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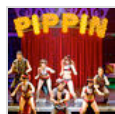
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JANUARY 30, 2009

# Car-Industry Slump Imperils Role in Spurring Innovation

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By TIMOTHY AEPPEL

From Toledo in the west to Warren in the east, the Ohio Turnpike is a testament to a little-recognized side benefit auto makers have long provided to industrial America: the spur they give suppliers to innovate.

Paul Springer of Cleveland started a firm called Springco Metal Coating Inc. 32 years ago to make parts corrosion-resistant. To please the auto makers, he expanded his technology, such as by creating a conveyor system to carry parts through a series of chemical baths and ovens to apply complex coatings. Now he markets this technology well beyond the auto market, for products ranging from water heaters to laser-guided bombs.

"This industry was being driven by automotive in the early 1970s ... They were really the first to start the battle to make metal parts last longer," Mr. Springer says. Doing work for the car companies "put me in the position to put these coatings on all kinds of parts."



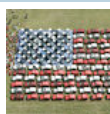
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Associated Press

Automobile factories like this Chevy Cobalt plant in Lordstown, Ohio, nurture industrial innovation by suppliers all along the Ohio Turnpike.

How difficult it will be for the auto industry to continue this nurturing role without government help was underscored yesterday when Ford Motor Co. reported a \$5.9 billion fourth-quarter loss, saying it would draw down a credit line and cut costs by another \$4 billion this year. Washington has already provided \$17.4 billion in emergency loans for General Motors Corp. and Chrysler LLC. Ford said Thursday it doesn't plan to seek similar federal aid, barring a "significant event."

The domestic auto makers, while roundly criticized over the years for resisting product innovations, have often sparked inventiveness in parts manufacturers, which must compete hard for the business. In this way, the car makers infuse both technical innovation and other new business ideas, such as for cost-control, in the wider economy.



### Eyes on the Road

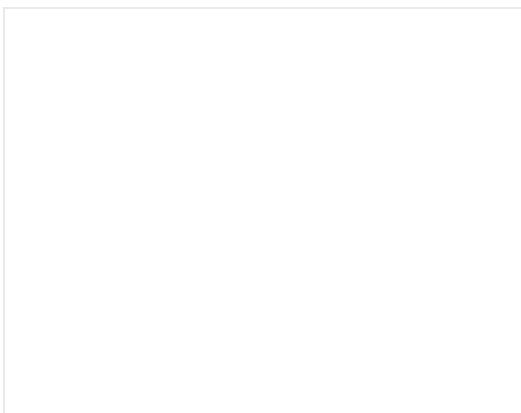
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"What you see with the auto industry is that it's driving a lot of technologies in the background, like machine-tool makers, that enable a large part of the economy to advance," says Thomas Klier, a Federal Reserve Bank of Chicago economist. The auto makers' fading clout could erode that influence, he says.

Economists are of two minds on the importance to the economy of the car makers' nurturing role. "The auto industry is a driving force for innovation in a variety of industries -- materials, electronics," says Peter Morici, a professor at the University of Maryland's Robert H. Smith



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School of Business. "I don't think you can have a true [major] economy without it."

Still, he says that function isn't vital enough, in itself, to justify bailing out the auto industry. Testifying to Congress last year, he warned that the government could end up supporting the auto sector indefinitely.

Nigel Gault, an economist at IHS Global Insight in Lexington, Mass., says one wouldn't "necessarily want to preserve an auto industry just because of its spillover benefits to the rest of the economy. If we don't use resources to build autos, but use them to build something else, maybe that something else would have just as much spillover benefits."

One reason auto makers have such a broad effect is their large scale, creating a steady flow of business. Once firms that supply them with goods and services get established, these businesses are positioned to diversify out into other niches, too.

The effects of the industrial diaspora are evident all along one of America's major industrial corridors, the Ohio Turnpike. Anchored toward the west by Toledo, the self-styled "Auto Parts Capital of the World," and on the east by a sprawling GM plant in Lordstown, the turnpike links businesses that sprang up from the auto industry and branched out beyond it.

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At the same time, most remain closely tied to the industry, whose slump is causing a wave of layoffs among companies far down the industrial food chain. U.S. manufacturing activity declined in December to its lowest

level since June 1980, according to a recent report from the Institute for Supply Management.

Grand Aire Inc. in Swanton, Ohio, was started two decades ago by a Pakistani immigrant who recognized a growing need to rush auto parts from one place to another. Detroit auto makers were among the first U.S. manufacturers to embrace the "just-in-time" inventory policy, which demands fast delivery of materials.

This inventory practice then spread throughout the economy. Grand Aire, with offices situated just off the tarmac of the Toledo airport, began airlifting products not just for cars but for appliance factories, food processors and West Virginia poultry farmers, for whom Grand Aire has transported baby chicks.

One area of growth in the current lean times is flying surgical teams around as they harvest and deliver human organs.

"Businesses like [Grand Aire] never existed before, and they only came about because we had a healthy auto industry here to build it on," says Tina Nowak, a company spokeswoman.

But Grand Aire still depends for 80% of its revenue on the automotive industry. With that in a deep slump, Grand Aire has laid off its pilots and grounded its fleet of seven jets, switching to the cheaper alternative of contracting with other operators to fly parts for it.

