

# Manufacturing in *the Corridor*: A Time of Opportunity?

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**SantaRosaMFG.com**

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# Agenda

- Remarks: The County's Manufacturing Sector (Recent 'Innovation Council' Report)
  - Misses significance of the 100+ Corridor Manufacturers
    - Only mentions SIC 3344,3345,3391
  - Does not address economic realities
- An Economist's View
  - Current Economic Situation
  - Global, Regional Opportunities & Challenges
  - 'Change' the County's perspective: from local, to REGIONAL
  - You all, the 100+ mid-sized manufacturers, are the 'Keystone Species'
- Opportunity... SantaRosaMFG "323 Initiative"
  - Is it practical?
  - What are the key assumptions?
  - What you can do to get a seat at the table



# Objectives

- Tactical opportunities for small manufacturing now
  - Opps domestic and international
- Consider silver linings
  - Need to recognize current downturn means boom on horizon
- Positioning for likely trends in next boom
  - Green tech, pharmaceuticals, security and defense
- Strategic relationships with larger firms
  - Companies looking for ways to save cost
  - Can your firm make this happen?



# Currently

- Factory Orders
  - Non-durable goods falling, a sign of retail contraction
  - Durable goods increased, a sign that recession may be headed toward a trough
- Inventories
  - Falling, a sign that retailers and wholesalers are slowing down their warehousing
  - Another sign of a tough holiday season
- Unfilled orders
  - Rising 31 out of last 32 months



# Getting 'Visibility'

- Recent Draft Report: Sonoma County Innovation Council
  - The Good: Recognizes key challenges
    - Public & private sectors need to work together
  - Not So Good: Innovation
    - Innovation doesn't happen by government initiative
    - Innovation happens because entrepreneurs see opportunities and take risks
  - Terrible:
    - The 100+ manufacturers are still largely INVISIBLE!
    - We are MORE than a 'semiconductor / medical device cluster'
- Today...Unveil the Numbers behind SantaRosaMFG and "323 initiative..."
  - Next 3 Years
  - 2,000 Jobs
  - \$300 Million New Business



# How to Get a Seat at the Table

- Current attitude towards Santa Rosa Corridor Manufacturing
  - “out of sight... out of mind...”
- This attitude is **DETRIMENTAL** to the health of our economy
  - MISS a “main engine” of our region’s growth during this economic cycle
  - INNOVATION doesn’t happen in a lab
- Continued focus is misaligned with true development
  - Need regional plan
  - We prosper because of our proximity to the 9-County Bay Area;
  - What are we doing to **exploit** that advantage?
- Manufacturers can’t wait for labor problems to be solved
  - Training and developing new employees for years
  - Will the current economic situation help or hurt that solution?



# Outlook

- No one needs to tell you banks are rationing credit
  - Interest rates likely to rise regardless of Federal Reserve actions
- Election Year: adds uncertainty
  - Nothing ‘magic’ will happen on January 20
  - Will a sales tax increase hurt your business?
- What does it mean in the ‘micro’ view?
  - Now is the time to bargain for better lease rates
  - Consider the potential of pooling health insurance
  - ‘Green’, Energy, Composite materials, Photonics and Biotech/pharmaceuticals growth is real
    - **What are your plays in those fields?**
- The fundamentals...
  - Tier one mfrs continue to look for smaller, more agile supply partners globally
  - Can their demands to do business online be met?



