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Published 3/5/06

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## Small, Mid-Size Manufacturers Key to Economy

By Sarwar A. Kashmeri

For the Valley News

As the political debate over the pending takeover of operations at some East Coast ports by the United Arab Emirates company Dubai Ports World reaches fever pitch, it is just beginning to dawn on politicians and the public that America does not have a company large enough to run these operations.

The United States long ago ceded leadership of the ports business to corporations from other maritime countries. For instance, companies based in Hong Kong, Dubai, Singapore and Denmark handle around 80 percent of the shipping container traffic in the world. Among the top eight such companies, one American company shows up -- in eighth place, with 3.6 percent of the traffic.

Whatever may be the academic merits of the debate now raging, its practical value is questionable because the horse has long ago escaped from the barn.

Is a similar fate in the offing for American manufacturing? Will we wake up one morning and find that horse, too, has galloped to distant shores?

I put this question to Stephanie Harkness, chairwoman and CEO of Pacific Plastics & Engineering, a California company that manufactures high-technology surgical devices. "It is a major concern," she told me. "Manufacturing is the country's economic engine, and I don't think our leadership recognizes that the engine is off the track."

The occasion was the release of a new report on the future of small- and medium-size manufacturers (known as "SMMs") by the National Association of Manufacturers; its research and education arm, The Manufacturing Institute; and RSM McGladrey Inc., an 80-year-old consulting firm to SMMs. This report, *The Future Success of Small and Medium Manufacturers: Challenges and Policy Issues*, should be required reading for the country's leadership -- federal, state and local.

The report points out why SMMs are a key to the future of manufacturing. Of the total number of manufacturers in the country (298,000) more than 99 percent are SMMs. Of these, the overwhelming number (294,000) are classified by the government as small businesses -- those that employ 500 or fewer employees.

SMMs account for 40 percent of the total value of production in the United States, and employ 8 million people, which is 60 percent of the manufacturing industry's total employment of 14 million. They are also prodigious users of technology -- they buy more than half of the computer software and hardware sold in this country, and they produce more innovations per employee than the larger companies. Manufacturing innovation is the key to retaining a competitive industry in America as more and more manufacturing business heads to Asian countries.

Not fully appreciated is the extent to which the large and small manufacturers are linked as never before because much of the outsourcing by larger companies is to domestic small businesses. While many larger manufacturers have cut jobs, SMMs now create more employment in the economy of the United States than the larger companies.

SMMs, most privately owned, are an integral part of thousands of communities, so their economic health affects towns and cities throughout America. Net-net, they may be small, but they have a big impact, and their success or failure will determine the success or failure of American manufacturing.

In spite of their success innovating and competing, storm clouds are looming on the horizon for SMMs. "The combination of high energy and health care costs, retirement benefits, tort litigation costs, regulatory compliance costs and taxes add more than 22 percent to U.S. manufacturers' unit labor costs, compared to our principal foreign competitors, and SMMs are hit disproportionately hard by these costs," said John Engler, president of the NAM, as he presided over the report's release.

"The main issue facing manufacturing companies nationally is, we simply cannot continue having medical, education and government operating costs continue to grow at rates higher than inflation," said Edmund Winnicki, vice president of finance and controller at Kiosko, a 100-employee manufacturer of specialty kiosks, located in North Springfield, Vt.

Winnicki said Kiosko cannot pass cost increases onto its clients without becoming uncompetitive, and the situation cannot continue for long without consequences to Kiosko -- and to American manufacturers in general.

Regular readers of this column will recall that I have discussed the national and local manufacturing industry regularly. This year, I'd like to narrow my focus to the small- and medium-size manufacturing segment of the industry because SMMs comprise by far the largest segment of manufacturing in the Upper Valley, making them critically important to the area's economic growth.

With all the headlines made by the offshoring trend, it is easy to forget that the United States is still the largest manufacturer in the world.

"If you take our total output of \$1.4 trillion, it would by itself be the world's eighth largest economic power," Engler said. In fact, America's manufacturing economy is nearly equal to China's total GDP.

That is why we cannot afford to let this horse escape from the barn.

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*twice-monthly column explores the Upper Valley's "business climate," focusing on the issues and conditions affecting the region's economic health. Kashmeri can be reached at [skashmeri@aol.com](mailto:skashmeri@aol.com).*

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