Car makers also were among the first manufacturers to deploy computers on the factory floor, initially using them just to run individual machines. The next step was linking computers together, to give managers better oversight and control over whole production processes.

While doing so promised big productivity gains, it was very expensive. It took the U.S. car makers -- with their deep pockets and growing anxiety in the face of rising Asian competition -- to do that. The Detroit car makers are widely credited with bankrolling the development of factory controls that are now common across the U.S. economy.

"We really learned most of what we now know from those growth years in automotive," says J. Scott Healy, a Toledo-based salesman for [Rockwell Automation Inc.](#), a leading producer of factory-automation equipment and software that is based in Milwaukee.

Today, just 15% of Rockwell's revenue comes from the automotive industry, including tires. But Mr. Healy estimates that 60% of his work in northwestern Ohio can be traced to the Big Three or the so-called New Domestic, such as [Toyota Motor Corp.](#) and [Honda Motor Co.](#)

The remaining nonautomotive clients of Rockwell also are benefiting from technology that was created for car makers. Mr. Healy just finished a project for [Marathon Oil Corp.](#), which nearly doubled the capacity of the pipelines coming from a new Louisiana refinery by using automation that sped the flow of liquids through the pipes. Another recent project allowed an Ohio maker of beverage cans to churn out 40% more lids using the same number of machines.

Farther east and just south of the Ohio Turnpike, in Cuyahoga Falls, is Prospect Mold Inc., whose business is carving cavities in blocks of steel for making plastic parts. When melted

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plastic is squirted into the cavities with high-power injection-molding machines, the molds form the finished parts.

Prospect is best known for producing molds car makers use to form taillights. Sitting in one corner of its factory is a stack of 14 huge steel molds, representing a taillight assembly for a new model for GM. But Prospect recently was told the project was delayed.

Luckily for Prospect, over the years it has used its auto-industry base to diversify into making molds for other industries, as well as into machining finished metal parts. The pressure from auto makers for greater precision and complexity led Prospect to develop skills it now uses to supply other industries that demand precision.

One of them is aerospace. "I can't imagine someone opening up a shop and saying: 'I'm going to do aerospace,'" says Brandon Wenzlik, vice president of engineering. "All those years of developing our capabilities and acquiring technology -- that's what makes all this other stuff possible."

The ideal for companies like this is to keep a healthy mix of customers, to reduce reliance on auto orders and help weather cyclical downturns in various industries, on the theory that at least a few will be strong when others are weak. What's unusual today is the simultaneous slump across many different industries, from cars to appliances.



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Springco Metal Coating

Springco Metal Coating Inc. developed expertise for making car parts corrosion-resistant and did the same for appliances and guided missiles.

In Cleveland, Mr. Springer is rushing to snare new types of business for Springco. It started out in 1977 almost entirely focused on automotive work. As it developed its expertise in metal plating, Springco steadily took on more nonautomotive work, which now makes up close to half of its business. Mr. Springer says the auto makers, besides spurring him to develop new and better corrosion-resistance treatments, have steadily pressed him to become more efficient.

Akron, near the eastern part of the Ohio Turnpike, has long been a center of tire manufacturing. Particularly in earlier days, after World War II, workers ended the day with a lot of gunk on their hands.

One tire worker, Goldie Lippman, mentioned to her husband, Jerry, that the women she worked with didn't like cleaning their hands with the harsh chemicals they had to use. Mr. Lippman started a business, called Gojo Industries Inc., to sell heavy-duty soap to the tire makers.

Today, the top floor of Gojo's headquarters building in Akron holds a sink-filled laboratory where the company researches soaps and cleansers, trying to improve on products like its Purell hand sanitizer. Gojo dispensers now can be found in factories of all kinds, as well as in hospitals and restaurants.

"We got our start in automotive, but that just opened the way for us to get into these other markets," says Steven Pruett, a vice president at Gojo.

The auto industry has also pushed innovation to the larger manufacturing economy by shifting more research-and-development responsibility to suppliers. This is essentially what happened to Astro Manufacturing & Design. Astro opened an engineering shop in the 1980s in Warren, near Cleveland, to serve GM's auto-parts businesses, eventually spun off into the independent company Delphi Corp.

Delphi asked Astro to engineer and build complex automated equipment to make auto parts, and later to devise simpler machines for use in its Mexican and Chinese factories to take advantage of unskilled labor there. Using what it learned serving the auto industry, Astro now is working on a project for [General Electric Co.](#)'s lighting division, creating equipment to pick up glass globes for floodlights as they come off the assembly line and stack them on trays.

**Industrial Supports**  
Auto makers have spurred suppliers to develop technologies they use in other industries, too.

**Grand Aire**  
Just-in-time delivery also serves poultry farms, surgery teams.

**Rockwell Automation**  
Automation skills apply to many types of processes, factories.

**Springco**  
Electroplating technology extends to water heaters, guided missiles.

**Prospect Mold**  
Metal molds form taillights but also housewares, aerospace parts.

**Gojo Industries**  
Soaps created for tire makers also appear in hospitals, restaurants.

**Astro Mfg.**  
Robot tech extends to businesses like manufacturing floodlights.

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