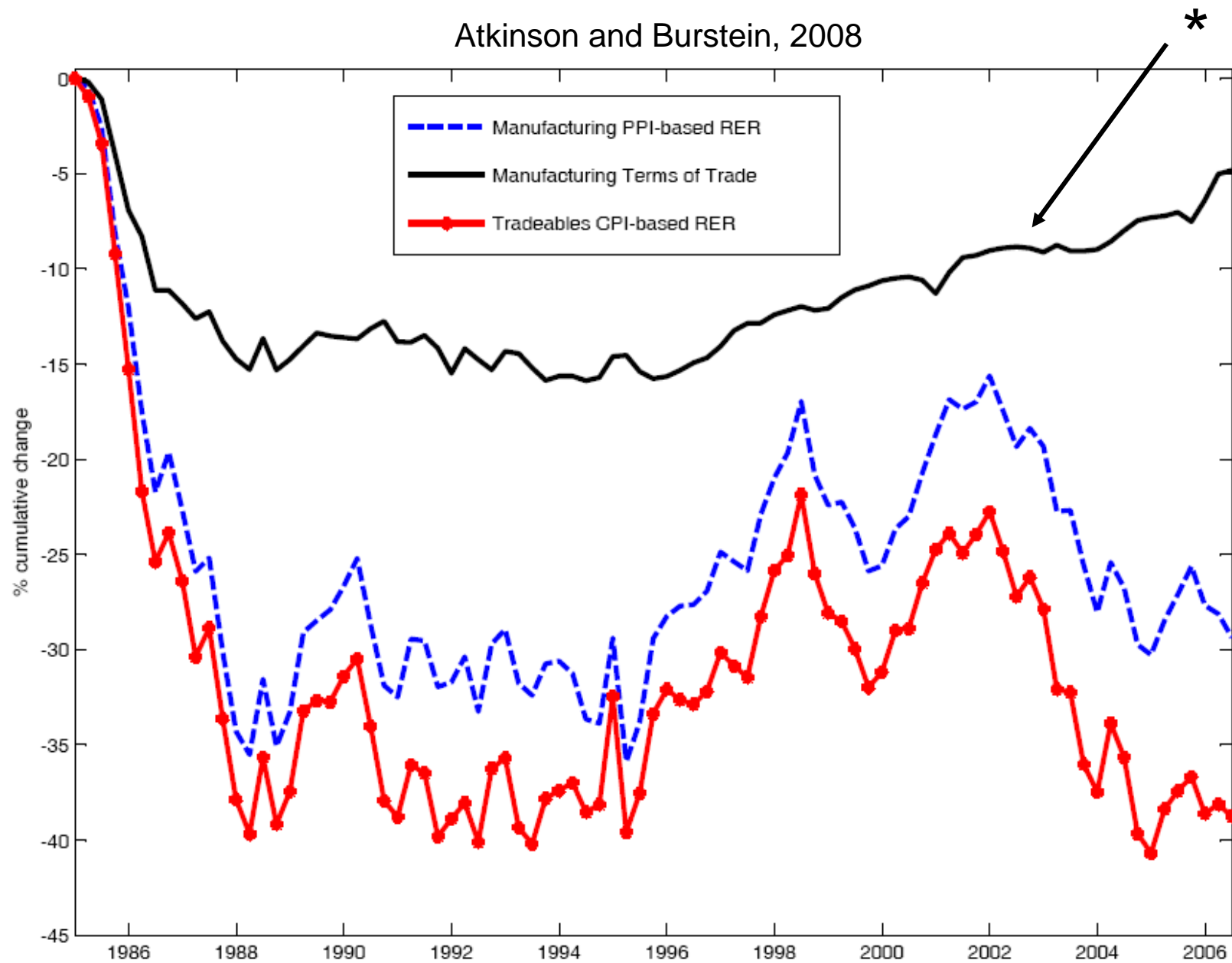
# Exports and Global Markets

- Value of dollar has helped expand markets
  - Provided renewed markets for electronic components, aircraft
  - We've avoided a technical recession through exports
  - No mistake: this is a very fragile "recession"
- Can local manufacturing find more global markets?
  - Will the dollar's value remain this low for extended period?
  - If demand for U.S. products continue to rise, dollar will eventually rise
  - If sales of mortgage-backed assets from bail out become global, dollar's value will rise
- Opportunities do exist
  - Terms of trade for manufacturing has fallen for years: export opportunities
  - Next chart shows current export markets based on a recent survey
  - Consider pricing-to-market (charge a different price in foreign markets)



