

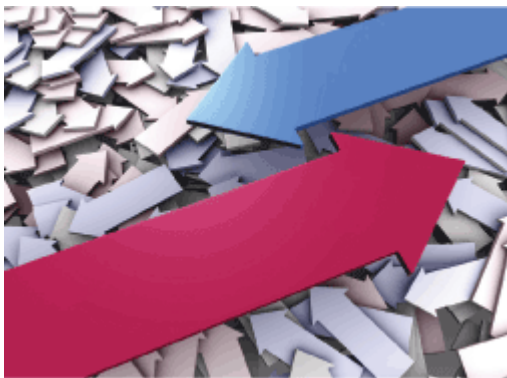
## Up, down and everywhere in between

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WEST MICHIGAN – Manufacturers across the region have little consensus in their outlook for 2009. Opinions, in this case, are like noses — everyone's got one.

Across the board, uncertainty is ruling the day as companies struggle to come to grips with how the economy will come out of 2008, but some companies are cautiously optimistic the situation will improve throughout the year.

Conservative, but looking for opportunities

Nelson Jacobson, CEO of JSJ Corp. of Grand Haven, said his company, despite being a durable goods manufacturer, doesn't have a negative outlook for 2009. Instead, the company went through an intense two-month planning process late this year and realized there are opportunities ahead for the company.

"Right now, when you look at any forecast, there's a lot of uncertainty, but we have a lot more certainty because of our discipline," Jacobson told *MiBiz*.

JSJ's portfolio includes press manufacturer Dake, automotive supplier GHSP, metal stamping company Hudson Technologies of Florida, furniture manufacturer izzydesign, decal and label manufacturer McLoone of Wisconsin, and conveyor manufacturer Sparks. The company also has operations overseas.

"On the challenging side, it looks like we're in a relatively prolonged durable goods downturn, but what we've done is focus on trying to be extremely disciplined, to find good channels, good opportunities," he said.

Those opportunities, especially for their furniture business, include higher education and healthcare settings. Food manufacturing, for example, has become a good business for

Grand Rapids-based Sparks to supply.

"We're feeling very enthusiastic and we're working closely with our banks, vendors and customers to let them know we'll be around," Jacobson said.

Because the company has a 90-year history of being fiscally conservative, Jacobson said it's also in the prime position to be able to expand and buy new businesses. He noted the company is "actively looking to expand."

But the tough times are also forcing some difficult decisions for the company in the coming year. While the business has been a General Motors supplier since the 1930s, Jacobson doesn't know if the climate will be right to continue that relationship.

"We've shipped to one customer for over 70 years, but right now, I don't know if we're going to (in 2009)," he said. "That's a hard thing to come to terms with. We've gone our entire lives having them as a critical customer. The biggest challenge from JSJ leadership is forcing questions up on the table and talking about it in a mature way."

Because of the company's diversification efforts, the loss of one customer, while very important, would not take the company down.

"That brings comfort and confidence to employees and people who work with us," he said.

Aerospace hopes to soar

The outlook for local aerospace manufacturers is also somewhat positive, according to Craig Wolf, head of the Michigan Aerospace Manufacturers Association.

While in its infancy this year, MAMA looks to continue adding companies in 2009 and is working on relationships with several "primes" — large-scale aerospace manufacturers — to get Michigan manufacturers into their supply chains.

"As the auto industry continues to shrink and become more global, the percentage of the pie that stays home in Michigan seems to decrease," Wolf told *MiBiz*. "Just for the health of the overall Michigan economy and health of our members, it makes sense for everyone to diversify."

While aerospace parts tend to be smaller and orders tend to have less volume, profit margins tend to be much higher compared to the automotive industry.

In 2009, MAMA is working with the Legislature and the governor's office on two grants to help manufacturers achieve AS9100 certification necessary for the aerospace industry. West Michigan senators Mark Jansen and Michael Sak have been "instrumental" in helping MAMA with the program, according to Wolf.

Because the scope of the industry is much smaller — many fewer planes than cars are made each year, even in the worst of years for the auto industry — aerospace will never employ as many people as the automotive industry, Wolf said, but many automotive companies do have the capabilities and quality control needed to supply the primes.

Wolf said MAMA plans to more than double its roster of manufacturers to 60-100 members in 2009, as well as add other industries — IT, design and engineering — to the

mix.

"We're excited about that; we think it's very doable," Wolf said.

According to Jim Medsker, principal at Keystone Product Development in Kalamazoo, the company's aerospace business is expected to be steady in 2009. Most of its work in the industry is in development and test machine manufacturing.

