

Strong Dollar Forces Factories to Lose Flab

Manufacturers Automate More and Specialize to Remain Competitive When Foreign Exchange Works Against Operations

By James R. HAGERTY

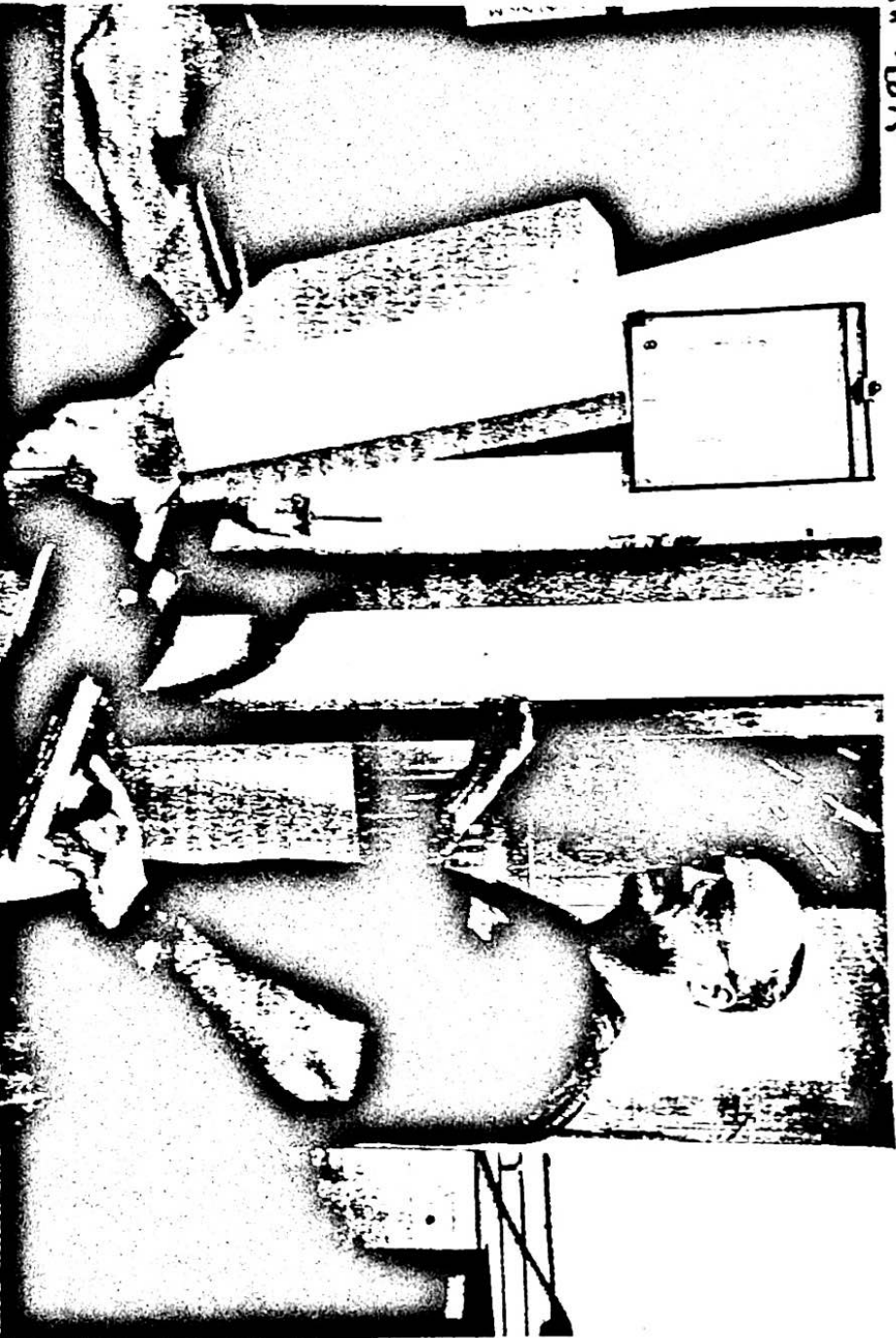
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PHILADELPHIA, Pa.—The rising dollar is putting U.S. manufacturers through the equivalent of a new year's fitness regime, causing pain for now but also promising long term gains in efficiency.

After more than a decade of weakness, the dollar began surging in mid-2014 against the euro and many other currencies. That is making U.S. made products pricier in other countries and imports cheaper in the U.S.—a combination that is likely to expand the already gaping U.S. trade deficit.

"When the dollar was weakening, it was a lot easier [for manufacturers] to be a little sloppy," said Hal Sirkin, a Chicago-based senior partner at Houston Consulting Group. A rising dollar, which effectively raises prices, forces manufacturers to automate more production processes and redesign products "to be lower cost and higher value." Mr. Sirkin said. U.S. manufacturers also will look for ways to buy lower-cost parts and materials in Asia or Europe.