Figure 1: U.S., Terms of Trade and Trade-Weighted Real Exchange Rates

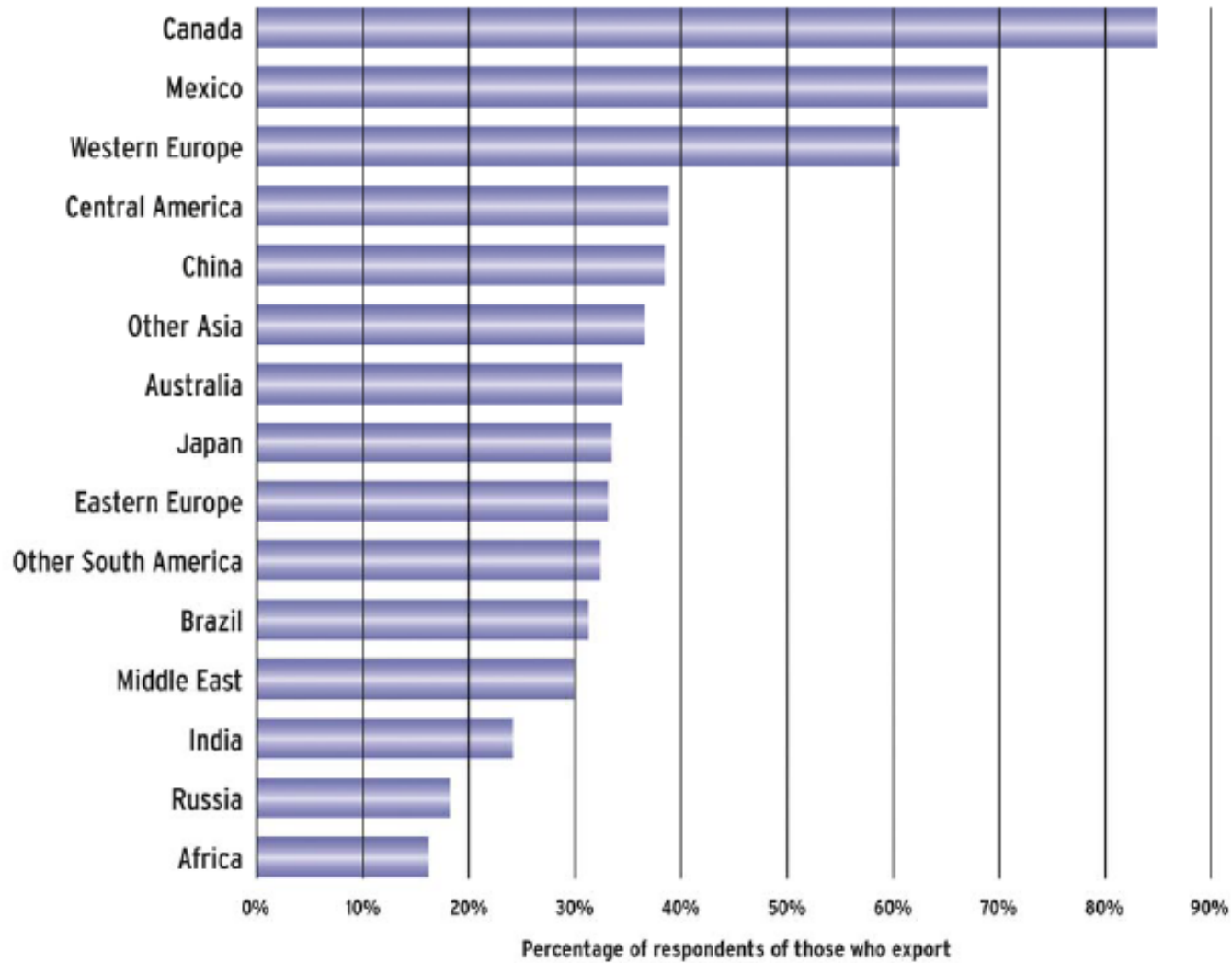
Atkinson and Burstein, 2008



Source of data: BLS, Source OECD, and various national statistical agencies. See data appendix for details.

# Global Economy – Exports

Chart 10  
Buying partners



connect... grow... succeed!

