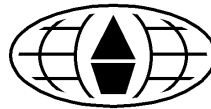




**WHEN MANUFACTURING JOBS LEAVE,
WHAT DO THEY
TAKE WITH THEM?**

NEWSLETTER

FEATURE ARTICLE



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WHEN MANUFACTURING JOBS LEAVE, WHAT DO THEY TAKE WITH THEM?

Otabo LLC, of Pampano Beach, Florida, was started up by Howard Shaffer a few years ago to use imaging technology to fit customers for high-end, customized shoes and manufacture them at \$450 and more per pair. Although he was well capitalized, and was able to create demand, he soon discovered that the supply chain for small-scale producers is lacking at best, and nonexistent at worst. Skills were lacking in the workforce, and technicians had to be flown in to fix specialized machinery. Components were customized and made from high-quality materials, in batches smaller than could be obtained. A few years ago, the supply chain wouldn't have been an issue in America; Mr. Shaffer would have had no trouble obtaining the workforce skills and supplies he needed. The manufacturers of shoelaces, eyes, and specialized soles that remain in the U.S. couldn't justify a run in the relatively small volumes needed by Mr. Shaffer, whose customers demanded many options. He has since gone out of business. What happened?

Over the last few years, more and more of US manufacturing production has gone offshore, and a huge variety of products, from shoes to steel, are now manufactured overseas.

Today, companies like Hon Hai or Foxconn are manufacturing in Asia the technology products prized by Americans, including Dell and HP computers, iPhones and Xboxes. Computer manufacturing employs 166,000 in the U.S. as compared with 1.5 million in Asia. Even companies with a strong U.S. presence (Apple, Dell, and others) have on average ten employees in Asia for every one employee in the U.S.



Tom Friedman, the Pulitzer Prize-winning columnist for *The New York Times*, asserted in April of this year that "You've heard that saying: As General Motors goes, so goes America. Thank goodness that is no longer true. I mean, I wish the new G.M. well, but our economic future is no longer tied to its fate."¹ The point he goes on to make is that "as long as the venture money, core innovation and the key management comes from here" that the manufacturing operations don't matter. The key quality jobs will be here, will be created here, and the country's economy will be better off overall.

But hold up: Friedman's was not the last voice to be heard on the subject.

Andy Grove, one of Intel's founders in addition to its former CEO, has seen first-hand his company grow from its earliest garage days to its place as one of the world's largest

¹ <http://www.nytimes.com/2010/04/18/opinion/18friedman.html>.

manufacturers of computer chips. From its beginnings as a startup in 1968, to its IPO in 1970, it has scaled up its manufacturing more than once, and at one point it had 13,000 employees in the U.S. His response from personal experience that appeared in *Businessweek* stands in stark contrast to Friedman:²

Startups are a wonderful thing, but they cannot by themselves increase tech employment. Equally important is what comes after that mythical moment of creation in the garage, as technology goes from prototype to mass production. This is the phase where companies scale up. They work out design details, figure out how to make things affordably, build factories, and hire people by the thousands. Scaling is hard work but necessary to make innovation matter.

The scaling process is no longer happening in the U.S. And as long as that's the case, plowing capital into young companies that build their factories elsewhere will continue to yield a bad return in terms of American jobs.

Grove's article pokes a hole in the argument that our East Coast friends have made about manufacturing production not mattering to America. Grove outlines a process where the knowledge end of manufacturing eventually follows production offshore. Tamerica's past research demonstrated that the small business sector is not creating the jobs that pundits have postulated it would. Grove, with his intimate knowledge of high technology manufacturing, outlines the reasons the small business formula doesn't work. It's critical that Washington policy makers wake up to the realities of job creation in the 21st Century. It's equally true that economic developers need to craft balanced strategies that avoid the temptation of putting all their eggs in small business, recruitment or entrepreneurship programs.

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² Grove, Andy. "How to Make an American Job Before It's Too Late: Andy Grove" from <http://www.bloomberg.com/news/2010-07-01/how-to-make-an-american-job-before-it-s-too-late-andy-grove.html>