

Grayway



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**WILL SMALL
MANUFACTURING
GAIN GROUND AMID
BIG CHANGE?**

WELCOME



Stephen Gray
President &
Chief Executive Officer

Small-to-medium-sized manufacturers have been at the core of Gray's customer base since our founding in 1960. For decades, U.S. manufacturing policy has placed what many believe is an unnecessary burden on these manufacturers, who are the very heart and soul of the industry. Regulatory compliance costs for manufacturers of this size add up to thousands upon thousands of dollars each year.

But with a new Congress and administration in office, there is renewed optimism some of this burden will be alleviated with manufacturing policy reform. This issue of the GrayWay discusses issues facing small-to-medium manufacturers in today's political climate, and why some are hopeful change is coming.

SMALL-TO-MEDIUM MANUFACTURING: A LOOK AHEAD

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PROTECTING MANUFACTURING'S CORE

Big issues facing small-to-medium manufacturers, and optimism for the future

When one thinks of the manufacturing industry, names like Mercedes-Benz, Whirlpool, Michelin, Caterpillar and Siemens may come to mind. And while the giants of the manufacturing world are vital to the industry overall, the fact is, the vast majority of manufacturers in the United States fall into the “small-to-medium-sized” category—with the average company employing just under 20 people.



Drew Greenblatt
President and Owner
Marlin Steel Wire
Products

The enormity of this manufacturing sector is clear, considering that out of the roughly 251,000 manufacturers in America, about 221,000 of them are considered “small-to-medium-sized.” These companies are the backbone of the supply chain, making the parts and products that enable their larger counterparts to compete, grow and thrive. They are the driving force behind research and development, spending an enormous amount of time and resources on innovating the parts and products of tomorrow. They are job creators, providing millions of Americans with stable, well-paying jobs, health insurance and retirement benefits. And this sector’s contributions to the economy—locally, nationally and globally—are substantial. Recent data shows that manufacturing contributed \$2.17 trillion to the U.S. economy, representing 12.1 percent of our country’s gross domestic product. This simply would not be possible without the contributions of small-to-medium manufacturers, who constitute nearly 90 percent of the industry.

Drew Greenblatt is president and owner of a manufacturing business that falls into this category: Marlin Steel Wire Products—a leading maker of custom wire products for the aerospace, automotive, medical and pharmaceuticals industries. He also sits on the Board of Directors for the National Association of Manufacturers (NAM) as chair of its small-to-medium manufacturers group. Greenblatt says manufacturers of this size are the very essence of American manufacturing, so it’s vital to understand and address the issues facing them. At the top of the list: the high U.S. corporate tax rate.

“Right now, the average American factory is what’s called a pass-through, an S-corp or an LLC,” said Greenblatt. “We’re paying taxes at around 40 percent, and that doesn’t include health insurance.”

Greenblatt says manufacturers of this size are also burdened by a laundry list of government regulations that add little or no value, and come at a high price. While he believes some regulation is necessary—like those aimed at keeping our water and environment clean—others amount to nothing more than expensive paper-pushing.

“Because of regulation, for example, my bank is forced to require that I do a physical inventory audit, which costs me \$8,000 a year,” said Greenblatt. “They take the audit paperwork, email it to a regulator, who then puts it on a shelf, only to prove that they have done it.”



Deanna Nelson
Operations Director
Johnan America, Inc.

A study commissioned by NAM revealed that the cost of federal regulations falls disproportionately on manufacturers, particularly the smaller companies. Small manufacturers with less than 50 employees spend more than double the amount that large manufacturers do on meeting government regulations.

Deanna Nelson is the operations director for Johnan America, Inc., a tier one supplier to the automotive industry employing some 200 people in the U.S.

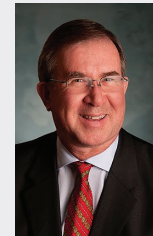
She agrees the burden of government regulations on smaller manufacturers is a top issue, but she's equally as concerned about the growing skills gap in the American workforce. Nelson says more needs to be done to encourage students to pursue jobs in manufacturing right out of high school.

