

United States House of Representatives  
Committee on Small Business

Grounded: How the Air Transportation Crisis is Affecting  
Entrepreneurs and the Travel Industry

Testimony of:  
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Good Morning Chairwoman Velázquez, ranking member Chabot, and distinguished members of the Committee on Small Business. Ranking Member Chabot, thank you for the invitation to present testimony today. I respectfully submit these remarks in an effort to share the concerns of Mesa and many other small business owners across our nation.

Mesa Industries is like many small businesses across America. Founded in 1967 by my father, it remains a family owned business. I represent the second generation of family leadership.

I first worked for Mesa while attending junior college but left to experience other opportunities. This ultimately led me to establish my own business consulting business and in 1995 into politics. I had the honor of representing the City of Hercules, California as Mayor for three terms and on the City Council for a total of eight years. During my tenure with Hercules I served on a number of local and regional committees whose focus was either small business or transportation. This included the honor of representing Contra Costa County on the Association of Bay Area Governments and as chair of several transportation committees and agencies. In 1997 I began my reintroduction into Mesa and through a series of promotions now serve as both the CEO and Chairman of the Board of Directors.

Mesa is currently composed of four divisions – Mesa Rubber Company, Gunit Supply and Equipment, Airplaco, and Mesa Laminated Fabrics. This diverse corporate mix places us in the petroleum industry as a supplier of seal systems for above ground storage tanks commonly used in refining, transporting and storing petroleum products. We also sell products used in new construction and renovations for both residential and commercial projects. Over the years we have expanded and now operate out of three locations – Cincinnati, Los Angeles and Houston

Today we employ approximately 75 employees and the typical employee remains with Mesa for over 10 years.

Initially our goal was quite simple, provide a product in an industry that we knew well so that our family could support itself. As true an example of the American dream as there ever could be. We are one of the thousands of small businesses that are the backbone of the American economy. We don't get the press that the large mega corporations get. We don't have the financial resources that they have either. What we do have is integrity and a desire to support our families and the families of our employees.

Over all these years we have faced many challenges. We have managed to eek out a profit in every one of our 40+ years of business. We have worked for steady growth from year to year. In those things in which we have control, we have successfully navigated Mesa.

The demands of operating our business have grown significantly, especially since 2002 from which time we have more then doubled our activities. Clearly to operate and manage such a diverse set of companies and products, communication and travel are integral parts of our routines. For example I have flown well over 1,000,000 miles in recent years as have a number of my key employees.

The average cost in the last two years for me to fly from Cincinnati to Los Angeles and return has escalated from \$390 to \$630 on my most recent trip when I had the luxury of advanced planning. When

I don't have that option the same ticket can cost three times as much or more. Even with the advanced purchase we now pay 62% more for a ticket than in the past.

Clearly the airline industry has struggled to keep costs down and yet with the escalating costs of fuel they are out of cost saving options. The constantly increasing costs are being passed onto us as passengers by reduced flight options, elimination of travel comfort items and now we must pay to travel with a suitcase!

As a business owner I fully understand their dilemma. In order for me to afford my airline ticket today we must increase our sales and generate even more profit dollars. Not such an easy solution. We can no longer simply purchase tickets from the geographically logical airport. It may mean that the most affordable option will require a 150 or 200 mile round trip by car to another airport.

Now multiply this increase by 20 to include all of our sales staff and key administrative staff and the impact is thousands and thousands of dollars each month. It is rapidly becoming cost prohibitive to travel. Conducting business over the phone and via the internet is fine but is not a realistic solution for cutting our travel costs. Customers seek and deserve face to face meetings. The complexities of many of our products require customization on a case by case basis. The nuances of which are magnified when you consider that in many cases we are dealing with the containment of fugitive emissions and installation of other environmental protection systems for the petroleum industry itself!

In order to manage a business operating in three different states, travel is not a perk, it is a requirement. It is essential to the continuity of our operations and the long term stability of Mesa. Nonetheless we have been forced to reduce our intra-company travel.

All the while Mesa is struggling to maximize our travel dollar expenditures our employees are feeling the same pinch. We all know that the cost of gasoline has increased at rates that greatly outpace any person's reasonable expectations.

Earlier this week an employee told me that he feels like his children are being robbed. When I asked him what he meant he said that because they can barely afford the cost of gas to get him to work they have nothing left over for family outings. The family vacation had to be cancelled.

Another employee who has a 60 mile roundtrip commute to work noted that in order to find the extra money to pay for his gasoline he now has to buy off-brands and lower quality choices in the grocery store. I have heard similar stories from many employees. Unfortunately for one employee he opted to turn off his heater this winter – in Ohio – so that he would have the extra cash for his gas.

In California where two employees carpooled together to save money, they now squeeze four and five employees into that same Ford Probe because of the cost of gas. The employees are creative but at what cost?

This spring we instituted a weekly gas card reward program where employees are able to enter a raffle for \$25 gas cards. We give four cards away each week and have recently decided to double that number.

Why do we do this? Our employees need relief and are otherwise out of options. The gas cards were the least complex solution we could craft. If for example we increased each employees pay by \$25 per week it would cost over \$120,000 when all of the related payroll taxes and burdens were calculated. That same \$120,000 would require us to increase our gross sales by nearly \$300,000. In a highly competitive market raising prices to such an extent could price us out of the market completely.

Some might then ask why our employees don't find employment closer to home. We pride ourselves on the quality of our employee benefit programs and the living wages we pay. Our employees would likely take a reduction in overall compensation if they elected to leave Mesa.

There are many factors that influence our compensation structure but most important to us is to attract and retain qualified personnel. We must remain competitive in the marketplace and we must retain our uniquely skilled workforce to assure quality products at a steady rate of production. When we adjust pay rates even just to match the cost of living increases the result is that our cost of doing business goes up and yet somehow we must remain competitive in our industries.

The other area hit hard by the cost of gasoline is our shipping expenses. Whether by air or land the costs have increased unimaginably. Our freight bills started arriving with "gas surcharges." These charges currently range from 26.5% to 51%. For airfreight the charges are even higher. While in theory we can pass these actual costs along to our customers the realities hit once again as we must remain competitive in our industries.

These same increases impact us via our vendors. Several of our raw materials have petroleum based components. Our suppliers are now including similar surcharges on many of the products we buy. In fact it is nearly a daily occurrence that we receive a letter from a supplier announcing a price increase. We have limited reactions. We can raise our prices to maintain our margins and hope our customers will tolerate the increase or we can lower our margins and hope we can survive these times.

So where does this leave us? We see a bifurcated solution as the only viable course of action. As a nation we must require higher yielding engines for our vehicles. We must also utilize our oil resources that remain fallow. And finally we must establish a realistic energy plan that will carry us forward into the next century.

It may appear that I have digressed but in my opinion the core issue for the airlines is the same as it is for Mesa, the impact of the excessive cost of oil.