The Slumbering Giant Is Awakening
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There is an old Chinese blessing: "May you live in interesting times." If interesting is a blessing, manufacturing is greatly blessed. Manufacturing is interesting — much more interesting than it was five or 10 years ago. By interesting, I mean competitive. Most American manufacturers are required to be much more competitive today than they were just five years ago. For some manufacturing businesses, increased competition has proven to be a disaster. This should be no news to anyone in American manufacturing. This problem has been widely reported by the news media, and it is generally attributed to the strength of the dollar.

Between 1980 and 1985, the dollar strengthened dramatically against the currencies of other major countries. At its peak more than a year ago, it had almost doubled against the West German mark, had more than doubled against the French franc and Italian lira, and had increased more than 40 percent against the Japanese yen. The strong dollar made American prices significantly less competitive in export markets and made it easier for foreign manufacturers, particularly Japanese manufacturers, to penetrate the U.S. market. Many American manufacturers lost business to foreign competitors and as a result employ fewer people and make less money — or even lose money. Some have had to close their American plants and move production to overseas plants. Clearly, this is a major problem that must be resolved. But how?

A commonly-suggested solution is import restrictions or higher tariffs. We must remember that there are real advantages as well as disadvantages of a strong dollar. The main advantage is that it reduces the price of imported goods, and this reduces the rate of inflation and improves our standard of living. I think that most Americans are accustomed to buying what they consider to be the best value, whether it is made here or abroad. Their right to buy an imported product seems to be more important to them than the loss of some other American's job. These instincts make good economic sense. Trade restrictions lower the standard of living of the entire world. The Reagan administration recognizes this and seems determined to resist any move toward protectionism.

In September, the finance ministers and central bank governors of the world's five leading industrial countries decided to intervene in foreign exchange markets to reduce the value of the dollar. Since September 1, the dollar has fallen 20 percent against the mark and 25 percent against the yen. A weaker dollar will reduce the pressure for trade barriers. My view is that there will be no significant import restrictions and that the dollar will strengthen again and, while well below its 1985 peak, will continue to be a relatively strong currency.

So American manufacturers are going to have to learn to live with a strong dollar. That's not all bad, because the dollar is not the problem. It is "a" problem, to be sure, but it is not "the" problem. "The" problem is that many American manufacturers have lost their competitive edge. The solution to that problem is to restore that competitive edge.

In the post-war period, we American manufacturers lost the incentive for constant improvement. We accepted the status quo as good performance and got away with it because there was no outside force telling us we had to do better. But in the past few years, Japanese competitors have shown us that greater efficiency, better quality and lower inventory all are possible. That is a significant lesson, because nothing gets done until someone decides it is possible. Now we see that these things are possible. With real effort we can accomplish these things — and more. We must make substantial improvements in our manufacturing processes. Many of these improvements will have to come from a greater application of technology to the factory floor. We must develop a more flexible workforce with a higher level of skills. We must develop a dedication to constant improvement of our manufacturing processes. In fact, to be successful, we must develop a dedication to constant improvement of all our business processes.

We at Briggs & Stratton have no magic formulas for maintaining our competitive position. We believe that it will take basic hard work and attention to detail. We believe that the main competitive battle will be in three areas: price, quality, and product performance. Let's look briefly at each of these areas.

Price in the long run is a reflection of cost. In the short run, pricing
can reflect special efforts to gain market share, but in the long run a manufacturer must sell a product at a reasonable premium over cost. A competitor's pricing is one indication of that competitor's costs. Our Japanese competitors' pricing does not tell us much about their costs, because their prices vary from market to market. In some markets, Japanese prices are higher than ours; in others, Japanese prices are lower than ours. About all we can say is that as Japanese manufacturers' unit volume increases, their costs will decrease. Therefore we know we must reduce our costs to stay competitive.

Labor is our largest cost. Because we are a highly integrated manufacturer, wages and benefits represent a significant percentage of the total cost of our product. Our Milwaukee area wages and benefits are higher than those of our principal domestic competitor and even higher than those of our principal Japanese competitor. This wage and benefit differential is a major competitive problem for us. It is a problem that we will have to solve. We attempted to find the beginnings of a solution to this problem in our negotiation with the union that represents our Milwaukee-area hourly employees. We were forced to take a three-month strike. The resulting contract did not reduce wage and benefit costs, but it significantly reduced the rate of increase. While relief from ever increasing wage and benefit levels is necessary, it is clear that productivity improvement accomplished through improving the process must be the major source of cost reduction. We have increased our efforts to identify cost reduction opportunities. To increase the rate at which these opportunities are transformed from ideas into reality, we have significantly increased the number of manufacturing engineers and technicians that transform ideas into hardware. We have renewed our commitment to use our capital to fund cost-reduction projects. That has always been our policy, and the Japanese threat has not changed it. In fact, I believe that we will invest more money for cost reduction over the next 10 years than we invested for capacity expansion over the previous 10 years.

