COLORADO BUSINESS REVIEW

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The Light at the End of the Tunnel Is Still There

Clyde Church

The glamour of high-tech companies and research turning into a marketable product stir the imagination and excite investors. However, most companies do not fall into this category; they are started and owned by people using their skills, ability, and hard work to capture a slice of the American dream. The current economic slowdown has tarnished the dreams of many small Western Slope companies and driven others out of business. This article tells the story of one firm's plan to deal with the economic downturn.

Mesa Verde Manufacturing (MVM) in Cortez, Colorado, is an example of survival, hard work, and changing strategies to survive and grow. The company is owned by Howard Hackett and his father Jim, who is a retired Mississippi River boat pilot. MVM holds a patent on a tilting trailer hitch for transporting light motorcycles and ATVs. The firm is a metal fabricator that cuts and welds steel into final "hitch" products. MVM has been undercapitalized for years, but has survived by setting up sales representatives across the country and designing a supporting Web site for direct factory sales. At times, sales have been slower than anticipated, with loans and credit stretched to the limit. In bad periods, materials were on a cash basis from suppliers. Low finished-goods and raw-materials inventory has been an advantage during these periods, allowing sales dollars to flow to the bottom line. Schedules and material shortages required Mesa Verde to operate with very fast manufacturing cycle times to meet customer demand.

During the economic downturn, the Web site has provided an outside link to motorcycle and hunting supply dealerships across the country and has helped sustain sales. Print advertising has produced promising results for product orders from unexpected places, but it has been very expensive to run in national magazines.

The company realized it needed an established sales, marketing, and distribution network to support the volume required to achieve its financial goals. In addition, the firm's shortage of cash from existing products (due to low margins in a competitive market) has created a barrier that limits the rate at which the company can grow, even if sales were to increase.

To address both issues simultaneously, the firm recently signed a marketing and manufacturing agreement with a large company in Arkansas for the eastern U.S. distribution rights. Also included in the package is an offshore contract manufacturing clause with a sister company that will reduce the MVM's demand for cash and provide a mechanism to ease its credit limitations. Western distribution rights for the product were retained by Mesa Verde, which it plans to develop during the coming year using the cash flow from East Coast sales. New product literature and a focused dealer-trade show marketing push should help efforts to increase sales and profitability at the same time.

The company plans to use this marketing manufacturing strategy to recover its credit rating. Moreover, this strategy will launch new products into completely different markets that are less sensitive to seasonal variation and less dependent on customer discretionary income. Possible target markets include medical, construction, material handling, and hospitality.

MVM plans to maintain its headquarters in Cortez, and focus on product development and marketing in the Western states.

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Manufacturing Remains Strong in Longmont

John Cody

Manufacturing has been shrinking as a percentage of total employment in Colorado for several years. From 1990 until 2000, manufacturing employment statewide declined from 12.8% to 9.4%. Even so, there are pockets in Colorado where manufacturing remains strong, and Boulder County is one of them. In 2000, manufacturing represented 17.6% of total employment, nearly double the concentration statewide (9.4%) and more than double the concentration in metro Denver (7.8%). Furthermore, because manufacturing wages are higher in Boulder County than in Colorado or metro Denver, they represent a significantly higher percentage of total wages—nearly one-quarter (24.0%) for Boulder County compared to 12.0% for Colorado and (9.0%) for metro Denver.

Within Boulder County, Longmont has a concentration of manufacturing that is often overlooked. This is due, in part, to the number of small manufacturers in Longmont, such as custom machine tool, metal fabrication, and packaging operations. However, the city has manufacturing employment that spans a number of industry sectors, from advanced technology to food processing and wood products. The Longmont area has more than 250 primary employers (companies that export goods and services outside the region and bring new money into the region) in 39 industry clusters. Manufacturing firms are found in 27 of these 39 clusters.

Much of the growth in manufacturing over the last decade has been related to the overall growth of advanced technology, especially in Boulder County. A study of advanced technology in Colorado prepared by the Office of State Planning and Budgeting in April 2000 revealed that 26.0% of all advanced technology workers and 19.0% of all advanced technology firms were located in Boulder County. In Longmont, advanced technology remained important even during last year's "tech fallout." More than 2,100 primary jobs (13.0%) were lost in the Longmont area last year. Even so, advanced technology represented only 46.0% of the lost companies (closed operations or relocated out of the area) and only 38.0% of the companies that cut jobs. At the same time, advanced technology firms represented 71.0% of the new companies moving in and 48.0% of expanding firms.

