

# Fast Facts

A Quarterly Newsletter

Published by ALTFELD, INC.

Spring 2003

## Three key reasons for the demise of manufacturing in America.

### #1. There is a tremendous shortage of qualified workers.

According to NAM, 80% of manufacturers report a moderate to serious need for qualified, trained workers. More than 60% of these manufacturers cannot meet their production levels to satisfy customer demands. More than 40% are not able to implement productivity improvement programs due to workforce problems.

The average skilled worker is about 58 years-old. The "Boomers", provided they can afford to do so, are headed toward retirement. There are also many "Boomers" who are either becoming physically unable to work and/or dying. In a nutshell, what all this means is that the manufacturing sector, provided it stays the course (see point #3 below), is going to need to hire 10 million new people over the next 20 years.

Unless things change, there will be little chance of these workers being Americans. Manufacturing is not a preferred career choice for today's students. It is not looked upon as a prestigious or very professional profession. In truth, it is perceived to be a dirty, hands-on, dead-end industry.

To counter this perception, NAM is initiating The Manufacturing Careers Campaign to "create a positive public image of manufacturing."

**#2. The standards and levels of education of our students compared to the rest of the world are deteriorating.** With the advent of certain policies such as Affirmative Action, our schools are not only accepting students who, in earlier times, would not be qualified for acceptance, but are accepting below standard teachers as well. The negative result is that we are eroding our base -- the level of education that these schools used to provide is no longer the same. As standards continue to be lowered so does the product these schools are producing. It is becoming more and more imperative that America wakes up to the fact that whether it be manufacturing or education, we are not competing with ourselves, we are now competing on a global scale.

Yes, the education of our people is an essential ingredient to making America stronger and a better country. I agree with the slogan "no one should be left behind." But it is just as essential that our best and our brightest are not handicapped for being the best and the brightest. There is an answer out there somewhere, but Affirmative Action, or discrimination against the best and the brightest isn't it.

I also believe that not everyone is meant to go to college. Perhaps it is time to re-examine our flawed belief that every generation wants their children to have what they didn't have. Too, often that includes a college education. Each year there are fewer and fewer people available to do the actual work. Which is why we must either import workers to do the jobs, or export the work. Unlike England, there are no apprenticeship programs here in the states that teach, educate and train people to do crucial, skilled tasks. The concept of the Master, Craftsman and Apprentice is at last being reinstated via the Six Sigma philosophy, but how many companies are doing it?

We need to take a good hard look at not only our education practices in the United States but also where the United States is headed. Whether we like it or not, they do go hand in hand.

**#3. Our country is losing its manufacturing base and shifting to a service-oriented economy.** Unless there is a dramatic change, it appears that the last of America's manufacturing sector will slowly but steadily be swallowed up by China. China's economy is booming with a constant growth of 7 to 8%. Dell, HP, Volkswagen, Black & Decker, GM, Stanley, Honda, Rubbermaid, Toyota, Galanz, Nokia, Sony and Nike are all there, just to name a few. Unfortunately, it is not just the Fortune 100's that is going. The small to mid-size \$5, \$10, \$20, \$50, \$100 and \$200 Million sized companies are going, as well. There are many who are giddy at the prospect of climbing into bed with China. China already has a firm grip on producing the world's computers, high volume consumer electronics and bicycles. What's next?

America is a country founded upon manufacturing. It makes us who we are. Giving it away, at least from my perspective, would be a disastrous mistake. Yes, China is the "Godzilla" of smart, cheap labor, which in the scheme of things, equates to high quality products produced for next to nothing. Between their low labor rates (the average factory worker wage is 40 cents per hour -- one sixth that of Mexico and one fortieth of a US worker), no regulation, no penalties, cheap real estate, tax holidays, a ready network of suppliers and customers and inexpensive supplies, US manufacturers can make a product, ship it back overseas and still come in far below what it would cost them to make it here.

*The proof is in the pudding.* Today, all major carriers confirm that planes and cargo ships go empty to China, but return packed full of goods. There is little doubt that China is cleaning our clock when it comes to manufacturing. With an inexhaustible population of 1.3 billion people, China can continue providing smart, cheap labor for many, many years to come. Simultaneously, China also strengthens its own position in the world as an up and coming super power. China's purchases of raw materials and equipment to power its export sector have bolstered Asian economies weakened by the slowdown in the US and Europe.