Source: RSM McGladrey, 2008 10





Are there new global markets for  
**Santa Rosa Corridor Manufacturers?**

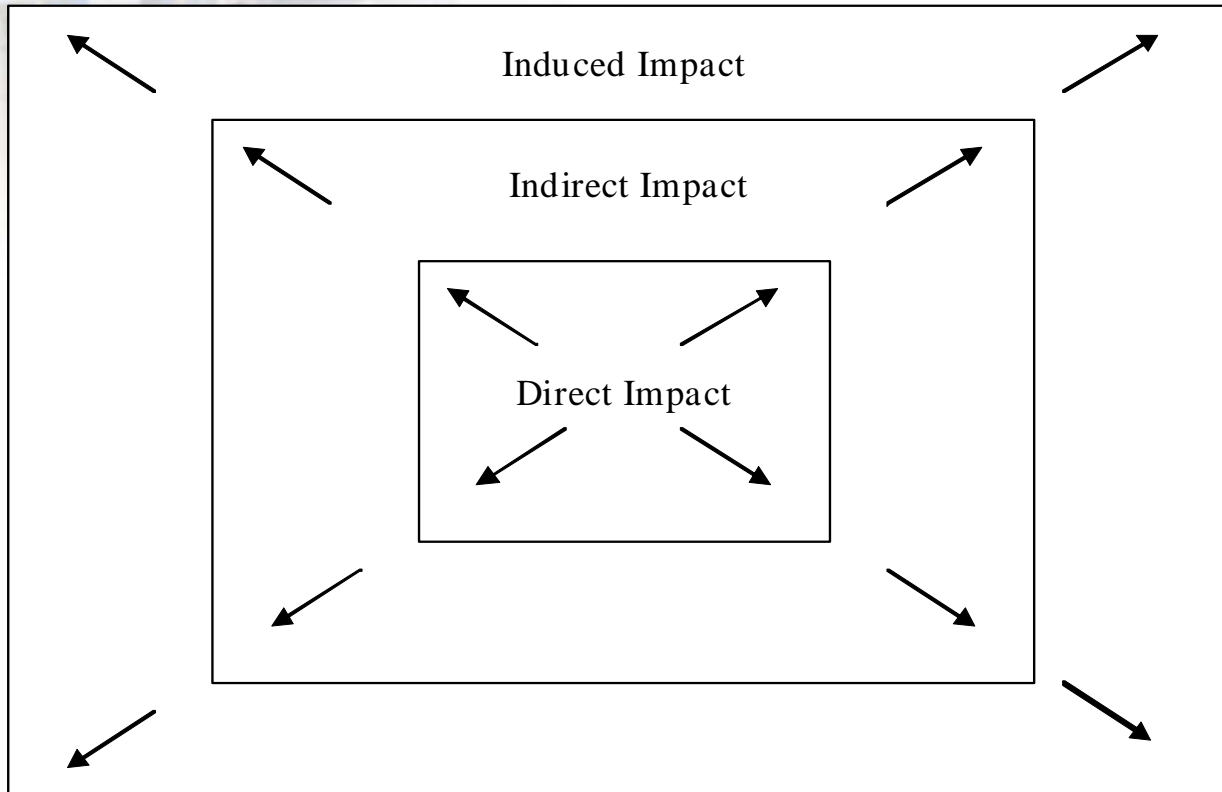


# Manufacturing Is An Engine of Growth

- Most assume that this industry is only SIC 3344, 3345, 3391
  - Semiconductors and medical devices
- There are 30 different SICs in this corridor
  - A critical mass to really do INNOVATION is here
- Manufacturing is where value-added takes place in an economy
  - Services dominate, but are after-sale revenues, not value added.
- What does manufacturing wants from:
  - WIB?
  - Local governments?
  - Local businesses that may support growth?



# Manufacturers are the Core



# The Impacts

- Direct
  - When manufacturers hire more workers
- Indirect
  - When your suppliers hire more workers as you increase your orders
- Induced
  - When both your new employees and your suppliers' new employees spend their new incomes
- Economy as a whole induced to grow because of new direct income growth

