



American Manufacturing: Competing in the Years Ahead

As American businesses navigate through this era of uncertainty, slow economic growth and hyper competitiveness, many are evolving and establishing new business models and processes. Others are undertaking new initiatives to boost productivity and reduce costs.

Fact vs. Fiction

Many assume that since the number of workers in the manufacturing sector has declined, the industry as a whole has weakened. This is understandable, but incorrect.



Employment in the American manufacturing sector was at its height in 1979 at nearly 19.5 million people. By October 2011, this number had fallen to 11.8 million.¹ What's not well understood is this: from 1979 through 2010, American manufacturing value-added output more than tripled, from \$545 billion to more than \$1.7 trillion.² This is primarily due to the implementation of new technologies and improved processes, which has empowered fewer workers to produce greater output in less time.

In turn, the cost of labor, as a percentage of a product's total cost, has declined. According to Boston Consulting Group, a business management firm, it's now 20-30 percent on average. Others believe it's lower. Susan Helper, a professor of Economics at Case Western Reserve University, says in most manufacturing facilities, it's more likely down to between 10-20 percent. And as early as 2002, Peter Drucker, management consultant and author of nearly 40 books, said labor costs were down to approximately 12-15 percent of an average product's total cost.

The U.S. manufacturing industry also continues to be a world leader. For example, in 1979, American manufacturing value-added output represented 22.2 percent of global value-added output. By 2009, it only slightly decreased to approximately 19 percent.³

The quick implementation of new technologies has been a major factor in boosting U.S. productivity. Prior to the Great Recession, from 2000 - 2007, U.S. productivity in the non-farm sector rose by an annual average of 2.6 percent.⁴ In manufacturing, during the same period it climbed by 3.9 percent annually.⁵ What is the overall result of strong productivity?

In 2010, the American workforce was 139.1 million strong.⁶ It generated approximately \$14.5 trillion in gross domestic product, the market value of all final goods and services produced.⁷ During the same year, the Chinese workforce, at 797.6 million, generated \$5.9 trillion in gross domestic product, the second largest after the United States.⁸ Due to greater output per worker, the American workforce, which is about one-sixth the size of China's, created 150 percent more total output.

In addition, American innovation continues to be a major strength. In 2010, the number of utility patents granted to American firms, at 107,792, was roughly half of total number of patents granted worldwide.⁹ How does this compare? In 2010, Japan, the second highest recipient of patents after the United States, recorded 44,814 utility patents. China received 2,657.¹⁰

Strategies To Boost Competitiveness

Stated by Boston Consulting Group, moving forward, “instead of being really good at some particular thing, companies must be really good at learning how to do new things.” We agree. With change occurring at warp speed, the ability to adapt and quickly integrate new ideas is essential.

To enhance global competitiveness and achieve or retain leadership in their sectors, manufacturers are:

- 1) Focusing on their core competencies and outsourcing non-core functions,
- 2) Relying to a greater extent on suppliers of components,
- 3) Seeking partners in research and development, manufacturing, packaging, transportation and supply chain management, and service and support,
- 4) Driving down costs, streamlining operations, and improving efficiencies and information flows across departments,
- 5) Identifying and hiring highly talented employees and continually upgrading their skills,
- 6) Expanding internationally with an entrepreneurial mind-set,
- 7) Enhancing customer satisfaction and building loyalty by offering customer-centric, flexible and customized production runs, improved service and parts support, and faster delivery, and
- 8) Offering greater value that competitors and low-cost country suppliers can't match by focusing on innovation and proprietary high-technology products, and improving processes, product designs, quality, and branding strategies.

For information on improving your business and financing your international deals, contact Emy Ruiz at 954-514-3008, or email Emy.Ruiz@53.com.

Footnotes

1. Bureau of Labor Statistics., 2. Bureau of Economic Analysis., 3. United Nations., 4. Bureau of Labor Statistics., 5. Ibid., 6. Department of Labor., 7. Bureau of Economic Analysis., 8. United Nations., 9. U.S. Patent and Trademark Office reports., 10. Ibid.