*It gets worse.* A recent study in ASSEMBLY magazine showed that Asia is the number one, most preferred location to invest in for manufacturers with foreign plants, with 53% maintaining operations there.

Without question, China has done its homework. Their total import and export trade was \$510 billion last year, nearly 15 times greater than it was in 1980. A whopping 41% of their exports went to the United States. They are currently the sixth largest trading nation in the world and should leap into second, surpassing Germany and Japan by the end of the decade. The pace of their trade expansion and industrial development is unparalleled. Cities like Dongguan, which ten years ago were little more than vegetable farms and rice paddies are today centers of manufacturing. In just this one city, over 4 million laborers work in some 22,000 factories turning out everything from power tools and shoes, pc boards to patio chairs, high definition televisions to microwave ovens, and bedroom sets to computers. There are rows upon rows of airplane hangar sized buildings that go on for miles. Container trucks deliver the goods to high-tech ports where cargo gets loaded 24/7 bound for Los Angeles, Rotterdam and Tokyo.

Like PacMan, China continues to swallow everything in sight. They have been accepted into the World Trade Organization, they have reduced tariffs, they offer tax breaks and incentives for those manufacturers interested in opening a factory in China; there is no OSHA or EPA, Workman's Compensation is unheard of; and there is no demand

for healthcare, more break times, better working conditions, or pay increases. According to a report commissioned by McKinsey, China's growth is due to a combination of cheap wages, lower taxes and cost of capital. (No kidding.)

Right now and it appears for the next several years to come, China is the place to be if you are a US manufacturer. What is not being realized, or is just being ignored in this stampede to Asia is that as American businesses continue to move their manufacturing to China the United States becomes weaker. Our middle class is shrinking. Our unemployment levels can only continue to rise. (A study done for a congressional panel found that at least 760,000 US manufacturing jobs have migrated to China since 1992.) Add to that our increased rate of immigration and you have a dangerous situation being created.

And, we're not alone. Hong Kong, Taiwan, Singapore, Mexico and the Philippines have all lost thousands of jobs and entire industries. In the US, for example, half the bicycles sold in the US were American made as recently as the mid-'90s. Today, Chinese imports now dominate the market representing 85% or 16.8 million bicycles sold in the US last year. Our trade deficit with China is astounding. Our purchases of Chinese goods last year, that included everything from ceiling fans to pianos were \$83 billion greater than Chinese purchases of US products.. Wal-Mart alone bought \$14 billion in Chinese merchandise last year.

On the other hand, you can't really blame the manufacturers for trying to compete. Those who cannot match China's prices have two options. Close your doors and perish, or close your doors here and shift production to China.

In a recent Fortune magazine article entitled "Who Sold What to Iraq", China wasn't the only one doing it. According to Fortune "China's great Huawei Technologies is believed to have supplied Saddam's army with sophisticated communications hardware even as it was doing business with the likes of IBM, Motorola, HP and Qualcomm." The article went on to say, "... it's been known since early 2001 that Huawei has had dealings with Iraq."

Then there is the SARS issue. In spite of the fact that the "bug" began in China, China will not cooperate with global health officials. The government continues to encourage travel and is putting its economy ahead of its people. Will SARS derail Asia's most vibrant economy? If the turn out for and 50% drop in sales at China's Guangzhou Trade Fair is any example it will. Even Wal-Mart elected to not attend.

Last but certainly not least is the issue of counterfeiting and the enforcement of patents and intellectual property laws. To become the power they want to be, China must eventually pay heed to these laws. However, whether China "plays by the rules" as the president of NAM put it during a recent talk at the National Manufacturing Week in Chicago, or not, China is and will continue to be a major threat to the stability of the United States as we know it today.

**Without manufacturing, the United States will lose strength in the world economy - - and no one knows that better than China.**

With the overwhelming size of China's middle class, which has been estimated by the Chinese Academy of Social Sciences to be around 200 million, we could be in real trouble. Yes, China remains impoverished with two-thirds of its people living on less than \$1.00 a day. Yes, its industries lag far behind ours in technology, innovation, managerial and marketing expertise. According to an article in Financial Times, China's superior economic performance is primarily due to "its investment in and the constant improvement of its manufacturing sector." As an example, China has built dozens of high tech research centers and has overhauled its higher education system aimed at training top rate scientists and engineers. What is astounding is that 37% of Chinese graduates today are engineers. In the United States, that fig-

ure is a mere 6%. With that comparison, it stands to reason that China is and will be much better prepared for high tech growth.