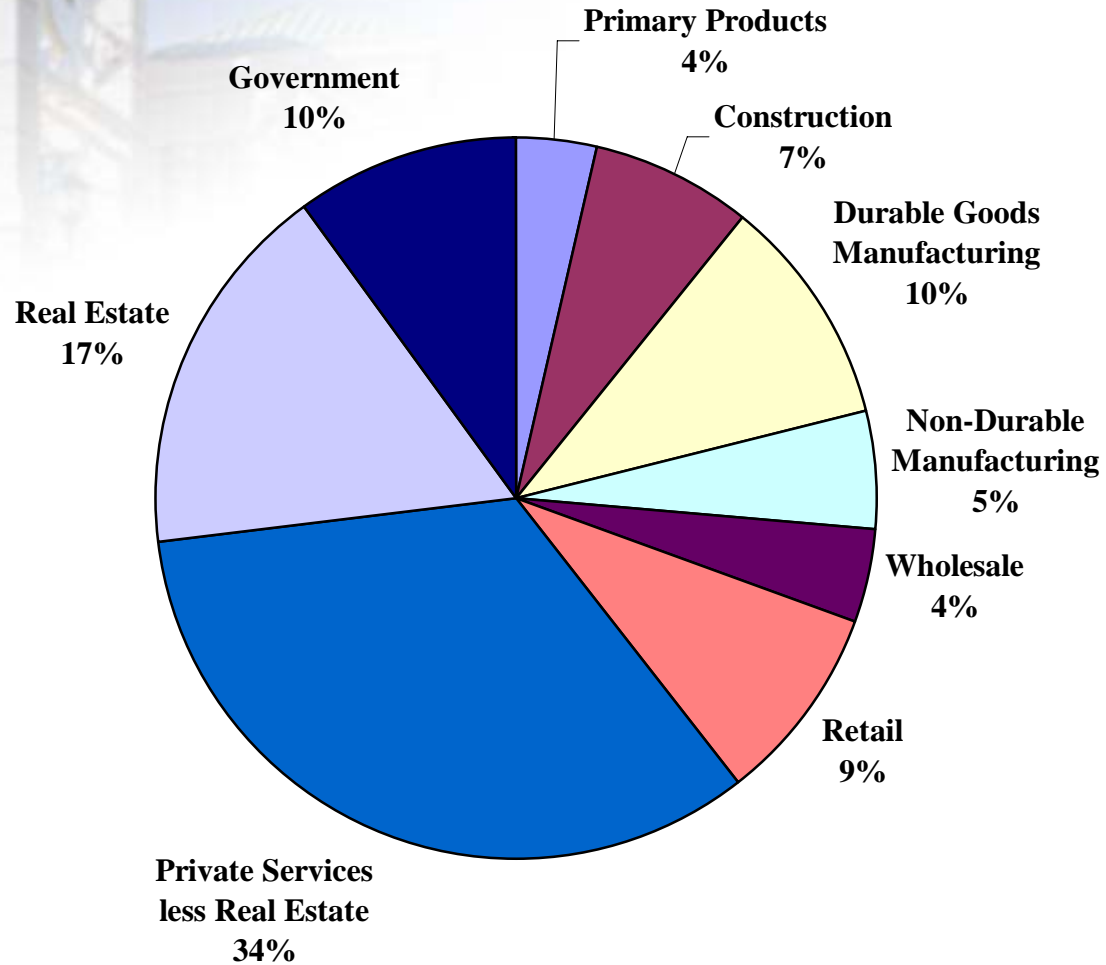


# The Data

- Bureau of Economic Analysis
  - Shows industrial breakdown of Sonoma County economy, 2001-2006, for county product
  - Next chart shows Sonoma, Napa, Marin combined
  - Notice the role of manufacturing
    - Given biotechnology's growth, 2008 likely shifting toward manufacturing
- 1 job in manufacturing in Sonoma County generates
  - 1.92 jobs for the County
  - \$160K in new revenues for manufacturing, \$242K for county as a whole
  - \$9,061 in new state and local taxes

