

## MANUFACTURING

## POSSIBILITIES



inside

## Harnessing Capacity

*How to Get the Most for Your Money***OVERVIEW**

During turbulent economic times, such as the past few years, it is more difficult to manage production levels for a variety of reasons. This article discusses using a capacity utilization approach to balance operating expenses with product demand.

During slow periods, manufacturers scale back production by idling machines or shuttering plants. Reducing costs means cutting capacity, which shrinks your potential for profits and can leave you hurrying to catch up when demand returns. Rather than focusing solely on cost cutting, look instead to optimize your capacity. A capacity utilization approach can balance operating expenses with product demand, trimming only unnecessary costs and identifying where additional resources are needed.

**Utilization Steadily Dropping**

You can calculate capacity utilization by dividing your company's actual output by its potential output, taking into account the number of workers, facilities, machinery and other capital outlays

that contribute to productivity. A manufacturer's average capacity utilization rate typically rises when the economy is vibrant and falls when the economy is anemic, making it a good indicator of the manufacturing sector's general health.

According to the federal government's latest data, the average capacity utilization rate among manufacturers is 69%. That figure is higher than during the throes of the recession, but is part of a larger trend of declining manufacturer capacity utilization. For comparison, the average capacity utilization rate in the late 1960s was 89%.

Balance is important when it comes to capacity utilization: Too-high utilization can leave plants struggling to keep up with demand and lead to price inflation, while too-low utilization means businesses are squandering their investments. Many financial experts suggest that manufacturers should aim for 80% utilization, meaning the average manufacturer today needs to boost its figure.

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## Higher Unemployment Taxes This Year?

### OVERVIEW

One line item that appears in every manufacturer's budget is likely to increase in 2011: unemployment taxes. Why? There are a variety of reasons, including increased layoffs, greater use of unemployment trust funds and the expansion of unemployment benefits. This article explains.

Many manufacturers are wondering about the future of their profit margins in light of the still uncertain economy. One line item that appears in every manufacturer's budget, though, is likely to increase this year: unemployment taxes.

### Shouldering the Burden

As an employer, you pay taxes to support state-run unemployment trust funds, which, in turn, cover unemployment benefits for laid-off workers. But continued high unemployment means that many trust funds' payouts are outstripping their revenues. The result: decimated funds in a growing number of states.

Unfortunately, it's up to employers to make up the difference, and many states are socking businesses with eye-popping tax increases to keep their systems afloat. If you're not up-to-date on your evolving unemployment tax liabilities, your next tax bill could be an unpleasant surprise.

### Unemployment Insurance 101

The amount of money you pay into your state's unemployment insurance systems is based on several factors, such as your company's age, number of employees and number of former employees who have filed unemployment claims with the state. As with many other forms of insurance, the more claims you have, the higher your premiums.

Unemployment tax rates for employers vary from state to state, both in terms of the amount and how they're assessed. Some states charge employers a flat fee for each of their employees who earn more than a certain amount in wages, while others levy a tax equal to a percentage of each employee's earnings up to a set amount. In addition, employers pay a federal unemployment insurance tax to cover claims from the long-term unemployed.

States set minimum and maximum tax rates for employers, and those rates are subject to change. Typically, new businesses pay an introductory unemployment tax rate their states set, and businesses still operating after that introductory period, the length of which varies by state, pay a rate partially based on the number of employees they have laid off who later filed for unemployment benefits. That means struggling businesses — including manufacturers that were forced to idle plants and let workers go during the recession — are often hit with a bigger tax bill while they're already having trouble making ends meet.

### A Sinking System

The recession has been particularly tough on unemployment trust funds because of still-high numbers of unemployed workers and the massive expansion of unemployment benefits since the crisis began. Because the unemployment rate remains high, the federal government has extended the number of weeks the unemployed can collect benefits, allowing 99 weeks of benefits in some cases.

As they struggled to keep up with payments, 31 states borrowed money from the federal government's own unemployment account in 2010, racking up \$41 billion in outstanding loans. To pay off those loans, 24 states raised their unemployment tax rates in 2010, and many are doing so again in 2011. Some states have laws that require they raise taxes when they borrow from the federal system, while other states raised taxes voluntarily to try to close the budget gap.

In many cases, the tax increases have been significant. Florida business owners who pay the minimum rate, for example, have seen a ninefold increase in their rates from 2009 to 2011. In Kansas and Alabama, the average unemployment tax burden per worker more than doubled in 2010.

### A Bigger Tax Bite to Come?

New federal rules are likely to create an even bigger tax burden for businesses this year. The money the federal government has been lending to states for their unemployment funds had been tax free, but it is subject to a 4% interest rate starting in 2011 — meaning states will have to find the funds to pay the increased costs.



## Revitalize Your Product Lineup

# A Fresh Product Portfolio Can Maximize Market Value

It's crucial to maintain a fresh product portfolio. Even though some manufacturers may be skittish about launching new products in a slow economy, they can keep you afloat in shaky times. In fact, new products have a 20% profit margin advantage compared to older products, according to market researcher Aberdeen Group Inc.