Past periods of currency strength in Switzerland, Germany and Japan required manufacturers there to streamline processes and find niches that allowed them to charge premium prices.



A worker at Oberg Industries operates a metal-shaping machine. The company has invested in new computer-controlled cutting machines.

Here in Freeport, on the fringes of the Pittsburgh metro area, Oberg Industries is striving to hang onto its small share of the global economy. The family-owned company, with 750 employees and annual sales of about \$130 million, makes metal parts for a host of products, including oil-production equipment and door locks.

Oberg is moving out of some markets where competition is based mainly on price. For instance, the company recently sold a plant in Mexico where it made doorknobs, competing with Asian manufacturers. Oberg is putting more focus on highly regulated markets, such as parts for medical devices and aircraft. Because quality standards are higher, there is less import competition, said Rich Bartek,

Oberg's chief operating officer.

Oberg recently bought another robot to help sort out parts as they emerge from a stamping machine. It also has invested in new computer-controlled cutting machines that are easier to program and run. One operator can handle four of these machines. "In the old days, it was one operator, one machine," Mr. Bartek said.

Manufacturers have long been under pressure from intensifying global competition, but the dollar's sudden ascent adds more urgency. Since mid-2014, the dollar is up nearly 19% against the euro and 17% against the yen.

"The challenge I gave to our team is use this as an opportunity to get more costs out of the company," said Ron DeFeo, chief executive of Terex Corp., a West-

port, Conn.-based maker of heavy equipment, including aerial work platforms used to hoist construction and maintenance workers. For instance, Terex is making more steel parts for some of its machines in China, where steel and labor are cheaper. The company is leaning on delivery firms to pass on some of the savings they are getting from lower fuel costs. Terex may also be able to shift some production of equipment to Europe, where the weaker euro has reduced costs in dollar terms.

The rising dollar already has forced U.S. poultry companies to accept lower prices for dark chicken meat, popular in overseas markets, said Mike Cockrell, chief financial officer of **Sanderson Farms Inc.**, the third-largest U.S. poultry processor. Bulk leg

quarters of chicken, a top export product that sold for 48 cents a pound in mid-December, now are selling for 38 cents, Mr. Cockrell said. Chicken processors still can turn a profit on those prices, as long as sales of white meat in the U.S. remain brisk. But if prices sink to very low levels, chicken processors may resort to selling frozen bags of dark meat in U.S. grocery stores at cut-rate prices, as they have done before.

Prime Equipment Group Inc., a Columbus, Ohio, maker of poultry-processing equipment, is using more Brazilian parts and materials for the products it sells in that country, to help offset the effects of a weak real. The company also is delaying repatriation of profits from Brazil in the hope the real will regain value. "As long as the real

doesn't collapse—a possibility we consider very remote—we can afford to wait," said Mike Gasbarro, chief executive.

Global giants like **Caterpillar Inc.** or **Ford Motor Co.** long have had plants around the world, reducing their exposure to any one currency. Some smaller manufacturers are trying to emulate that global approach.

Firstronic LLC, a Grand Rapids, Mich., maker of printed circuit boards used in cars and other products, serves its customers in North America mainly with production from its plants in Michigan and Mexico, said John Sammut, the CEO. It has set up joint ventures in the Czech Republic, India and China so it can produce circuit boards there as well, depending on customers' needs and currency fac-

tors.

For now, Firstronic is exporting from Michigan to Europe circuit boards used to control car seats. If the dollar stays strong, said Mr. Sammut, that production could be moved to the Czech Republic. By creating a global network of factories, "we have buffered ourselves from this issue," he said.

Ground Force Worldwide, a Post Falls, Idaho, maker of trucks used in mining, is committed to manufacturing in the U.S. even though about 75% of its sales are in other countries, said Ron Nilson, owner and CEO. But he said the company can assemble portions of its trucks, such as fuel tanks, overseas to reduce costs.

FirmGreen Inc., based in Newport Beach, Calif., a maker of equipment used to purify biogas, is having to "scramble for solutions," said CEO Steven Wilburn. The company, which sells most of its equipment overseas, is being hit both by a strong dollar and by the drop in oil prices, which deters investment in alternative energy sources. Mr. Wilburn said he has had to cut his staff to 10 people from 17. FirmGreen relies on other U.S.-based companies to manufacture its equipment. Mr. Wilburn said he doesn't want to shift production to China because he fears losing his technological secrets to rivals. "Plus," he said, "I'm a patriot."

Woodward Inc., a maker of parts for aircraft and various types of engines, based in Fort Collins, Colo., is trying to help some overseas customers cope with the currency swings. On some contracts, it includes clauses that adjust the price of a large order depending on currency movements, so that the two sides share the risk.

Bob Weber, chief financial officer of Woodward, said the company could import more parts from countries with weaker currencies. But that is difficult in highly regulated markets such as those for aircraft.

"It's extremely hard to switch suppliers midstream," Mr. Weber said.