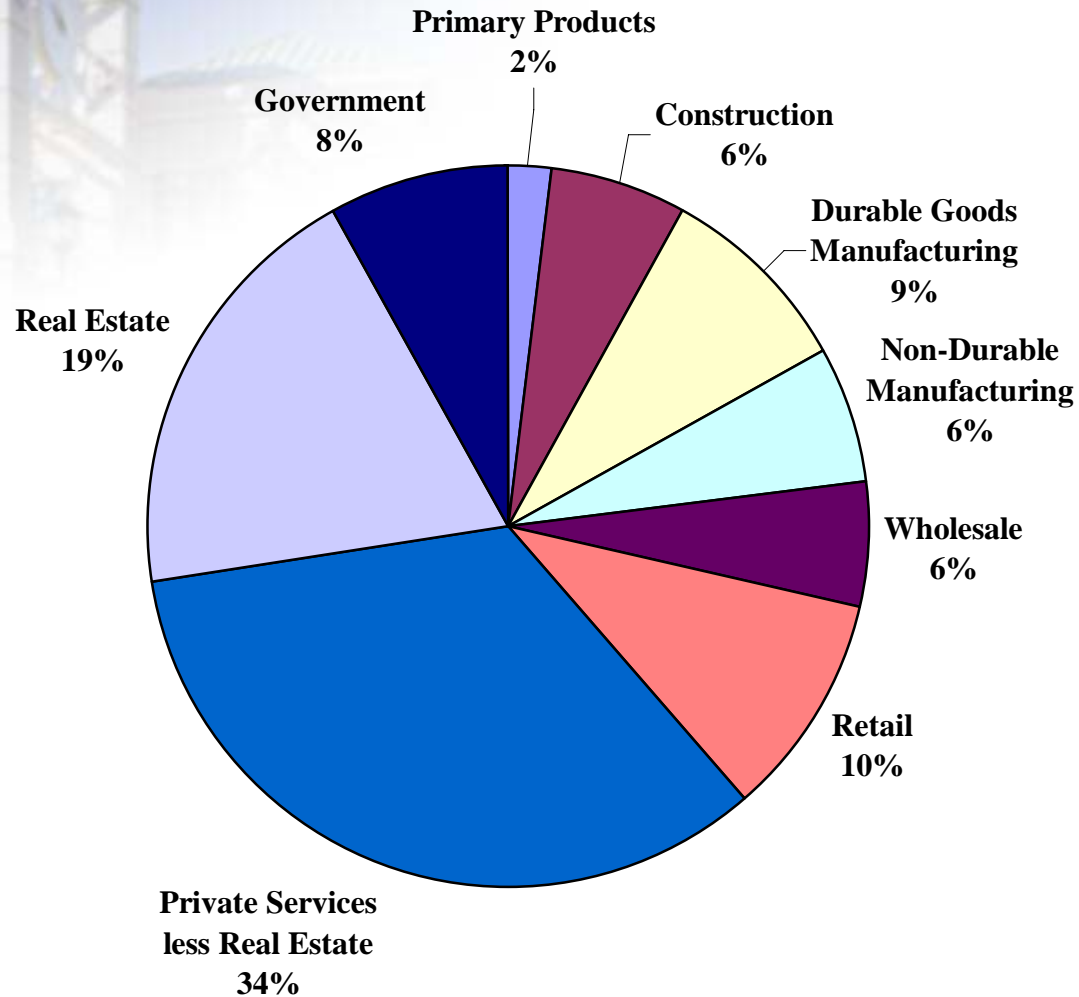


# County Product by Major Industrial Classification, 2001



Source: BEA

# County Product by Major Industrial Classification, 2006



Source: BEA

# “The Prize”

- 2,000 new jobs and \$320 million in the next three years for Santa Rosa Corridor Manufacturers
  - **2,000** new manufacturing jobs becomes over **3,800**
  - **\$320 million** in manufacturing revenues becomes almost **\$500 million** in new business revenues
  - **\$18 million** in state and local taxes!
  - Almost **4,000 new jobs** in total for county
  - Expansion in ‘Green’, Energy, Composite materials, Photonics and Biotech/pharmaceuticals
- That is just Sonoma County!



# Opportunities

- Weak dollar
  - Open the door, re-open the door
- Exploit leverage
  - Manufacturers are a strong investment for local governments
- Credit market
  - Is your current financial partner doing all they can for you?
- Strategy
  - Not business-as-usual
  - If resources are thin, which opportunities are worth the investment?



# Puzzles

- What type of manufacturing be pursued?
  - Thin-film optics:
    - Materials, optics and fabrication expertise
  - Aircraft sub-assemblies:
    - Strategic supplier providing total design-build capability
    - Meets all certifications and can ship in volume
  - Custom design-build:
    - Dramatic design (or improvement on ours) and skilled hand and fabrication
- Who will work there?



# Takeaways From Today's Meeting

What is the Opportunity?

What are the Short, Mid-Term Risks?

What Can/Should Each of You be Doing Right Now?