From the editor . . . In this issue of the *CBR* we focus on Colorado's manufacturing sector. John Cody examines manufacturing in Longmont, and the article on pages 2 and 3 presents an overview of Colorado's manufacturing industry. On page 4 Clyde Church reports on one small manufacturing firm's plan to deal with the economic downturn.

For those readers interested in more detailed information on the state's manufacturing industry, the *Directory of Colorado Manufacturers* has just been updated. For ordering information, see the ad on page 3.

—Richard L. Wobbekind

So what has made manufacturing in the Longmont area thrive? Among the most important factors are business costs, a highly trained labor force, a central location, a regulatory environment conducive to business growth, and a focus on supporting primary employers. A high local labor force participation rate is also important to employers. Nearly half of all jobs available in Longmont are held by local residents, nearly twice that of any other city in Boulder County.

The success of area manufacturers is also the result of entrepreneurs developing a competitive advantage. Contract manufacturers, which have a strong presence along the Front Range and in Longmont, have helped stem the tide of manufacturing employment moving offshore. And in the Longmont area, companies such as Peak Industries have been able to capture business from its California competitors due to its ability to develop a supply chain locally. St. Vrain Manufacturing is another example of a small firm that has employed innovative approaches to maintain growth. It has focused on providing responsive product delivery, sometimes overnight, to meet the needs of its customers. Longmont area manufacturers have also employed effective tools for dealing with the cyclical nature of advanced technology. For example, many use contract labor as a way of managing the human resource impact of technology business cycles.

Manufacturing continues to decline in the United States and in Colorado

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The Colorado Manufacturing Economy

Gary Horvath

During the latter half of the 1990s, both Colorado and the United States enjoyed economic prosperity, with the Colorado economy outperforming the national economy during the entire decade. Colorado's unemployment level was well below the national level. Furthermore, it stayed below the natural level of unemployment, 4.5%, for the last half of the decade. From 1990 to 2000 employment in the state increased an average of 69,400 jobs per year, while the population outpaced the national rate and grew by 1.8%.

During the 1990s, manufacturing was a contributor to economic growth and employment. Despite the reclassification of about 6,000 Rocky Flats workers from the chemical subsector of manufacturing to public utilities, the number of manufacturing employees in the state increased from 193,200 in 1990 to 205,600 in 2000. The largest nondurable goods subsector is printing and publishing. Overall, nondurable goods employment rose slightly, from 73,500 to 74,800 workers, during this period. The above-mentioned reclassification prevented a greater increase. The durable goods subsectors increased from 119,900 employees in 1990 to 130,800 employees in 2000.

From 1990 to 2000 total manufacturing increased by 6.4%, or 12,700 jobs. The Manufacturing Sector's share of total employment decreased from 12.8% in 1990 to 9.4% in 2000. In 2000, 4.4% of the state's firms were manufacturers, while 12.0% of the state's wages were paid in the sector. While the growth rates in manufacturing are less than in other sectors, they are quite impressive compared to the growth rates of manufacturing at the national level. During the same period, the number of manufacturing employees in the United States decreased from 18.1 million to 17.0 million.

Colorado Manufacturing Wages

From 1990 to 2000, the average annual wage increased 55.3%, from $30,553 in 1990 to $47,446 in 2000. On the other hand, manufacturing wages represented 12.0% of total wages paid in 2000, compared to 17.0% paid in 1990. This decrease is driven by the reclassification of a major manufacturer and rapid increases in the Services and Retail Sectors.

COLORADO WAGES BY MAJOR SIC GROUP

SIC Group	2000 Annual Wages
Mining, Oil, and Gas	$64,716
Transportation, Communications, and Public Utilities	$54,698
Finance, Insurance, and Real Estate	$52,321
Wholesale Trade	$51,980
Manufacturing	**$47,446**
Services	$37,281
All State Industries	**$37,166**
Construction	$36,965
Government	$34,910
Agriculture, Forestry, and Fishing	$22,646
Retail Trade	$19,073

Source: 2000 ES202 Department of Labor and Employment, Colorado Employment and Wages 2000 Annual Wages.

Manufacturing wages are the fifth highest of the Major SIC Groups, behind Mining, Oil, and Gas; Transportation, Communications, and Public Utilities; Finance, Insurance, and Real Estate; and Wholesale Trade.

The strength of the Manufacturing Sector lies in six subsectors: SIC 35—Nonelectrical Machinery, SIC 29—Petroleum Refining, SIC 36—Electrical Machinery, SIC 38—Instruments, SIC 37—Transportation Equipment, and SIC 28—Chemicals. Almost 44% of manufacturing employment and slightly more than 53% of manufacturing wages are in these sectors.