“It's our number one issue,” said Nelson. “We can't seem to find the skilled labor who want to work in manufacturing.”

But with a new Congress and administration on Capitol Hill, both Greenblatt and Nelson are optimistic that meaningful changes are coming.

“I think the new administration has the means to get things done,” said Nelson. “Not everyone will agree with these changes, but they should be good for businesses and the economy. I feel very optimistic and positive that we are heading in the right direction.”

Johnan America, Inc. a tier one supplier to the automotive industry, employs some 200 people at its 120,000 s.f. plant in Bardstown, Ky.



Tom Riordan
President
Neenah Enterprises

Tom Riordan, who previously led NAM's small-to-medium manufacturers group and is president of Neenah Enterprises, is a bit more cautiously optimistic about the new administration's ability to significantly improve the business climate for small-to-medium manufacturers.

“The Trump administration's proposal is that for every one new regulation, two will be taken away,” said Riordan. “I applaud the intent, but we'll see how, from a practical standpoint, that turns out. But I think on a broad basis, suggesting that the administrative burden is not going to get worse in 2017 is significant.”

Riordan also cautioned that changes to government regulations should be thoughtful in order to be sustainable, and that forcing changes too quickly could be met with fierce opposition.

“When it comes to things like workplace safety, we take real pride in making sure we keep our folks safe,” said Riordan. “So I'm not looking to change that fundamental mindset. But, on the other hand, some of these rules and regulations are cost penalties with no real discernible benefit.”

The Alliance for American Manufacturing (AAM) studies and makes recommendations for public policies that will strengthen American manufacturing. President of AAM, Scott Paul, pointed to slow growth in the U.S. economy as having a long-term impact on small-to-medium manufacturers.

“Outside of the automotive sector, which is doing particularly well, the U.S. economy has seen slow growth,” said Paul. “When there is slow economic growth, that means demand for products slows as well, and that certainly has an impact on small and mid-sized manufacturers.”

Paul says smart manufacturing policy doesn't focus on a single issue, but is multi-faceted.

“Aspects of that policy include investing in our workforce, which includes a results-oriented trade policy that's going to open markets overseas and also make sure we have very fair competition here in the U.S.,” said Paul.

He says when it comes to negotiating trade agreements, the U.S. could be doing a much better job.

“It's been more than 20 years since the North American Free Trade Agreement was signed. Certainly we could make improvements to that. We face more competitive pressure from countries like Mexico, Canada and China that didn't really exist when NAFTA was negotiated. We can benefit from the experience and make it a better agreement—one that's going to create more jobs in the U.S.”



Scott Paul
President
Alliance for
American
Manufacturing

Paul shares optimism for new manufacturing policies that will positively impact small-to-mid-sized manufacturers with a new administration and Congress, but says growth in an industry like manufacturing is out of the control of any one lawmaker.

“One significant factor that impacts the climate for manufacturers is where we are in the business cycle,” Paul explained. “We've had a long and sustained period of job growth, and slow but steady economic growth, so that's been positive. But, these cycles don't last forever.”

He says that the policies of our global trading partners also significantly impact the business climate here at home.

“Are other countries growing their consumer classes who will buy more of our products, or are they doubling down on exporting their way to prosperity instead of having internal consumption as well? Those are all things that will have a significant impact on the future of U.S. manufacturing.”



THE ENTREPRENEURIAL SPIRIT

Fostering investment in manufacturing startups in the U.S.

Q&A

with **Cliff Waldman**
Chief Economist

MAPI Foundation
(mapifoundation.org)



What is the business climate for entrepreneurs wanting to invest in manufacturing startups in the U.S.?

The climate for business startups—including new manufacturing businesses—has been less than stellar, not only in the U.S., but around the world. Startup activity really fell off after the 1990s. It's turned around somewhat lately, but not a heck of a lot. I think this is because of a lack of dynamism in the economy, the uncertainty over policy issues and the strict regulatory climate. In terms of the manufacturing sector specifically, entrepreneurial activity is worse than what it is in the broader economy. This is unfortunate because any sort of public investment in trying to spur entrepreneurship in manufacturing could have a very high rate of return. Automation innovation and the preponderance of new automation technologies are making it possible for solo entrepreneurs to scale up their operations more quickly and, thus, make them a better investment that would attract venture capital.