What is SantaRosaMFG's Role at the Public Policy Level?



# 3-2-3 : Our Seat at the Table

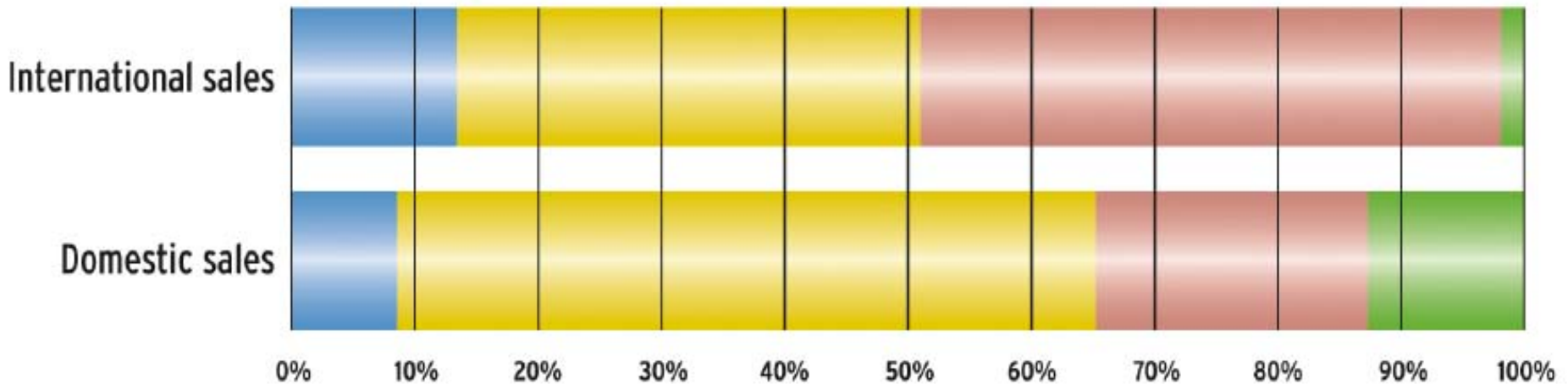
- Regional outlook poor short-term, good medium to long
  - **Be opportunistic**
  - Consider your customer service
    - Other companies will be looking to retain and market through service
- 100+ Manufacturers are the 'Core' of the Corridor's Economic Engine
  - **Make the 3-2-3 your individual program**
  - 2,000 new jobs in 3 years is under average: at least \$300 million
  - Seize export, offshore deals now while they still exist
  - Make sure you have what tier 1 players want
- Exploit bargaining positions locally through collective effort
  - **Negotiate NOW for better lease arrangements**
  - **Examine closely your banking/lending partners**
  - **Could 100 manufacturers negotiate pooled employee benefits?**



