

The 22% Disadvantage

By Rebecca A. Morgan
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External financial burdens place hurdles in front of businesses trying to compete on a level playing field.

Michael Phelps won the gold medal in the 100 meter butterfly at the Athens Olympics. But what if, while Phelps focused single-mindedly on his race, the U.S. Olympic Committee (USOC) had placed weights on his ankles, created a countervailing current in his lane, and moved his starting block back a few feet? What if the total burden USOC actions placed on Phelps (a burden not shared by his international competitors) amounted to 22%? The gold would likely have gone elsewhere. In a sense, that is what's happening to American manufacturers. Because of external financial burdens being placed on their businesses, the gold is going elsewhere.

American manufacturers face a structural 22% cost disadvantage compared to 9 major trading partners, per a recent study reported by the National Association of Manufacturers (NAM). The NAM announcement reports that the structural disadvantage is based on external factors, outside the control of manufacturers. Not quality, or productivity, or design issues. Not the things that owners and employees work hard every day to improve as they focus internally to attain excellence.

The report identifies the external sources of that 22% competitive drag as:

- corporate tax rates,
- employee benefits,
- tort litigation,
- regulatory requirements, and
- energy

American manufacturers start the race 22% behind, and federal, state, and local government actions (and inactions) have contributed mightily to that disadvantage. You think U.S. manufacturing wage rates are too high? Long before wage rates are considered, American manufacturers must clear a 22% hurdle when facing international competition. Manufacturing workers have not worked hard enough to improve? The president of NAM, Jerry Jasinowski, points out that much of the over 50% increase in productivity accomplished since 1990 has been offset by increases in those structural costs.

But you're not a manufacturer? You have no international competition? Why should you care? Take a second look at those sources: taxes, employee benefits, tort litigation, regulatory requirements, and energy. That list leaves few American businesses unscathed. And some of you may face additional structural hurdles specific to your industry. Beating the competition fair and square is the American way. Most of you willingly take on that challenge. But the competitive environment may not be fair or square because your "teammate" is dragging you down.

So how do you stay abreast of the constantly changing landscape? And what do you do about it?

The ostrich approach, while perhaps both tempting and consistent with the free time you see on your calendar, isn't very effective. Nor is hoping someone else will fix it. Your employees and investors deserve more. And so do you.

So take a deep breath. Then find the time and energy to look outside your business to find out what's going on. Day-to-day demands of the business are both important and time-consuming, but find time to look outward. Every business is impacted by critical external factors, and it is leadership's responsibility to be aware of and influence them.

Useful current information is fundamental to good business decision-making. Whether it is local regulations limiting home-based businesses, recent change in the legal aspects of paying overtime, Sarbanes-Oxley, or industry specific changes, you've got to know about issues impacting your business before you can deal with them. And it's easier to impact a law when you are involved during its formulation.

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Stay in touch with the world

Many **industry associations** are assigned the task of recognizing the challenges specific to their memberships and formulating industry-level strategies to address them. Find out what your association knows and what position it is taking.

Ask your external **specialist resources** to help keep you informed. CPAs, legal providers, and others can be valuable in identifying and explaining major changes they see coming your way.

Competitors, customers, and suppliers all have observations on the state of your industry and upcoming changes. Listen to them. And listen to the **community**.

Take a stand and take action

Once you understand the external pressures facing your industry, determine your position and take a stand. Communicate that stand to your government representatives, to your industry association, to others in a position to influence the future. Review your own business strategy to make sure it reflects reality.

All of this effort will eat at your most precious commodity – time, but fighting to keep a 22% burden from being placed on your business as you swim for the gold may be what it takes to keep you in the race.



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