*Hold on, there's more.* It has been estimated that by 2020 the Chinese middle class will have an average annual income of \$3,000.00. Not only will that segment have great buying power, but will only become stronger as we have to compete with them for jobs.

*With power comes influence.* There is no doubt that China continues to grow in power (politically and militarily) and that we continue to feed it. If you have any questions regarding China's power, take a look at which country the US called upon to help out with the situation going on in N. Korea. Add to that the fact that foreign direct investment into China has surged and will more than likely hit a record \$50 billion yet this year, in spite of SARS.

*What then is America's future?* Will America become the world's "Enforcer"? Will we become a nation of military might and a reservoir of white-collar managers, business leaders, financial advisors and marketing gurus? Will we become a nation of services? Will we continue to be the world's greatest consumer nation?

The answer to these questions depends upon how much of the store we end up giving away to China. The Chinese leadership has already outlined aggressive expansionary plans for the next 20 years. Their intent is to boost their own middle classes, becoming the world's hub of manufacturing and basically kicking our manufacturing butts.

Much like a certain "Twilight Zone" episode, China is walking around with a large book entitled, "How to Serve US Manufacturing." Unfortunately, like in the episode, it's determined to be a cookbook - - And, in my opinion, we are being swallowed whole.

#### **In Summation:**

From WWII through the early seventies, we have thrived in an economy of great demand and not enough supply to meet it. The United States has always prided itself on its ability to create and produce. Then suddenly the world began to change. There was still great demand, but supply was coming from several places. We woke up to find that the world was shrinking. We had lost our television manufacturing to the Japanese. Next went many of our appliances. Through arrogance and greed, America's automobile industry was given away by the industry itself. Our electronics industry has not only gone offshore for manufacturing, but also for design and engineering. We have seen and continue to see one industry after another leaving the United States.

I will say it again. America's strength has been our ability to create and manufacture. China appears to be in a position, unlike any other nation outside of the United States, to take it all. Which is why the United States has now reached a critical point in its short, two centuries and change, life. It is time to re-examine itself and determine who it is, where it is going, what it wants to be and what it needs to do to get there. We need to re-examine our values, determine our key core competency, determine our purpose, create a vision and develop a mission to achieve the vision. With the world shrinking on a daily basis, it becomes more and more imperative that this great nation of ours knows and understands who it is, what it is, what it stands for and who it wants to be in the years to come. This is no time to allow our nation's destiny to go "white water river rafting" and leave it up to the gods of change. It is time to seize control of our future, determine our own destiny and then let everyone else in on the plan.

E-mail us your opinion. Obviously China is a serious concern. Let me know your thoughts on the topic and not only will I publish it in our next issue, but I will also forward it to my contacts at Fortune and Industry Week. **A**

## To Improve Your Bottom Line, Look No Further Than Your Back Office

By Contributing Writer Mark Robertson

These days it's pretty tough to justify a price increase. Bottom line improvements have to come from cost cutting. A CEO must ask tough questions and be objective with the answers. Here's a straightforward approach to mining the gold in your back office. With your staff involved, discuss the following:

**1) What can we do better?** As a simple test, if the function could be subcontracted at a lower cost, you may be better off outsourcing. However, activities critical to your business strategy usually must be maintained and tightly controlled. These need to be continually improved to maintain your competitiveness. A teamwork approach that looks at process steps may be just what is needed. New equipment that can increase productivity might help reduce an overloaded department. Increasing the output per hour can cut the need for expensive overtime. Excessive waste materials can be sometimes be reduced or fed back into the process. When waste is eliminated, fewer materials are needed and cost falls. Sometimes process steps can be combined, and duplicate steps dropped without affecting the outcome. Maybe a manual system can be computerized. Anytime handling can be lessened costs will come down. When in house activities are focused and other activities are moved outside there is often less confusion and better organization. Fewer highly paid managers are needed when employees find they can direct their own jobs.

**2) What can we do differently?** Perhaps you have not reviewed your processes recently. Perhaps you have never evaluated them. Maybe technology has come down in cost and will simplify your activities. For example, bar code readers in the warehouse help reduce labor involved in documenting transactions and also help to bring down errors. Maybe a plastic part can replace a metal part in your product. There might be new packaging available that simplifies your packaging processes. Simpler often equates to lower cost. New processes are developed daily. Don't be afraid of fixing things that seem to be working.

