

Managing Globalization: A lifeline for small U.S. companies

By Daniel Altman International Herald Tribune

WEDNESDAY, MARCH 1, 2006

Could the small manufacturing industry in the United States be saved by a program that takes up just five ten-thousandths of 1 percent of the federal budget? Perhaps not the entire industry, but it's made a pretty good start.

Globalization brings more foreign competition into American markets every year. With the expansion of trade, small and medium-sized manufacturers have had a harder time surviving. That was the case at Atlas Foundry, an iron casting maker in Marion, Indiana.

"In the '90s we had had a pretty good run," said Jim Gartland, Atlas's president. But competition started to intensify in 2000, just when the economy was starting to slow down. "We lost two major pump lines to China at about that time," said Gartland, whose great-grandfather founded the company in 1893. "We knew we had to change what we were doing as far as replacing the work we were losing."

The company had already made a lot of changes since Gartland's first day on the job in 1974. Back then, he said, there were 143 people pouring 70 tons of metal a day. After a quarter-century of investments in new technology, there were about 85 people pouring 140 tons a day. The improvements in efficiency weren't enough for Atlas to keep all its customers, though, even against domestic competition.

"Some of the family realized that all of a sudden, we had to work a little harder here," Gartland said. "We had to be a bit more professional about how we were doing this stuff." And that's when he got in touch with Great Lakes Trade Adjustment Assistance Center.

Trade adjustment assistance began after the passage of the Trade Act of 1974. As the United States began opening up to the rest of the world, Congress sought to compensate American companies that might be harmed by offshore competition. It created one program to support and retrain workers who lost their jobs, which now runs through the Labor Department on a billion-dollar budget. But it also created another program to help companies to survive.

The Great Lakes center, which is based at the University of Michigan, is one of 11 regional centers funded by the Commerce Department on a budget of just \$13 million. It offers matching grants of up to \$75,000 to companies trying to improve their ways of doing business.

The grants, the Great Lakes center says, are offset by additional tax revenue from the companies it helps, which would otherwise have paid much less tax or perhaps none at all. Indeed, the center, which is now working with about 50 companies in Indiana, Michigan and Ohio, claims a "taxpayer return on investment" of more than 700 percent.

"Right now the largest company we're working with is about \$70 million in sales and 600 employees," said Scott Jacobs, director of the center in Michigan. "I was contacted by LTV Steel a couple of years ago, when they were going down, and the program simply isn't large enough to be beneficial to those folks."

To be eligible for the program, a company must have seen drops in sales and employment of at least 5 percent over 12 months compared with the previous year. The company also has to supply a product whose imports are increasing at the national level. Finally, it has to have been hurt directly by trade. "We have to be able to identify specific business lost to foreign competition," Jacobs said. "What that means is we have to contact customers or ex-customers."

The Great Lakes center has just four employees, including two managers who have already had long

careers in manufacturing. They help companies devise new strategies and to hire private contractors to improve marketing, sales, supply and manufacturing processes.

"They wouldn't put any money into equipment," Gartland recalled. "It had to be self-supporting."

The center's \$75,000 helped Atlas draw up new techniques for its finishing process and conduct a complete marketing survey. They learned that their customers liked them, but that their operation seemed unprofessional. "Everybody was in the same office, and it was cramped for space," Gartland said. "Our suffering, ourselves, was affecting the bottom line."

In addition to changing some techniques and its office environment, Atlas developed a computerized reporting system for keeping track of its sales team, many of whom work independently on commission. They, too, noticed that the company was becoming more professional, Gartland said.

The company's margins improved, and so did its sales. A maker of stadium seating in Grand Rapids, Michigan, chose Atlas to supply fittings for seats in Major League Baseball parks.

"We made all the iron that the cushion sits on, and the outside of the aisle," Gartland said. "The inside of the aisle comes from China. That's a pretty labor-intensive casting."

Though Atlas has spent over \$1.5 million of its own on improvements guided by its foray into trade adjustment assistance, Gartland credits the program with saving the company.

And Atlas has repaid its grant many times over in tax revenue that would not have been generated had the company disappeared. Yet one can still ask whether the resources used by the subsidized companies could be better used elsewhere in the economy. In other words, should this kind of manufacturing simply be allowed to die off?

"Established companies are existing community assets," Jacobs responded. "They're time-tested, and largely what happens with small companies is they're hit with a sudden change in import competition that they don't have the internal capabilities to respond."

Jacobs added that there is plenty of room for his small program to grow. "I could spend \$13 million in my region," he said. "There's certainly that need there. I could spend \$13 million in each of the individual states we service."

E-mail: daltman@iht.com

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