### Plan Before Developing Product

Before embarking on new product development, it's important to do your due diligence to help ensure you'll meet your customers' needs. Here are a few tips to get started:

**Get educated**—You may have the perfect image of your next product in mind, but remember: You're not the customer. Solicit customers, analysts, sales prospects and other key stakeholders for new product ideas, suggested enhancements for existing products and feedback on which products aren't cutting it anymore. Your organization may already have some feedback in the form of surveys and e-mails, so mine that information first. You can then supplement that data with insights from focus groups, market research, case studies and white papers.

**Align product development with company goals**—Once you have the necessary feedback from your targeted audience, weigh the pros and cons of specific product ideas in the context of your company's long-term goals. Potential profitability, return on investment, the amount of risk involved and how a new product will position you against your competitors are all important considerations. If you're mulling several different product ideas, compare them to each other and to other products in the marketplace to help you decide which ones are best suited for your company.

**Hit the right price point**—It's essential to review your pricing strategy for each of your products regularly, because even good products can falter in the marketplace if they're priced incorrectly. When setting prices, take into account your competitors' prices, as well as the cumulative costs that go into producing your wares, including property and equipment leases, loan repayments, salaries, raw materials and a realistic profit margin.

**Make portfolio management a given**—The factors within your company and the marketplace that affect product success are constantly changing, requiring you to monitor your product

portfolio constantly. Many companies don't establish firm criteria that determine whether an existing product or project in development is meeting the business's needs. This allows flawed products to stagger ahead and siphon resources from more viable products. To keep your portfolio strong, regularly evaluate your products based on your available resources and current demand.

### Keep Customers Coming Back

With competition for customers' minds and hearts fiercer than ever, a knockout product portfolio is a key to your company's success. An effective portfolio management process means fewer costly design changes down the line and better reception in the marketplace. ■



**Scott Swanholm, CPA**  
Partner  
701.239.8640  
sswanholm@eidebailly.com

## OVERVIEW

It is important for companies to continually look at their product portfolio. In fact, launching new products in a slow economy can many times help keep you afloat in shaky times. This article offers four tips every manufacturer should consider before embarking on new product development.

## Unemployment Taxes—from page 2

In addition, businesses in states that haven't paid back their federal loans for two years will see a reduction in their federal unemployment tax credit, further padding their tax bills. That's already the situation in Michigan and Indiana this year, and other states are in danger of missing the two-year deadline soon.

Employers can expect continued tax pain in the years to come. According to the U.S. Labor Department, the unemployment taxes businesses pay will balloon to \$64 billion in 2015, up from \$38 billion in 2009.

### Impact on Your Company

So what's the bottom line for your manufacturing company? Be cautious when it comes to decisions that could affect your unemployment tax liabilities. Whether an uptick in business means you're ready to hire or losses have you mulling layoffs, a change in your workforce could affect your employment tax liability. ■



**Eric Budreau, CPA**  
Partner  
303.459.6733  
ebudreau@eidebailly.com

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Managing Editor: Liz Stabenow  
Assistant Editor: Kristen Heitkamp  
Send comments to:  
[possibilities@eidebailly.com](mailto:possibilities@eidebailly.com)

An Independent Member Firm  
of HLB International



4310 17th Ave S  
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Fargo ND 58108-2545

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*Capacity—from page 1*

### **Balance Capacity and Expenses**

To increase your capacity utilization, review your production-related expenses and determine whether they make sense as a whole. If you have enough workers and plant space to produce 20% more product, but outdated machinery is holding you back, for example, it may be worth upgrading that equipment to boost productivity. Conversely, if you've been forced to reduce your workforce because of the recession, it may be time to downsize to a smaller facility or consolidate multiple locations under one roof.

Before undertaking significant changes, make sure you're not cutting items that you'll need to replace if you increase production in the future. Restarting a plant, for example, often requires a hefty outlay of time and resources for training and other start-up costs. Other strategies for boosting utilization, such as bringing component suppliers or other previously outsourced functions in-house, can also backfire if you don't carefully compare all costs to potential revenues.

### **Don't Forget Demand**

In addition to streamlining expenses, it's just as important to examine the other side of the equation: sales. Even though dwindling

demand has sparked the recent drop in capacity utilization, savvy manufacturers are finding ways to increase their market share.

One vital step is to diversify your customer base, which keeps demand steadier during uncertain times. Next, brainstorm new ways to market your products and connect with potential customers, such as revamping product lines or freshening up advertising campaigns.

### **All in Alignment**

Aligning demand with expenses takes careful consideration, but the work pays dividends when done correctly. By moving your capacity utilization to where it should be, you can help your manufacturing company weather the economy's valleys and increase your chances for long-term profitability. ■



**Brian Laib, CPA**  
Partner  
405.858.5524  
[blaib@eidebailly.com](mailto:blaib@eidebailly.com)

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