INDEX OF MANUFACTURING EMPLOYMENT
Colorado and United States
1990-2002
(In Thousands)
(Base Year: 1992=100)

	Colorado			United States		
Year	Index	Percentage Total	Change	Index	Percentage Total	Change
1990	103.9	193.2	-0.1%	103.8	18,754	-2.7%
1991	99.8	185.6	-3.9	100.9	18,229	-2.8
1992	100.0	185.9	0.2	100.0	18,112	-0.9
1993	101.2	188.1	1.2	100.2	18,112	0.2
1994	102.7	190.9	1.5	102.5	18,513	2.2
1995	103.5	192.4	0.8	102.4	18,502	-0.1
1996	106.0	197.1	2.4	102.6	18,537	0.2
1997	109.7	204.0	3.5	104.2	18,833	1.6
1998	111.6	207.4	1.7	103.4	18,681	-0.8
1999	110.1	204.6	-1.4	102.3	18,492	-1.0
2000	110.8	205.9	0.6	101.5	18,349	-0.8
2001*	107.2	199.2	-3.3	94.9	17,149	-6.5
2002**	107.0	199.0	-0.1	94.1	17,000	-0.9

Source: Bureau of Labor Statistics, Colorado Department of Labor, *estimate, **forecast reflects rate of growth projected by Manufacturing Estimating Committee for Colorado Business Economic Outlook Forum.

State Manufacturing Issues

As part of the data collection process for the recently released *2002 Directory of Colorado Manufacturers,* the Business Research Division conducted a survey in August and September of 2001. Bear in mind that a majority of the results were submitted prior to the tragic events of September 11, 2001.

At that time, Colorado manufacturers were evenly divided about their company's performance for 2001 and were optimistic about the prospects for 2002. They were particularly more optimistic about 2002 than 2001.

PERCENTAGE OF GOOD OR EXCELLENT RESPONSES	Professional		Hourly	
	2000	2001	2000	2001
Skill level	43%	58%	11%	34%
Willingness to learn	60	57	34	40
Productivity	49	50	27	33
Availability	7	30	4	23
Work ethic	27	39	18	27

About 4% of the respondents indicated that their business was much better in 2001 than expected, and approximately 25% said their performance was better. Around 39% said business was as expected, about 27% reported it was worse than expected, and 4% indicated it was much worse than expected.

Looking ahead to 2002, slightly more than 48% of the respondents felt that the business climate in 2002 would be better than in 2001, and approximately 35% said it would be about the same. Seventeen percent said it would be worse or much worse. In addition, only around 11% expected negative domestic sales growth during 2002, and about 12% expected sales to remain stable. Almost 73% of the responding manufacturers expected sales to increase during 2002. Only about 5% of the respondents indicated that they expected international sales to decline, while approximately 30% projected their international sales would remain flat. About 65% of the respondents indicated that they expected their international sales to increase.

Throughout the latter half of the 1990s many Colorado businesses, especially manufacturers, had a difficult time finding qualified workers. The recent layoffs across all industries and rising unemployment rates have made it easier for employers to hire qualified workers. This is illustrated in the survey results for 2000 and 2001, where manufacturers rated their professional and hourly employees in five areas. Compared to previous years, firms are currently experiencing much less difficulty in finding employees who are willing to work, are productive, have a sufficient skill level, and possess a good work ethic.

Manufacturing in 2002

National data for the first quarter of 2002 show signs that the Manufacturing Sector is turning around as both industrial production and capacity utilization data made gains in each of the first three months. However, the national seasonally adjusted employment level for March 2002 is 7.1% below the level for March 2001, while the state seasonally adjusted employment level for March 2002 is 9.0% below the March 2001 level. A recovery in the sector is imminent, but at this point it seems likely that statewide manufacturing employment will decline at a greater rate than that forecasted by the Manufacturing Estimating Group at the Colorado Business Economic Outlook Forum in late 2001.

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2002 Directory of Colorado Manufacturers

Now Available!

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Please call the Business Research Division at CU-Boulder at 303-492-8227 for more information.

Longmont Manufacturing,

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as manufacturing operations move offshore. However, much of the research and development activity related to manufacturing remains here. As long as there is a need for innovation in technology, new firms will be started and existing companies will invest in ways to meet society's need for faster, smaller, and better products. Entrepreneurial centers such as Longmont and Boulder County will continue to meet this manufacturing need, and the manufacturing infrastructure necessary to keep this activity efficient will mean a healthy manufacturing sector for this area.

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