# Anticipated growth in international and domestic markets

Chart 6  
Anticipated growth in international and domestic markets

Considerable growth   Moderate growth   No change   Decline



Source: RSM McGladrey, 2008 23



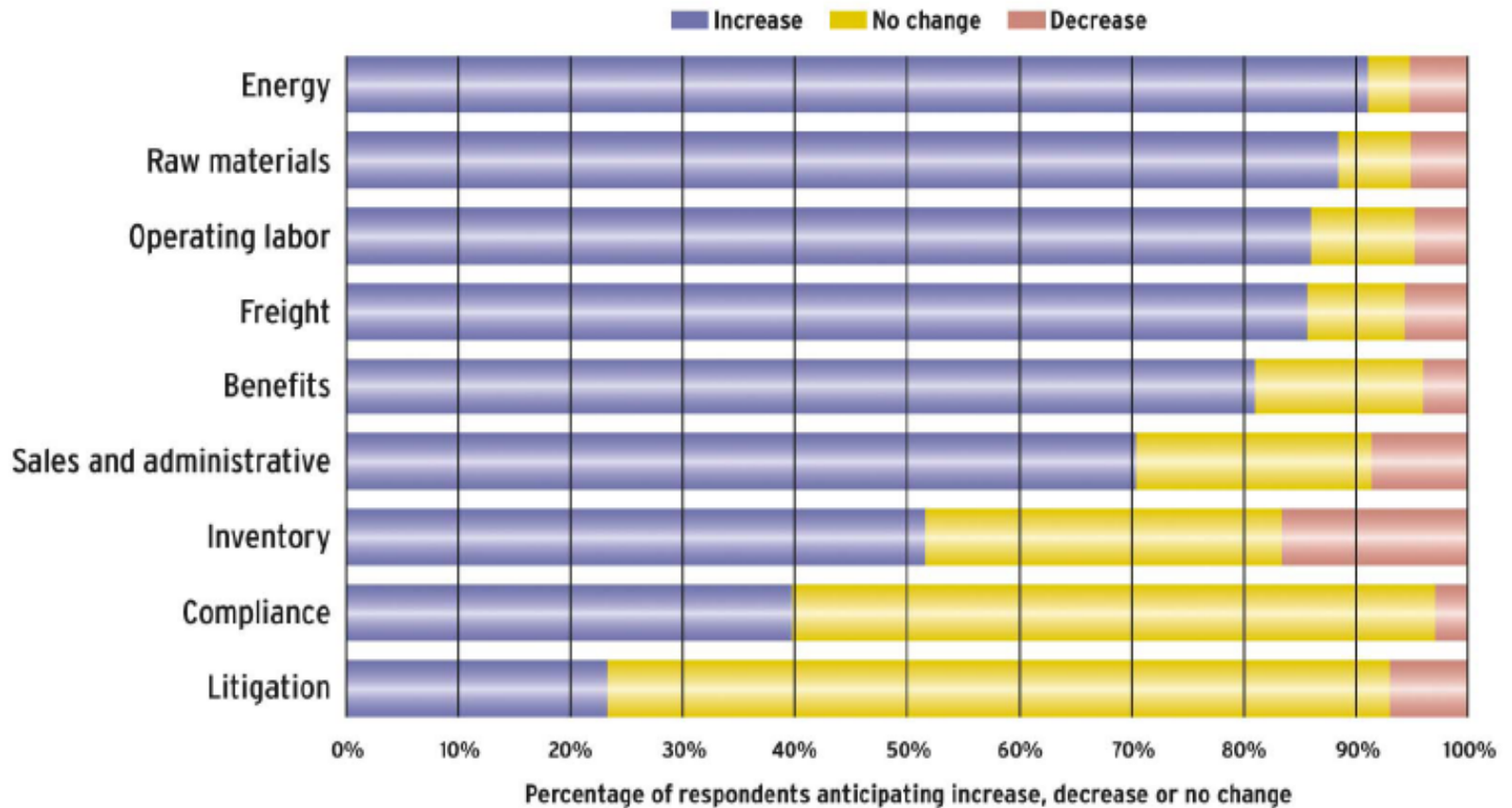
# Risks $\Rightarrow$ Strategy

- Technical Education, Basic Workforce Skills
  - Skills education is important to manufacturing
  - Must have public/private partnerships
- Cost of Living
  - Look for opportunities to pool risk/costs
  - Negotiate better rates from suppliers
  - Watch value-added vs. cost driven: think strategically
- AB 32 / Regulatory
  - Get connected with the power infrastructure
- Factor costs
  - Need a strategy to deal with coming changes



# Cost Projections

Chart 15  
Anticipated changes in costs



connect... grow... succeed!

Source: RSM McGladrey, 2008 25



# Recap of key findings

## National Survey Results

- Business conditions have deteriorated
- Some industry segments are fairing better than others
- Acquiring new customers is highest rated growth strategy
- Mergers and acquisitions have slowed
- Global activity is a key to success
- Workforce skills shortages continue
- Inflation is prevalent and hampering business activity
- Tax strategies are underutilized
- Innovation can boost growth
- Half of companies report at least one green initiative
- Information technology is increasingly critical
- Risk management programs are lacking in nearly half of companies
- Awareness of government programs has improved but still not utilized



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- Work together
  - Use group to lobby for change
- Global opportunities
  - Exports, quality standards, sales representation, financing
  - Set up committees of interested members to attack these together
  - Dollar's weakness will not continue forever
- Spread the word
  - Who isn't coming to meetings who should be?
  - Set Priorities for 2009 around these issues.
  - Accelerate member-to-member and member-to-group communication with online message/blog for 'members only'





# Question & Answer Session