We are working on other cost reduction efforts. Our inventory reduction program has achieved some success. We are consolidating our manufacturing operations to reduce overhead. The closing of our Perry, GA, lock plant and a Milwaukee engine plant will more than offset the addition of a new plant in Murray, KY.

We are also working with our vendors to control the cost of purchased components. We are reducing the number of vendors so that each vendor will have more volume and thus a greater opportunity for cost reduction. We held a vendor meeting at our Milwaukee headquarters last fall so that we could share with our key suppliers our long-range plans and enlist their help in meeting our objectives.

Briggs & Stratton is regarded as having good product quality and the most consistent quality of any American engine manufacturer. But the Japanese manufacturers also make a good quality product, and as a result of their increased market penetration, the standard of quality has increased. We know we must improve our quality to stay competitive.

We are trying to increase our entire organization's awareness of the importance of improved quality. We recognize that increasing awareness of quality will not give us a major improvement, because our people have always wanted to produce a quality product. We recognize that we must give them new tools if we expect them to produce a better quality product. One new tool we are counting on is Statistical Process Control (SPC), a technique developed by an American and used successfully by Japanese manufacturers and more recently by American manufacturers. Our initial experience with this technique has been good.

We have reorganized our quality effort, have pulled together the three separate quality-related functions, and have realigned responsibilities to make the effort more effective. We have created a new cost of quality reporting system that is making it easier for us to focus on this important objective. These moves have helped with the major task of reorienting our organization from a reliance on inspection to a philosophy of building quality into the product.

We are very pleased to find that quality improvement and cost reduction go hand in hand. The automated equipment we have installed primarily for cost reduction also has given us better quality parts.

Not all efficiency improvements result from big capital investments. Not all quality improvements result from SPC. Both also come from the ideas and participation of employees at all levels. Creating an environment in which ideas and participation are encouraged is a difficult management task. We are trying to do a better job in this area as well.

When we use the term product performance, we include not only factors that can be measured objectively, such as horsepower and life, but also less tangible factors such as product features, presentation, advertising and promotion, because they too are part of the customer's perception of the value received for his expenditure. In these less tangible areas we have learned a lot from our Japanese competitors. They pay more attention to product presentation — appearance, fit and finish, and sales feature accessories. As a result, even though Japanese products may be no more functional, many customers perceive them as offering greater value.

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We know we must be more innovative in both basic design and in features and accessories. Recognizing this, we have increased the number of engineers and technicians assigned to our Engineering and Research Departments. We have increased the productivity of our engineers by investing in a computer aided design system. And we have significantly increased the use of industrial design consultants.

We believe that pre-selling in the form of advertising and promotion is one of the reasons Japanese powered products are perceived by the customer to offer good value. That is one reason we decided to begin a consumer advertising campaign. Another was our discovery that while our name is well known to all consumers, it is less well known to people in the 18-to-35 year-old age category. These people do not remember World War II. They have grown up with Japanese products — television, stereo equipment, cameras, motorcycles, and even cars. They are receptive to Japanese products. They are the people who will be buying their first home and thus their first lawn and garden equipment in the years ahead. We need to do all we can to be sure that they know our name and that they associate it with good value.

Some of these actions increase our costs at a time when increased costs cannot be passed along in higher selling prices. Most of these costs must be incurred well before we receive the benefits they are intended to produce. We are willing to accept this short-term reduction of our profitability because we believe these actions are necessary to maintain our long-term competitive position. They are concrete evidence of our commitment to maintaining our leadership.

Our competitive problem with Japanese manufacturers is just one small part of a larger national problem. How many United States industries face this problem? Autos, motorcycles, cameras and film, consumer electronics, machine tools, lift trucks, construction equipment, shipbuilding, steel. There are many examples. How did we allow this problem to develop?

The explanation goes back to the end of World War II. The Japanese economy at the end of World War II was a shambles. The Japanese had to start from scratch to build a decent standard of living. The United States emerged from World War II with by far the world’s strongest economy. That dominant position allowed us to become complacent. John Kenneth Galbraith, the popular American economist, reflected this complacency when he wrote that “we had solved the problem of production,” and that the task ahead was to distribute the resulting wealth more fairly across the whole population. While we worried about redistributing wealth, the Japanese worked to create it. While we in the United States were comfortable with our way of doing things, the Japanese were forced to find new and better ways. Their first efforts were inadequate. “Made in Japan” became a joke — a symbol of poor quality. But they took ideas and concepts developed in our country — ideas and concepts we saw no need to apply — and put them into practice. They never allowed themselves to become satisfied. They always looked for a better way of doing things. This relentless quest for improvement produced remarkable results.

These trends came to a head in the 1970’s, a period that should go down in history as a disaster for American manufacturing. The 1970’s began with the Nixon administration’s price control program, which concentrated the attention of American business on passing along cost increases. Later in the 1970’s, a high inflation rate and a weak dollar allowed additional cost increases to be passed along. While we were busy passing along cost increases, the Japanese were improving their productivity and quality. The new economic policies of the early 1980’s were a real shock to American manufacturers.