What federal policies should be put in place to spur entrepreneurship in manufacturing?

Supporting entrepreneurship in small manufacturing companies will help the U.S. support job growth. Small firms and startups create significant job opportunities. We should understand the unique needs of the manufacturing entrepreneur—the need for quick access to technical expertise and to material supply lines—and invest in those needs to spur more manufacturing startups.

How significant of an impact can any one administration have on an industry like manufacturing?

The success of an industry is not a function of one president or one governor or one politician. The forces that impact business and industry are often bigger than that.

However, federal policy affects manufacturing with its ability to create a more favorable climate for business investment. For example, there is uncertainty regarding corporate tax changes, supply chain tariff impacts, and trade, which could potentially affect

Encouraging entrepreneurship as a career option is important for the future of small-to-medium manufacturing.



manufacturers' success. If we were to make it easier to start a business, or allow the Small Business Administration to increase its resources—and help students realize that entrepreneurship is a solid career opportunity—all of those things could be impactful.

How optimistic are you about the future of small-to-medium-sized manufacturing in America in the coming years?

I would say I'm neutral. If we make the right investments, then, yes, I'm optimistic. The U.S. is still a fairly competitive manufacturing sector, but in order for any sector to replenish itself, startups are essential. Larger companies have a disproportionate impact on capital spending; smaller ones have a disproportionate impact on jobs. If we make the right moves, the right investments and encourage startups, then I'm optimistic about the future of this sector of the market.

What advice do you have for small-to-medium-sized manufacturers competing in today's business climate?

Know your markets. Form relationships with educational institutions. Form genuine and lasting relationships with your community. Know what government resources are available to you. Doing all of these things will make a difference.

Encouraging entrepreneurship as a career option is important for the future of small-to-medium manufacturing.

THE NEW FACE OF MANUFACTURING

How APSCO is addressing the skills gap in Oklahoma

It is no secret that manufacturing is suffering from a skills gap issue, making it difficult to find people with the right skills to fill vital roles at companies across the U.S. This can hit small-to-medium manufacturers—who are trying to do more with less resources—particularly hard. But manufacturers are inherently problem-solvers, and many are tackling this issue head-on.

APSCO—an automotive parts manufacturer based in Tulsa, Oklahoma that employs some 80 people—is doing just that. Recognizing a shortage of talent available locally, the company created an internship program that not only helps to fill jobs within their own company, but within other area manufacturers as well.

Students from local high schools are introduced to the company's internship program at the beginning

of the fall semester. Interested students interview, and several dozen are chosen to train toward becoming certified production technicians.

Upon completion of the program, APSCO hires at least two of these interns, and the remainder are hired by other partner companies in Tulsa.

"It benefits our company greatly to have relationships with the schools, and, likewise, for the schools to have relationships with area manufacturers," said Stephanie Cameron, community affairs director for APSCO. "Being active in the community brings more awareness to not only our company, but to the manufacturing industry overall."



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HI-TECH COLOR, INC.

ODENTON, MD.

Gray has been selected by **Hi-Tech Color**, a manufacturer of solvent-based ink and coatings for automotive interiors, to engineer, design and build its **new facility in Odenton, Maryland**. The new 37,500 s.f. plant will allow Hi-Tech Color to double its production capacity serving the North American market.

The new facility will require extensive engineering and design to replicate the company's existing production process in Japan. This expansion will enable Hi-Tech Color to reduce its lead time for products to customers

and reduce its reliance on imported goods. Hi-Tech Color's new facility is expected to be complete by the summer of 2018.

Hi-Tech Color, Inc. was established in 1988 in Odenton, Maryland. It manufactures specialty coatings for automotive interiors and gravure printing inks for the shrink sleeve and decorative laminates markets. Hi-Tech Color is a wholly owned subsidiary of Dainichiseika Color and Chemicals Mfg Co. LTD headquartered in Tokyo, Japan.



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