**3) What can we do without?** If it doesn't add value, it usually adds cost. Can we stop doing the activity without the change being an issue for our customer? Sometimes there are activities we do that had meaning long ago, but are unnecessary today. Maybe you don't need that delivery truck, a local delivery service will work as well without the maintenance or the driver. Maybe payroll can be handled outside. Travel can often be cut. Since 9/11 more sales calls are handled on the phone. Trade show attendance can often be curtailed. An alarm may suffice in place of a guard. If we know how we add value to our customers, we will have a better idea what activities can be discontinued.

Always add metrics. A CEO needs to know what effect the changes have made. Taking measurements and charting results will provide that information. If the changes are implemented at departmental levels, often employees who take pride in their success can chart the measurements. Employee ownership in the results will pay dividends and encourage suggestions. Happy gold mining!

### Dealing With an Estate Lawyer

1. Never let a nonspecialist write your will. Find a lawyer who does virtually nothing but estates and trusts.
2. To find a good estate lawyer, call a law school and ask a professor who teaches those subjects. You want a lawyer with an advanced degree in taxation or membership in the American College of Trust & Estate Counsel. (Go to [www.actec.org](http://www.actec.org) and click on "find an ACTEC fellow.")
3. To make sure your choice doesn't have a record, check the resources

described in "Due Diligence" (FORBES, Sept. 20,1999). And make sure he has malpractice insurance.

4. Don't name your lawyer as trustee or executor, or let him steer you to a favorite bank. Choose someone independent. Also reject any lawyer willing to accept gifts in your will.
5. Don't sign your will until you understand every section. If your lawyer cannot explain it, hire another lawyer.
6. Gather your beneficiaries and have your lawyer explain your estate plan to them. They'll be able to tell if something goes awry after your death. Then file your will with the court or a trusted friend, avoiding switching.
7. Think you may need to challenge a bad executor or lawyer? To find a lawyer who can help, visit the Web site of the American College of Trust & Estate Counsel to search for members in your area who can recommend a good estate litigator.

*From Forbes, May 28, 2001*

### Word of Caution From an Attorney

- The next time you order checks have only your initials (instead of first name) and last name put on them.
- If someone takes your check book they will not know if you sign your checks with just your initials or your first name but your bank will know how you sign your checks.
- When you are writing checks to pay on your credit card accounts, DO NOT put the complete account number on the "For" line. Instead, just put the last four numbers. The credit card company knows the rest of the number and anyone who might be handling your check as it passes through all the check processing channels won't have access to it.
- Put your work phone # on your checks instead of your home phone. If you have a PO Box use that instead of your home address. If you do not have a PO Box use your work address.
- Never have your SS# printed on your checks (DUH!) you can add it if it is necessary. But if you have it printed, anyone can get it.
- Place the contents of your wallet on a photocopy machine, do both sides of each license, credit card, etc. You will know what you had in your wallet and all of the account numbers and phone numbers to call and cancel.
- Keep the photocopy in a safe place. I also carry a photocopy of my passport when I travel either here or abroad.
- We've all heard horror stories about fraud that's committed on us in stealing a name, address, Social Security number, credit cards, etc.

Unfortunately I, an attorney, have firsthand knowledge because my wallet was stolen last month. Within a week, the thief(s) ordered an expensive monthly cell phone package, applied for a VISA credit card, had a credit line approved to buy a Gateway computer, received a PIN number from DMV to change my driving record information online, and more.

But here's some critical information to limit the damage in case this happens to you or someone you know:

We have been told we should cancel our credit cards immediately. But the key is having the toll free numbers and your card numbers handy so you know whom to call. Keep those where you can find them easily.

File a police report immediately in the jurisdiction where it was stolen, this proves to credit providers you were diligent, and is a first step toward an investigation (if there ever is one).

But here's what is perhaps most important: (I never even thought to do this).

Call the three national credit reporting organizations immediately to place a fraud alert on your name and Social Security number. I had never heard of doing that until advised by a bank that called to tell me an application for credit was made over the Internet in my name.

The alert means any company that checks your credit knows your information was stolen and they have to contact you by phone to authorize new credit. By the time I was advised to do this, almost two weeks after the theft, all the damage had been done. There are records of all the credit checks initiated by the thieves' purchases, none of which I knew about before placing the alert.

