



Get used to a new playing field

Fabrication industry pros weigh in on doing business with, for and despite the Chinese manufacturing juggernaut

Manufacturing in today's global economy means contending with China. So what are the keys to doing that for North American and European-based companies?

FFJournal recently sought the opinions of several metal fabrication industry professionals on the topic of China and received answers from five: Phillip Wittke, global marketing manager for The Lincoln Electric Co., Cleveland; Doreen Michelini, independent consultant and president of China Mexico Solutions LLC, Chicago; Jim Zawacki, president of GR Spring & Stamping, Grand Rapids, Mich.; Dr. Eva Schwinghammer, managing director of Trumpf SiberHegner, Shanghai; and Lindsey Williams, manager, corporate affairs/media relations at Delphi world headquarters, Troy, Mich.

FFJ: What's the number-one issue on your mind when it comes to China?

Williams: We think of building strong relationships with important customers in the region, as well as the importance of growing the talent pool in China.

Zawacki: I certainly have my eye on China. I'm already buying tooling in China, so I'm going to hire an engineer over there to follow up on that tooling. But I'm doing that to protect jobs here: The tooling I'll bring over will provide jobs.

Wittke: Our number-one area is the domestic [Chinese] market, and our biggest issue is how to gain and sustain profitable access to end users. Distribution access would be the catch phrase. We have products, services and people that can

provide solutions in that market; it's a matter of getting them from Lincoln to someone who's going to use them.

China is a country that is essentially building its infrastructure as we speak. A lot of the infrastructure that we take for granted in other countries, such as transportation systems, tax systems, transferring product from one location to another, aren't that simple in all cases. One of our key objectives this year and going forward for the next few years is to develop a distribution footprint and the ability to service it.

Michelini: Don't go in blind. Find someone who can help you, someone that can support you—someone knowledgeable. Unfortunately, going to China isn't like going to the East Coast or Mexico. Even in Mexico, you can maneuver yourself around in the big cities. China is totally different.

It's a different culture. They're wary, even though they're great businessmen. Some of the best people I've negotiated with have been from China. They don't jump into things, so you need to know the ropes. You need to know the culture.

Schwinghammer: Act with caution! Question the information you get and try to find reliable sources. Be well prepared, [and] make a thorough market analysis.

What is the quality of parts or equipment coming from China?

Wittke: Like many markets, there is a relatively wide spread ranging from world class at the top end to more of a provincial type class at the bottom. The latter may supply only a very localized market.

From a competitive standpoint, it all depends on where you position yourself in the value chain and how you position your



One of our key objectives . . . is to develop a distribution footprint and the ability to service it.

—Wittke

product. If you choose to compete at the low end, then you're in for an interesting time if you haven't established a suitable offering and a value model. It doesn't matter who the competition is or where they're from, you should be able to compete based on whatever your value proposition is.

Zawacki: The tooling I'm bringing in, I find to be very good and quite a cost savings. Most everyone I network with is having similar experiences. Of course you run into [some] problems for whatever reason, but you find that in the United States, also.

Schwinghammer: Things [there] often don't last very long. They look nice, but sometimes don't work properly for a long time. Quality is still a big issue.

Michelini: It's the same thing you'd see here: Just like in the United States, you're going to have bad suppliers and you're going to have good suppliers. The equipment there is high quality; they're very advanced in their technology. You're still going to get the garage-shop-type manufacturing plants there, but those are getting fewer and farther between.

Some things in China floor me. Even as sophisticated as some of these places are, because of cheap labor, they still do some things that I just shake my head at. I'll give you a good example: I visited some [plants] that do screws with washers on them. This big company that has plants in China and Korea, had women sitting there, assembling the washer onto the screw, putting it in fixtures and then hand-feeding it to be thread-rolled. I couldn't believe it. And yet they were competitive, too.



Act with caution! Question the information you get and try to find reliable sources.

—Schwinghammer

How is China affecting your business?

Zawacki: It's affecting us in many ways. China consumes more than a third of the world's steel production. A shortage of steel in the United States has driven the price sky high and has cost a lot of companies. Tower [Automotive] just went bankrupt, and one of the reasons was . . . steel.

The other thing that hurts us is that all our customers are trying to compare us to world pricing, and that's a killer. We can't compete with world pricing. People will say even if they change the currency, they've still got 50-cent-an-hour labor.

