



Where Is Our Industry Headed?

It's been a wild and wonderful ride. Profits were plentiful, sales meetings were in spectacular places and stock options made many a man rich, very rich. Wealth abounded across all sectors of the electronics industry: manufacturers, representatives and distributors. So what's changed? EVERYTHING! Read on to see if your business or employer may be in peril. Remember one very important consideration, our industry will only be as healthy as our country. Being the "Best and the Brightest" may no longer be tomorrow's prosperity trump card.

This article takes a brief look at the impact of outsourcing and defense spending and the negative impact that it has had on our economy and industry.

Competing With China

We've spent a fortune on the Iraq war, and that money theoretically could have gone towards automating our factories, thereby making our cost of production more competitive with China and the other low labor rate countries. If you don't think the Iraq adventure has seriously weakened the U.S. economy, I beg to differ. You can't spend \$3 trillion – yes, \$3 trillion – on a failed war abroad and not feel the pain at home. The mortgage and foreclosure issues pale by comparison. Our real mission is to bring the jobs back home, and if it takes tax credit incentives, so be it. Incidentally, the \$3 trillion was reported by *The Washington Post*.

A Very Sick Economy

Our economy is suffering for many reasons. Some believe that corporate greed and corruption are to blame. Others feel that our plight is due to inept leadership and multiple wars. Lastly, the

Wall Street barons and bankers are an integral part of the financial collapse. No doubt that these are all factors, but to put it into proper perspective, all of these have contributed to form the perfect storm.

Personally, I feel that the dreadful unemployment numbers could have been avoided if defense spending was redirected to update and automate our factories. In retrospect, we know that the Iraq war was never really a matter of defense. All of the aforementioned was exacerbated with a mad rush to outsource everything in sight. That alone snowballed unemployment. If our trillions of dollars of military spending went toward automation, we would have far less dependence on (communist) China. My articles have often preached "automate before it's too late." Now the question is, is it possibly too late?

What Now?

The Federal Reserve says it is trying to invigorate job creation in our country by slashing interest rates to the bone. This move allows big corporations to borrow money at discounted rates for next to nothing, so they can expand and start hiring again. Sounds like the

perfect solution! So how is it working out? Well, the first step has gone splendidly for giants such as DuPont, Hertz, IBM, Microsoft, and PepsiCo rushing to grab the windfall. They've borrowed hundreds of billions of dollars at interest rates of less than 1%. However, there's been quite a stumble on step two of the Fed's plan. Rather than putting this enormous stash of cash to work for America, the corporations are simply squirreling it away for their own enrichment, refusing to spend it on the job expansion that our economy desperately needs.

For example, Microsoft – one of the richest corporations on Earth – amassed nearly \$5 billion under this "opportunistic borrowing" scheme, yet has put none of the cheap money into job creation. Instead, it is using a big chunk of it to buy back stock from its own shareholders – a move that merely profits the very rich who control Microsoft. Worse, corporate powers such as Hertz and PepsiCo are using the funds to take over competitors. Who is to say that it won't run rampant in the electronics industry AGAIN? These consolidations may actually cut jobs, while reducing customer choices

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and raising our prices. Indeed, there's no provision in the Fed's program to keep the giants from investing the money in foreign expansion, thus offshoring and outsourcing more American jobs.

The Big Get Bigger

Getting back to business, do you equate the independent disty to yesterday's corner grocery store? Many industry watchers do because they are both vanishing, and this is bad. The purchasing community has fewer choices, and unfortunately, this also results in less inventory in the field to serve the needs of OEM's and CEM's. Hence, the rapid growth of the D.A.M.N. (Digi-Key, Allied Mouser & Newark) team and their commitment to serve the function of inventory fulfillment. Fierce competition is good, less competition is horrid. So while the big get bigger, the small independents and regionals are subject to be consumed and vanish.

Where Are The Disty Start-Ups?

You're not missing them because there have been very few, if any. The same applies to the rep world. Today, we have fewer risk-taking entrepreneurs and venture capitalists in the electronic

industry. The question is why? The answer is obviously "tight money!" So much for the stimulus plan! Compression is taking place, folks!

Frustration

What is so frustrating and perplexing about the present unemployment plight is that the U.S. has historically been a job machine, especially for the electronics industry. Recent unemployment statistics state that there are 14.8 million jobless Americans (Bureau of Labor Statistics 10-8-10). It's easy to see that people aren't buying and businesses aren't hiring, but we keep outsourcing. Another reason for higher death rates includes the so-called M&A's like the recent Arrow acquisition of Nu Horizons and Richardson. Plus, there are always those who succumb to new competition, products and technologies. A company founded today has an 80% chance of failing over the next quarter century according to a recent study of the Kauffman Foundation.

The Outlook

It's all about risk taking, and the good news is that our entrepreneurial instinct seems deeply ingrained in our country's

culture. Americans, especially those involved in the business of technology, like to create; they are ambitious and want to be their own bosses. Many crave fame and fortune. The bad news is that venture capital for start-ups is scarce and political leaders seem greatly oblivious to burdensome government policies. This needs to be addressed. Entrepreneurship won't instantly cure America's job deficit, but without it, it's unlikely there will be a strong recovery.

Summary

Do fewer start-ups in our industry send a negative message? Will our millions of unemployed citizens give up the American dream? I sure hope not, but clearly our middle class is shrinking and the less fortunate are suffering. There is little question that we desperately need entrepreneurs to fuel the recovery and leadership to provide a major course correction.

There is no question in my mind that our country and industry will grow and prosper, it will just take hard teamwork and creative thinking.

All the best to my industry colleagues as we prepare to enter another challenging year.

