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October 24, 2008

House Small Business Committee

Subject: Testimony regarding small business in today's economy

Dear Committee Members,

Thank you for inviting me here today to discuss with you the impact the economy has had on our business. It is truly an honor for me to be here to tell you of our story. My name is Jim Bradbury and I am President/CEO of Grand Rapids Controls Company LLC headquartered 10 miles north of Grand Rapids, Michigan in the town of Rockford. As a small business leader, it is my responsibility to provide vision, and a plan, to achieve success in an ever changing world. In the following, testimony I hope to provide you insight into how we are trying to survive in these volatile times.

Like many small businesses GRC was founded on a need and an idea. For the last 40-years GRC has cultivated this idea into becoming a leading solution provider of motion controls. Next time you adjust your office chair, or your car seat, you are likely using our products. More than a manufacturer, GRC provides solutions to our customer's toughest requirements. Acting as a collaborative partner with our customers GRC has assisted in the development of industry firsts like the power sliding van door and automotive seat lumbar systems.

Industry started to change fifteen years ago when we first started to see overseas competitors come to our shores from far off places like India and China. These companies offered excellent prices but the quality of their parts was unacceptable. As time passed more and more competitors began to appear and quality steadily increased. With the spawning of the internet the world became a much smaller place as knowledge could be gained at a much quicker pace and the fear of the unknown became less scary. In addition, our customers could search for competitors around the world and send quotes to them electronically. From 1990 until 2000 we saw approximately twenty USA competitors reduce to two.

Also, during this period GRC saw tremendous growth, nearly 800%. A large reason for this growth was the consumer's desire for more function and comfort in a vehicle, as well as new safety regulations that required more robust designs. In the automotive market, power windows and seats, lumbars, door release, seat adjustment were just a few of the areas where new growth was created. In office furniture we found growth where there were strong desires from the consumer for more ergonomically comfortable seats with more adjustments.

Internal to GRC many things changed as we grew. We had numerous expansion projects to provide the space we required to produce the new parts. We also grew from 120 people up to as many as 450. Initially we used extra people to inspect in quality but over time we developed a lean mentality and learned to build our own equipment with quality detection built into the machines. We also began to build automation to offset the rising labor and benefits costs. By 2000, we were producing more with less and profitability was the best the company has seen in many years. We were also starting to see our competitors in Mexico and China increase their levels of quality to an acceptable level to compete with us, and they had significant price advantage.

Then in 2001 the economy started to decline as competition continued to increase. As a result there was even more pressure to reduce costs by our customers. We started to lay employees off as business dropped and customers moved business to our competitors. We saw many global on-line market tests as our customers learned to use the internet effectively. For the next three years this trend continued as sales dropped by 50%. Something needed to change in how GRC does business. Something did change, in the summer of 2004 GRC was sold to another family owned business, the Charlton Group. The Charlton Group was the manufacturer's representative for GRC to the automotive market. Additionally, The Charlton Group brought knowledge for doing business globally. At the time of the sale there were 219 employees at GRC. We were losing money and morale was low.

The new company needed to make changes immediately to regain business, and position us for the future. We needed to stop bleeding cash. Our customers were telling us that if we were not in a low cost country (LCC), we would not be sourced new business. Through exhaustive efforts we trimmed expenses, stepped up the sales effort, evaluated our products and received feedback from all of our customers as to where they were headed. It became apparent immediately that we needed a different model to compete. The economy was still slow and we saw more and more of bankruptcies and consolidation of the supply base as the industry re-aligned itself.

In reviewing our products we recognized that our core product was highly labor intensive, low tech, and for the most part, a commodity. We were also way behind our competitors in supporting our customer's growth in overseas. We decided to open a plant in China, to be part of China's future domestic growth. Plus, it provided us with a short-term competitive model to supply our commodity parts globally. We also started to investigate new markets outside of automotive and to diversify our customer base into transplant OEMs. The strategy worked and we were awarded 17 new programs to be launched in the next two years. We grew to over 300 employees in Michigan, our plants were full and the future looked bright.

We need to innovate! Being competitive again helped the immediate need but for the future we would need more than a commodity product. In the period between 2005 and 2007 we began to develop new value added products and processes and dedicated resources to this purpose. Our efforts resulted in new patented products, new processes and outstanding performance.

During the growth period of 2005 we had to borrow a large amount of money to re-invent the company. At the end of 2007 we paid down the debt by approximately $3 million. At the beginning of 2008 we were forecasting a year similar to 2007 and we were optimistic. How things change quickly.