Since then, no additional damage has been done, and the thieves threw my wallet away this weekend. (someone turned it in). It seems to have stopped them in their tracks.

The numbers are:

- Equifax: 1-800-525-6285
- Experian (formerly TRW): 1-888-397-3742
- Trans Union: 1-800-680-7289
- Social Security Administration (fraud line): 1-800-269-0271

## NAM Stepping Up Monitoring of China WTO Compliance

The NAM is stepping up monitoring of China's compliance with its WTO commitments in light of a growing number of member complaints about Chinese trade practices. As a condition for World Trade Organization membership in December 2001, China agreed to reduce tariffs on imported products, open its internal market to foreign companies and abide by internationally accepted trade rules governing, for example, dumping, subsidies, protection of international property rights and national treatment on taxes. Some NAM member companies,

however, have complained that China is not living up to its WTO trade obligations.

- In December 2002 the U.S. Trade Representative's Office (USTR) published a 50-page report reviewing China's compliance in key areas based on private sector input, including from the NAM.
- The report states that China appears to have faithfully implemented its commitments to substantially reduce tariffs on a wide range of manufactured and agricultural products. Progress was also noted on revision of Chinese laws and regulations to conform to WTO rules.
- However, the report identified a variety of problems, including lack of regulatory transparency, discriminatory tax treatment, ineffective intellectual property rights protection, unreasonable capital requirements on foreign subsidiaries, restrictions on biotechnology products and failure to provide adequate import quotas for U.S. agricultural products.

U.S. Trade Representative Robert Zoellick visited China on Feb. 17-19 to discuss WTO implementation issues and seek progress on U.S. business concerns. While Ambassador Zoellick did not report any major breakthroughs on implementation, he did say that "in a year there's been good progress, [but] there's no doubt there's more work to do." If your company is experiencing problems because of Chinese unfair trade practices or failure to abide by its market-opening commitments, let us know by contacting Bill Primosch at (202) 637-3145 or email [bprimosch@nam.org](mailto:bprimosch@nam.org). To discuss China WTO compliance with a USTR representative, contact Terry McCartin at (202) 395-9487.

To read the transcript of Ambassador Zoellick's Feb. 19 press interview in Hong Kong, go to:  
<http://www.ustr.gov/releases/2003/02/2003-02-19-pc-hongkong.PDF>

To access the December 2002 USTR report on China's WTO compliance, see:  
[http://www.ustr.gov/regions/china-hk-mongolia-taiwan/2002-12-11-China\\_WTO\\_compliance\\_report.PDF](http://www.ustr.gov/regions/china-hk-mongolia-taiwan/2002-12-11-China_WTO_compliance_report.PDF) **A**

## Books

Whether you are a fan of baseball or not, a tremendous book to read is Koufax, A Lefty's Legacy. What an uplifting, wonderful book that speaks volumes of one man's integrity. As a Cub fan growing up in Chicago, if anyone was going to pitch a perfect game against us, it was an honor to have Koufax do it. He was the best.

Two books you are sure to enjoy are Fish and Fish Tales. Very similar to two of my all time favorites, "Zapp!" and "Heroz" by Dr. Byham, Fish and Fish Tales tells you how you can liven up your work place and create some fun while increasing productivity. I think it is priced a little high for what's inside, but if you buy a copy and pass it on, it brings the price per read down. It may even entice you to run up to Seattle to watch these people in action!

## Pet of the Month

As quickly as they're adopted, more dogs come to the German Shepherd Rescue in need of a good home. On average, four purebred German Shepherds per day are abandoned. Every month we feature Pets of the Month on our website. Visit [www.altfeldinc.com](http://www.altfeldinc.com) and follow the link to the Pet of the Month, or visit [www.gsrescue.org](http://www.gsrescue.org).

In case you would like to know what breed of dog you would be if you were a canine, visit:  
<http://www.emode.com/jumpto?test=dogogt> and take the test. I was a "Feisty Scottish Terrier."

Tell us what you think. We'd like to hear from you and get your input on not only what we've covered in Fast Facts, but other topics you would like to see addressed. Or, if you are just peeved about something that pertains to business, let us know by e-mail: [jaltfeld@altfeldinc.com](mailto:jaltfeld@altfeldinc.com).