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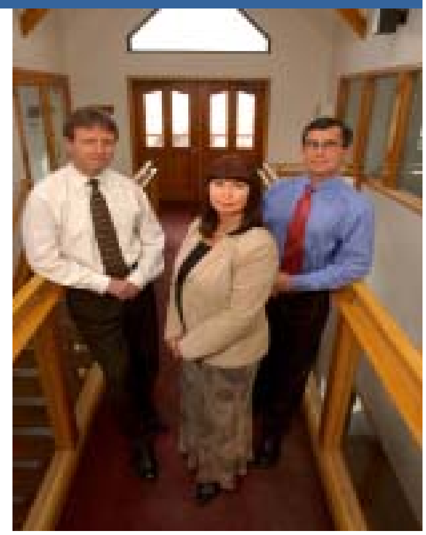
Stemming Offshore Tide



Program helps Boulder businesses meet foreign competition
By Greg Avery, Camera Business Writer
February 27, 2005

Christopher Stone toured Guangdong province in southeast China last summer, seeing the other side of what he deals with for a living in Boulder. The industrial center of China's growing economy awed him. "Factories as far as the eye could see in every direction," Stone said. "It's amazing, the scale of it." He recalled the trip last week to Billie Van Ark, the head of a local company for which Stone serves as consultant. "To see something like that, it makes me realize what you're up against," he told Van Ark, sitting in a conference room at the Longmont company's facility.

Stone is one of six business consultants for the Boulder-based Rocky Mountain Trade Adjustment Assistance Center. The government program helps small companies find ways to compete against a rising tide of foreign imports or the offshoring of production by competitors in their industry.

Its budget is tiny for a federal program — slightly more than $12.5 million annually nationwide — yet the local center's work has, by its own accounting, prevented thousands of jobs in seven states from being lost to the growth of foreign-made goods in their industries. Two years ago, Van Ark's company, Precise Cables Inc., a producer of cable assemblies and harnesses used in electronics, found that some of its highest-volume clients in the aerospace, military, medical and other fields increasingly bought from overseas suppliers. "They were saying it's not a matter of our quality or our reputation," said Van Ark, who founded Precise Cables in 1988. "It's all a matter of pricing."

Rocky Mountain Trade Adjustment Assistance Center helped pay for training of Precise Cables workers, allowing them to get certified to standards that helped the company bid for new kinds of jobs. It was the first change arising from work between the center and company, and it made for an encouraging start. At 19 employees, its work force doubled in recent months. Precise Cables won so many jobs last year that the company extended production to six days a week to keep up with the demand in what turned out to be its busiest year. Still the outlook for the immediate future continues to be colored by the pressure of lower-priced competition, said Van Ark, sister-in-law to Boulder-raised actress Joan Van Ark.

Several of the region's companies that used to be big customers have been gutted by offshoring of production to the point that it has become routine to get product orders from places like Malaysia, Mexico or Taiwan in the name of domestic corporations that Precise Cables supplies, Van Ark said. Stone pushes Van Ark to buy inventory management software that will help the company streamline its purchasing and avoid buying excess material. He chides her about not allocating more resources to sell her company to prospective customers.

Stone gave similar advice to Mountain Optech Inc., a company that moved two years ago from Boulder to the same eastern Longmont industrial park home to Precise Cables. Mark Poling, Mountain Optech's general manager, stumbled across the trade assistance center one day while surfing the Internet in desperation. Electronics giants had started offshoring production of specially built protected hard drives used for data storage in space and aviation industries. The imports cut into Mountain Optech's sales, making its future uncertain.

Regional resource

The Rocky Mountain Trade Adjustment Assistance Center opened in Boulder in 1981 and is run in affiliation with the University of Colorado Leeds School of Business. Its second story office off Table Mesa Drive and U.S. 36 blends in among real estate, financial and veterinary businesses in the neighborhood. The center is one of a dozen centers nationwide, created by Congress to help companies that make physical products survive. Its territory covers Colorado, Utah, New Mexico, Wyoming, Nebraska and North and South Dakota. Its advice has gone to high-tech firms, boot makers, car wash manufacturers, furniture makers, a champagne vintner, silversmiths, leather workers and businesses in numerous other industries. The program, by rule, does not help service industries or farmers. The center's work is particularly relevant now. The United States' trade deficit reached $617 billion last year, setting a record for the third consecutive year as American consumers and companies increasingly looked to cheaper goods made overseas.

