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## The Carolinas 100: Manufacturing still matters

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One industry contributes more to the N.C. economy than any other and pays higher wages than the state average.

But it has an image problem: People think it's dead.

North Carolina's manufacturing sector has taken a beating in the past decade as cheaper competition forced restructuring that threw thousands out of work. Many still struggle to rebuild their lives. Vacant factories scar communities.

But they also mask a transformation. Furniture builders, cigarette makers and textile mills have survived and prospered through automation and innovation. And drug, airplane and other advanced manufacturers have redefined what it means to produce in North Carolina.

In 2005, the most recent figures available, manufacturers accounted for 19.4 percent of the state's gross domestic product. While that was down from 30 percent in 1990, it was still more than any other single sector, according to data from the U.S. Bureau of Economic Analysis.

"It has certainly changed," said Jim Fain, secretary of the N.C. Department of Commerce. "But it remains a very important part of our economy."

This year, five of the top 10 companies on the Carolinas 100 are in manufacturing.

They make steel, clothes, smokes, rocks and pumps and, for the most part, look far different than they did 10 years ago. They're leaner and their workers are more skilled. They've given up operations to maximize profit. Top-down structures have flattened to allow more bottom-up direction.

The companies represent a small fraction of the state's manufacturers, most of which are small and privately held, but they symbolize an overhaul that's reshaping the industry.

At R.J. Reynolds Tobacco's plant in Tobaccoville, just north of Winston-Salem, a mechanical arm stretches 10 floors to collect cartons, paper and other materials needed for production. It hands them to driverless forklifts that deliver the goods to workstations.

There, employees feed and monitor machines that spit out as many as 16,000 Camel, Kool or Winston cigarettes a minute, double the rate a decade ago.

"There's an awful lot of pressure to be more efficient," said Dan Snyder, executive vice president for operations at R.J. Reynolds Tobacco.

That means fewer people. The tobacco company has roughly 2,500 workers in domestic production, about half as many as it did five years ago.

Productivity per employee has jumped, though, because of the automation. And that's benefiting Reynolds American, the parent of R.J. Reynolds. The Winston-Salem company squeezed more from each sale last year as profit rose five times faster than revenue.

The most successful manufacturers in the state have moved low-skill jobs offshore or, like RJR, replaced them with machines to save on labor. In 1990, one in four people employed in North Carolina worked in manufacturing. Today, it's about one in eight.

But workers now are more likely to have advanced degrees and can command higher salaries. In 2005, the most recent data available, the average annual manufacturing wage in North Carolina was 19 percent higher than the state average, according to the U.S. Bureau of Labor Statistics.

Martin Marietta Materials, the ninth company on the Carolinas 100, has shed about 20 percent of its work force in the past five years. During that time, average salaries have increased about 5 percent per year.

"The qualifications overall in the company have gone up pretty markedly," said chief executive Stephen Zelnak. The nation's second-largest producer of gravel and other construction aggregates, for instance, has created the position of "automation technician" to maintain technology it has implemented.

Automation gives plant managers almost daily profit and loss statements, information that allows quick tweaks to improve operations.

### Ideas bubble up

Sometimes, though, a microscope is better than a telescope for navigating business. And the best ideas come from the factory floor, not the corner office. Executives increasingly are asking line-level employees to weigh in on ways to boost the bottom line, conceding that they could have the best answers.

"The employee is the asset," Jay Reardon, chief executive of Hickory Chair, told 350 attendees of a manufacturing summit in Greensboro last month. Managers need to "let go and let the employees

contribute."

The private company last year received 700 ideas from workers and implemented almost 600. Unlike many furniture makers in the state, Hickory Chair not only is surviving, "I would say we're prospering," Reardon said.

Timco Aviation Services in Greensboro, a private company that services jetliners, urges employees to e-mail suggestions straight to the top. Chief executive John Cawthron got a message from a longtime employee who suggested a change that saved a client \$900,000.

The employee in March got percent of the savings -- \$90,000 for eliminating waste.

"We call it the fanatical pursuit of common sense," Cawthron said.

Such efforts sustain companies, which must fight harder every day to survive.

To thrive, some take bold steps.

VF Corp., the No. 2 company on our list, has largely re-engineered itself into a manager and marketer of brands such as Wrangler, Nautica and The North Face. It no longer manufactures in North Carolina and has handed some production over to contractors.

Glen Raven Mills near Burlington, another private company, abandoned the product that made it famous. It invented panty hose but hasn't made them in more than a decade. Today, it focuses on advanced textiles such as its fade-proof, stain-resistant Sunbrella fabric.

"We have walked away from those markets" that have become commodities, said Allen Gant Jr., the president. "In a commodity business, the cheapest guy wins every time. ... We're dedicated to innovation, innovation, innovation."

### **Future looks promising**

While nobody expects manufacturing to regain the prominence it once held, economic developers want it to remain a strong part of the state's economy. In recent years, they've won a Novartis vaccine plant for Holly Springs, a Honda jet plant for Greensboro and a Chris-Craft factory for Kings Mountain.

About 70 percent of active recruiting projects the N.C. Department of Commerce is working on have a manufacturing component.

Cheap labor isn't the selling point it once was. Officials now tout the state's central location, universities and other qualities to attract companies with jobs that demand higher skills.

In this new era, brains beat brawn.

### **Manufacturing**