It's more than just the currency that has to be changed. I mean, why don't we have a border tax? Europe has a border tax.

I'm not looking for handouts like we've given to the agricultural industry in the United States. We're looking for a level playing field.

Williams: From a manufacturing standpoint, China is an important contributor to Delphi's global footprint and provides a means of supporting customers according to regional requirements. Delphi is the leading foreign-invested automotive component supplier in the country, providing



The equipment there [in China] is high quality; they're very advanced in their technology.

—Michelini

products to almost all major automakers in China.

Michelini: They're making us look internally at how we do things [and] re-evaluate our manufacturing processes. What I try to do when I work with clients is help them not move all their manufacturing or all their sourcing over to China. What I try to do is help them use China, or whatever country it is, as a tool to be competitive in the United States.

I'll give you a good example. The tooling in China is as good as the tooling you're going to get here if you find the right company, and they're 40 percent lower. No one makes money on tooling except toolmakers. If I'm a stamper . . . I'm not making money on a tool. I would rather save the money by having tooling made someplace else, bring that tool back to the United States and run parts day in, day out. That's where I'm making money, and I'm keeping the jobs here.



What are the lucrative markets in China people here should be after?

Schwinghammer: Consumer goods and the energy sector.

Wittke: Anything to do with the burgeoning middle class. Watching how many more million people come on line each year with an upgrade in their living capability is amazing to experience.

It is also interesting to observe differences in the purchasing paradigm, at least during this phase of the socio-economic development of the country. In some cases what may be considered a commodity purchase in a developed market, for example a refrigerator or a mobile phone, may well be a far more significant lifestyle purchase [in China].

The future, though, is the high value-added market segments, particularly in the industrial sectors. Essentially this translates into providing ways to reduce your customer's costs and in the process differentiate yourself and create brand equity.

We have products that we manufacture in North America and export into China. They're priced [at a] premium relative to local manufacturers, and our products are asked for by name and used on a relatively large scale.

It's possible to build brand equity, even in emerging markets, based on some essential elements—performance, reliability, good quality, reliable service—in industries that value those components.

Williams: The answer depends on the industry and is a matter of business objectives; however, we are focusing on technology-rich product offerings.

Michelini: You have to remember that China's a big country. There's still a lot of opportunity there, and the Chinese businessmen think there's a lot of opportunity in the United States for them.

We're always talking about doing partnerships and joint ventures. They're just as interested in China to align themselves with someone in the United States. They're just as eager to get into Detroit and get into tooling as we are to get over there and sell our products.

What would it take to keep jobs and products in the United States, considering the advantages China has?

Zawacki: One, you need a border tax, a value-added tax: If I export, I get a rebate because I am making goods here. But if you import, there should be a tax based on that. That would help offset some of the social costs.



I'm already buying tooling in China . . . The tooling I'll bring over will provide jobs.

—Zawacki

Internally, we need a massive education program in the United States. People in the United States have to know what's going on in the world. We are not competitive for a lot of reasons, and [people] think that everything produced in China is junk.

They've got to be re-educated. They need to understand that the only way we're going to compete is to get leaner. We can't have all these restrictions that are put on people, such as you can only lay so many bricks a day or you can only do this or that. This kind of mentality is killing jobs in the United States.

Michelini: I'm a big proponent of keeping the work here, but you have to be realistic, too. People are still going to buy the least expensive products, and those are coming out of China.

It's not easy [to use Chinese goods to keep jobs here], but it can be done if you find the right people. I have a lot of clients that have been very successful in doing this.

Finish this sentence: If you plan on going to market in Asia, be prepared to . . .

Schwinghammer: . . . have a lot of surprises and to react flexibly.

Michelini: . . . have a lot of patience.

Williams: . . . make cultural adjustments.

Zawacki: . . . try and understand the Chinese culture. We Americans expect everything to operate as it does in the United States and are quick to put blame somewhere else rather than our own lack of understanding.

Wittke: . . . do your homework before turning up for the parade. The potential upside has been well-documented. The downside of a poorly constructed strategy would be equally memorable and a lot more painful.

A lot of companies forget the basics and just go there. There's a lot of homework that needs to be done to ensure that you know why you're going there in the first place.

FFJ