The Rocky Mountain Trade Adjustment Assistance Center often gets confused for the Department of Labor's larger Trade Adjustment Assistance program that provides job training to workers laid off as a result of rising foreign imports. Armed with $220 million annually, that program certified 1.4 million workers for retraining between 1993 and early 2004, accepting two-thirds of the 2.1 million positions applying companies said would be eliminated by foreign competition or offshoring of domestic jobs, according to federal data. In the seven-state region covered by the Boulder office, the sister TAA program certified 38,354 workers for retraining over the past decade as a result of increased imports or domestic companies shifting production overseas. Operating with a fraction of the retraining program's budget, the Boulder-based business assistance center has prevented more than 3,845 additional jobs from being eliminated since 2000, keeping those workers from becoming unemployed and having to train for new occupations.

To Edvard Hag, director of RMTAAC in Boulder, the disparity between the retraining program's funding and his own center's shows that politicians lack a complete understanding of the offshoring issue. "We think it's better to prevent the loss of jobs in the first place," Hag said. Helping companies find ways to stay alive usually benefits employees more than retraining them for new work, Hag said. Retrained workers' new jobs often pay far less than the jobs they lost, Hag said. In rural areas, especially, a failing firm might be the area's only employer and retraining its laid-off workers does little to help them, he said.

Most of the Boulder center's clients are small companies, the average with annual revenue of between $5 million and $10 million. It provides companies with advice and grants to pay for services they require to better compete. The center won't pay for equipment or payroll, and client companies must match whatever grant money the center provides. Companies usually receive help from the center for three or four years, long enough to identify ways to deal with imported competition and put the new initiative into action. Federal import documents must show that an applying company's products compete against a growing number of imports. With access to customs data, that process is a simple one because the rise of imports in an industry is easy to track. Businesses, however, are typically unaware because they are focused on day-to-day tasks. "All of a sudden, they're blindsided by having this big foreign competition come in," said Tania Bahr-Torline, a trade center project manager.

Keys to survival

The center pushes companies to find new niches that foreign competitors can't readily exploit — the key for companies is being nimble and willing to change, Hag said. "There's really no point in going head-to-head on a product that can be more cheaply made in Asia," he said. "That's a battle you aren't going to win." Companies commonly lose business as a result of failing to innovate and evolve, said Stone.

Some of the center's "old economy" clients — such as steel fabricators — have put off modernizing their production facilities. They find themselves with a less efficient, worse work environment than the newly built plants they compete with from lesser developed countries, Stone said. That can be a crippling situation when competitors already have an advantage in labor costs. "Companies like to do the same thing year after year and get the same result when the market is dynamic," he said. He and other experts argue that domestic companies can take advantage of access to better technology and using their proximity to suppliers and customers to deliver products faster than overseas competitors.

At Mountain Optech five years ago, the Boulder company's staff had dwindled to 11, half of what it is today. There was a fear that imports would prompt its parent company, Chicago-based Phillips Service Industries, to pull the plug and shut the company down. Mountain Optech knew it could reinvigorate its business by targeting its product to passenger airline manufacturers that needed data storage for in-flight entertainment systems. But the company needed to get its name out there, Poling said. The company was technically proficient but needed to beef up its marketing, Poling said. "The clients we had were telling us our promotional material didn't do our products justice," Poling said. "You put a bunch of engineers on something, that's what you get — they're thinking about the product." The company moved to Longmont, reducing its rent to a third of what it had been in Boulder.

The trade adjustment assistance center in Boulder paid for half of the development costs of new software and product brochures. At its low point, Mountain Optech sold 120 units and recorded $1 million in revenue. Last year, it sold more than 2,000 units and its revenue reached $5 million, Poling said. The assistance center helped it develop brochures and marketing plans that won it passenger aviation contracts and a growing number of military clients, markets that have exploded post-Sept. 11, 2001, as the government turned to more data collection with unmanned planes and domestic airlines needed cheaper alternatives to flash memory for in-flight entertainment systems. Many other small companies could use the center's help, Polling said. "You'd think these guys would be funded out the wazoo," he said.

The center isn't always able to help a company become a success story. Many come to them far too late, reaching out for help when they are on the cusp of going out of business, Hag said. Many calls he takes are heartbreaking, he said. But, in Hag's view, domestic companies are almost always able to survive if they're willing to change. The key is not to beat foreign competition by racing to the bottom, reducing wages to more closely mimic the competition's labor costs. A company's continual evolution means creating new, meaningful jobs and a commitment to workers, he said. "Instead of paying them less to compete with foreign competition, you train them more," Hag said. Cheap imports will never be stopped at the border, Hag said, so domestic companies need to continually find new customers, develop new products and beat competitors with speed of delivery and quality, Hag said. That process never stops: "They will copy you at some point," he said.