2012

Restart America: An American Manufacturing Initiative.

*“How do we go about getting orders from U.S. companies for goods that are now being produced in foreign factories?”*

There is no easy answer to that question, however, I earlier suggested a way to start. If our political leadership were to promote the advantages of producing goods at home and demonstrate its feasibility, corporate management could be motivated to investigate their options.

Simply put, the next step would be to reverse the outsourcing process. In my August 6<sup>th</sup> post I sketched the scenario that has played for more than 25 years. The task at hand is to throw the sourcing engine into reverse.

It needs to begin as a few scattered projects . . . and then more and more, and then everywhere. At first a trickle, then streams and finally rivers of work flowing out of foreign lands; creating an incoming tide of work and jobs for the United States.

Just as BS, Joe and Richard found foreign factories for their U.S. customers, so, now, must their successors look to U.S.-based contract manufacturers for the way forward. And, where factories sit idle or do not exist at all, the opportunity exists for purpose-built facilities to be paired with their customers.

It would be at this juncture that Restart America morphs from an idea into an active participant in the process. At a minimum, a visitor to the Restart America website would gain access to available real estate, university-based manufacturing support programs, government assistance programs, executive and management personnel and contract manufacturing companies: everything needed by consumer products companies and their sourcing agents to relocate work to the United States.

In addition, in its startup phase, Restart America would deploy staff to help match appropriate resources with the needs of consumer products companies. Once the initiative reached a modest degree of momentum, this “matching” function would almost certainly be subsumed by the sourcing agents.

