Written Testimony of
Richard Sade
Vice President
S & S Hinge Company
Bloomingdale, IL

Before the
House Committee on Small Business
Subcommittee on Economic Growth, Capital Access, and Tax

Hearing on
"How High Fuel Prices Affect Small Business Uncertainty and Contribute to Our Nation's Jobs Crisis: The View of Local Illinois Small Businesses"

June 25, 2012

Chairman Walsh, Ranking Member Schrader, members of the Committee, thank you for the opportunity to testify before you today on this important issue that impacts manufacturers of all sizes, especially small businesses like ours. My name is Rich Sade, Vice President of S & S Hinge based in Bloomindgale, Illinois, a third generation continuous hinge manufacturer about 27 miles northwest of downtown Chicago. We manufacture the middle gauge range of continuous hinge for a variety of industries and products including tool storage, marine, electrical, attic stairs, fixtures, signage, emergency vehicles, and industrial distribution. S & S Hinge is a family-owned business with thirty-eight employees and we are looking to expand our business by increasing our exports and developing new products and technologies.

Like all Americans, at S &S Hinge we have felt the pain at the pump and not just when we take our families on summer vacations. And like all American companies we feel the pain in our operations but unlike larger corporations, the impact of fuel prices and instability is greatest on small businesses.

Fuel impacts our company in several ways – the obvious being when our sales team stops at a gas station before visiting a customer. We also see the impact in an increase in the price we pay for our raw materials through transportation and other surcharges. When we are successful passing along surcharges and increased fuel costs to our customers, this means that ultimately the cost is passed along to American consumers or our customers go offshore looking for a cheaper supplier – in a country where their governments often illegally subsidize their energy costs.

As a small business, we are often trapped between our much larger customers who may not accept a price increase and our raw material suppliers who are also seeing increased costs. A challenge we face is our suppliers typically add a surcharge based on the weight of how much steel we buy, not on how many miles they travel to deliver their goods to us – and steel is heavy. Obviously, as we try to grow our business and add employees, the amount of steel we buy will increase but along with that comes higher surcharges. We must factor in these surcharges when deciding whether or not to explore new business opportunities and if we can afford to purchase the raw materials we need to make more parts for our customers.

S & S Hinge has already seen a 20 percent increase in fuel costs over last year. Our employees, including our sales team, traveled 475,000 miles in 2011 as we tried to sustain and grow our business. This creates a Catch 22 for us. While we know it costs money to make money, a 20 percent increase in fuel charges is a significant hit for a small business like ours trying to grow and add jobs.

In part, as a result of these increased fuel costs, our sales team is traveling less and relying more on the internet to pursue new business opportunities. We know we must adapt to changing times just as any business, however, as we seek to grow our company and add jobs we cannot afford to miss new opportunities because of increased fuel costs.

Prior to joining S & S Hinge, I worked for several Fortune 400 companies, and while they also dealt with significant fuel cost increases, economies of scale show how much more that increase can impact a small business in Illinois. The 20 percent increase in our transportation costs is in addition to a 28 percent annual increase in fuel used for our overall production costs. In an industry like ours where profit margins are in the low single digits any increase in costs puts us at a significant disadvantage.

There is no question that skyrocketing fuel costs combined with uncertainty in the energy market continue to hurt our ability to spend more on growing sales and increases the costs of manufacturing in America. U.S. manufacturers already face a 20 percent disadvantage when compared with nine major industrial countries including Germany, Japan, Canada, Mexico, and China. In some cases, our increased fuel costs are built into sales prices we provide to our customers, but even when we are successful in recovering some of our costs, it still makes our product more expensive on the global markets and makes us less attractive to new customers.

A lack of a comprehensive energy policy only further puts American manufacturers at a global disadvantage, especially small businesses like S & S Hinge. Our business has taken advantage of tax credits and incentives in the past, such as a one-time ComEd Smart Idea program for our plant lighting which gave us a one-time savings of $12,760.

Energy policy, from fuel prices to electricity usage to environmental regulations, impacts every step of the manufacturing supply chain. Downstream suppliers, particularly those who purchase energy intensive raw materials such as steel, feel the pressure of energy costs from both their suppliers and customers. Increased fuel costs combined with fewer domestic sources reduce the global competitiveness of domestic small and medium sized manufacturers.

As with anything in life, one size does not fit all. But this is certain; the U.S. must become more self-reliant on fuel sources. This will improve market stability and help small businesses plan for the future. To support manufacturers, the government should explore all domestic options available that will mean real fuel cost reductions. Especially in an election year, politics can trump good policy and manufacturers cannot afford it when politicians play politics with their livelihood.

Federal programs intended to foster new energy efficient technologies are often directed at larger manufacturers and lack a small business requirement. The government should work with the private sector to authorize and support the investment in domestic energy sources and alternative fuel. The government has not effectively explored all domestic conventional and alternative sources.

To help support small businesses like S & S Hinge in Illinois, the government should:

- Encourage development and implementation of new technologies without taxing energy intense industries. This sends a ripple effect throughout the manufacturing sector, regardless of business size or industry;
- Explore all conventional and alternative long-term options including current energy resources such as nuclear, wind, coal, and solar.
- Ensure that energy programs are available to all small and medium sized manufacturers, including those in the lower tiers of the production chain, and streamline their application process.

In his January 2011 Executive Order, President Obama said "Agencies must identify and assess available alternatives to direct regulation, including providing economic incentives to encourage the desired behavior." This is an important point that I hope federal agencies comply with as they explore additional energy options. Policymakers in Washington must embrace energy policies that would bring prices down and improve access for small businesses – whether opening domestic energy resources, reducing burdensome regulations, and other steps to make us more globally competitive.

Thank you for the opportunity to present this testimony today. Small businesses are the backbone of this country and manufacturers are the driver of a recovering economy. But manufacturing can't drive us to better times without a fuel policy that makes sense for small businesses like ours. I look forward to continuing to work with you on this important issue in the future and answering any questions you may have.

Thank you.