In the beginning of 2008 sales in January started out slower than normal. In February, we were impacted by the American Axle strike which caused a 22% reduction in sales overnight. The information we were receiving from the parties involved was that they expected the downturn to be over very quickly. Not wanting to lose any employees, we put them on other continuous improvement activities. After a month we realized that we would have to make changes as our stakeholders were concerned. Rather than lay off people we decided to go to 32 hour work weeks for the employees. During this time, the parties involved in the strike were communicating to GRC telling us to get ready to work overtime as they will have to make up lost production.

At the end of the strike it was communicated that inventories actually increased during the strike as a result of high gas prices, in fact, they were going to cut production at their plants. This was at the beginning of June 2008. Our employees were not able to make ends meet working 32 hours, and we were worried that we were going to lose our best employees. We decided to lay-off employees and put the remaining people back on 40 hour work weeks.

Throughout 2008 we started to see rising material prices for resin and steel. We also started to get charged surcharges for delivery services. Fortunately for us, with the cost savings activities we had underway we were able to offset these increases avoiding further profit erosion. Our office furniture customers started to insist on LCC sourcing and started to move towards moving some business. Sales for all of our customers were falling due to the economy. Sales dropped over 40%.

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In response to the falling sales we cancelled wage increases for employees until further notice and no bonus will be given out. Resources are restricted to operationally critical items, sales growth and cost reduction activities only. We are committed to mitigating the bottom line impact of the revised lower sales forecast.

Despite the weakening economy GRC has continued to make improvements, below are a few performance metrics that demonstrate the results we are achieving.

- Delivery – 100%for last 12 months
- 5% productivity increase YTD
- Reduced scrap by 50%
- Reduced Cost of Poor Quality by 30%
- OSHA Recordables improved by 61%
- Absenteeism reduced by 50%

The main point for all of the testimony above is to demonstrate the complexity of the changing world on a small business with limited resources. The speed at which the market changed recently has caught GRC unprepared for such a volitle shift and drastic measures were required. We are continuing to work through these issues and are improving our position daily. However, despite these measures, the effect of the credit market may have longer reaching consequesnces to less prepared companies.

Financially, GRC uses a line of credit for daily operational activities. The limit on the line of credit is based on a formula that calculates a percentage of our qualified accounts receivable (AR) plus a percentage of our qualified inventory. As sales fall AR and inventory shrinks, effectively reducing our line of credit. I feel GRC has performed at a high level of fiscal responsibility to foster profitable growth in our company. We are becoming a great company in many facets of business as described above but we are getting squeezed by insecure creditors and loss of sales revenue.

In talking to the bank the feeling I get is that at the lower levels they do not have a clear direction on what they can, or cannot, do in regards to loan approvals. There is an uncertainty to the valuation of an asset, and in the short term, it is likely that a much more conservative approach to appraising assets is used. In addition, the estimation of sales revenue and the strength of the customers are also at issue. Lastly, I think the trust between banks is on par with a business owner. Until a clear direction is achieved in the economy confidence will be lacking in the financial arena.

I have traveled all over the world and I firmly believe America is the greatest country on earth. I also believe America has a competitive advantage in creative solutions to world problems. I would like to see an environment where the government challenges the American companies to create new industries. However, the USA is competing against other countries where their governments subsidize development in these new areas so that the resulting products are affordable to the world, rather than the American development source passing on the cost to the customer in their products. US companies need to be able to compete on a fair playing field, and if we are provided a level field, we will grow. I believe by the government participating in R&D we will create new industries that are capable of sustaining themselves versus other countries copying our technologies, without the development costs, and underbidding our great country in our home market.

I have seen many small manufacturers close their doors, or have to manufacture outside of our country, to compete within North America. This needs to stop! In order to develop products we need all the suppliers in the value stream close to the point of development. Without this support development slows and the end result is less than desired.

Lastly, in my opinion, any good strategic plan requires a clear direction, but if upper management does not support it, then it will stop. For example, in the early 1990s GM designed and built an electric car for the future and brought it to the public with a high price tag, from the development of technology, and no easy way to refuel the vehicle. There were little or no incentives to create a market for this desired technology and the strategy failed. What would it have looked like if gas prices were higher, or we raised CAFE to the higher level, back then? Government and business have to work collaboratively for all of us to be successful. Some of these are hard decisions that are not the most popular, but must be made. As a small business executive I just want a fair playing field, one where our government supports business like the Japanese R&D reimbursement strategy.

Thank you for taking the time to read my testimony and I hope it provides insight into the plight of a small business in today's economy. We are doing everything we can to support our employees and stakeholders in our effort to build a great company. Fortunately for us we had many activities in place to further reduce our operating costs and increase sales, but I have to believe there are a lot of other small businesses that are not so fortunate. The economy is fragile today and it appears recovery is many months away. If credit is not available to small business to get through these times I believe many will disappear and the country will be worse off.

Sincerely,

James A. Bradbury