A diversified company, Keystone — which has a plant in Grand Rapids — anticipates "significant growth in both our medical product development and medical manufacturing areas," Medsker said. "Specialty automotive activity, such as work with military vehicle platforms and tire pressure maintenance systems, is also expected to be a strong area for us in 2009."

While Keystone's automotive-related business is expected to decline next year, Medsker was feeling positive about the non-automotive related manufacturing sector helping the company through 2009.

Honing operations for rebound

Rich Antonini, a partner at Plante & Moran PLLC in Grand Rapids and head of its manufacturing division, said despite many bad headlines about the Detroit 3, he doesn't see his manufacturing clients sitting in a poor position.

"They've taken on a lot of initiatives to weather the storm," Antonini told *MiBiz*. "To a company, they are all cautiously optimistic."

Most businesses have been through downturns before and braced for the volume reductions. Antonini said they're managing through the decreased volume to be prepared for the upward swing "when it comes."

In the new year, businesses are looking for ways to take costs out of their operations and use that as leverage when working with customers. While they had been just a producer in the past, manufacturers must look to be problem solvers for their customers if they want to survive in the future.

He's noticed many businesses are also planning to really invest in their workforce to "sharpen the saw" during the down time.

"I think they're positioned really well," he said of his clients.

Most of them, while they may be primarily automotive manufacturers, have diversified portfolios across auto companies or in other industries like medical devices, aerospace and defense.

He's also not writing off the auto industry, noting that the Detroit Three, in their talks with Congress, have indicated they will unveil 30-50 new models as part of their restructuring.

"That's a lot of car parts that need to be produced," Antonini said. "(Production) will ramp up at some point."

Antonini expects to see some consolidation in 2009 as well-capitalized firms pick up

good companies that don't have the financial strength to weather the downturn. Companies sitting well will be able to pick up "solid performers" at a good price and will create some opportunities for "synergy and efficiency," he said.

Auto industry outlook bleak

Ask Jim Gillette, director of financial services at automotive industry think tank CSM Worldwide, what he thinks of the manufacturing climate in 2009, and he'll give you a blunt response.

"It sucks. It's horrible."

Gillette doesn't see much hope for a turnaround next year, believing the nation is in the midst of the longest recession since World War II. And, since autos — like homes or even office furniture — are often delayable purchases, he doesn't see people rushing to the dealerships to buy new cars in 2009.

Foreign automakers have often done OK through recessions, so Gillette said the real problem is with the Detroit 3, to which so many companies in West Michigan are tied.

"The job loss started in 2000 and supplier jobs have been dwindling downward since October 2000," Gillette told *MiBiz*. "I fear we're going to lose what's left, and unfortunately, there's not much left in Great Lakes states."

"It's been disappointing that suppliers have not been able to diversify," Gillette said.

He's been preaching for about 20 years that the suppliers need to move beyond the domestic companies and work with the foreign manufacturers to ensure long-term growth.

"Reality is reality and a lot of supplier business is still heavily tied to the Detroit 3," Gillette said. "I think we'll see a shakeout. We'll see a number of companies disappear, bought out or end up being much smaller operations. It doesn't bode well for employment levels."

Gillette predicts further contraction in the supplier market in 2009, even under a best-case scenario.

He expects the automakers to get some sort of federal assistance, but doesn't buy the argument floated before Congress that the bailout is a matter of national security.

"I'm really hard pressed on that because I see that a lot of the better technology we're adopting in automotive has been developed overseas," he said, noting fuel efficiency and safety features often come out of Europe and Asia.

As the federal plan begins to come together, Gillette expects major changes at the Detroit 3.

"You're going to have an industry here, but you may not have a nameplate like Chrysler," he said.

The end of 2009 might be too early, but Gillette is betting Chrysler will eventually become part of another automaker. However, it has some strong products — namely the

Jeep brand and minivans — which suggest to him the company won't just disappear.

Ford, he said, appears to be in a "survivable mode" and should be able to last through 2009. He can't say the same for General Motors, on the other hand.

"There will not be a situation where GM disappears," Gillette said.

GM has succeeded in international markets and even if the company were to file bankruptcy, it has some strong performing vehicle models, he said. He does expect GM, as well as Ford, to shrink as nameplates.

"Both will be smaller companies," he said.

Under a best-case scenario, Gillette said he'll be wrong about the depth of the recession and the auto industry will see increased demand in the spring of 2009, but he's not betting on that happening.

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