

## Experts discuss harnessing global competition

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**SAN DIEGO, CALIFORNIA (March 13, 2007)** -- After years of doubts and fears about competition from lower-cost regions, North American plastics companies are now faced with no choice but to embrace the global business platform. The question no longer is whether your business can be China-proof, but how to enhance your competitiveness with business resources around the world, according to industry veterans and consultants who spoke at the February 25-28 Plastics News Executive Forum in San Diego.

"The question of whether to join the global market is irrelevant. You are in it," said Jim Buonomo, chief financial officer and chief strategy officer with Nypro Inc. "If you understand it, and participate in it, you will get more of it."

Buonomo served as corporate vice president for the China and India operations of Nypro, the Clinton, Massachusetts-based molder and contract manufacturer with 52 operations in 16 countries.

Doreen Huro Michelini, president of China Mexico Solutions LLC, illustrated the strategy of "working globally to stay competitive domestically" using a case study of Industrial Molds Group, for which she serves as business development manager. The Rockford, Illinois-based mold maker, with combined sales of more than \$25 million (193.6 million yuan), partnered with Sweden's largest independent mold maker and five Asian mold making plants. It now provides mold making and molding services in the United States, Mexico, China, India and Sweden.

"We split tooling packages, incorporate labor-intensive operations in China into U.S. tooling. We use China as a resource for mold flow, design service and labor-intense components, and use Sweden as a resource for advanced technology and design." Michelini, who also runs her own Chicago-based consulting firm called China Mexico Solutions LLC, said it is important to leverage global locations to meet customer needs. By the same token, joint ventures inside the United States also can help offer a full array of what the customers need.

### Global expansion tips

To expand into a new country and take the advantage of lower-cost regions is no easy task.

"It is vital to be open-minded to your strengths and weaknesses, find the balance between you and your partner, and use it to both sides' advantages in whatever low-cost country that may be," Michelini said. There is no lack of opportunity for international partnerships. Many companies in China, for instance, are looking for partners in North America, "because it'll open up a new market for them and they can have aid in terms of putting a name and credibility there."

Buonomo said the keys to becoming a truly global company include time, speed to market, flexibility, adaptability to change, and full, cradle-to-grave service. Internal barriers between different locations, departments and subsidiaries of one multinational company can get in the way, he cautioned.

"Those companies which can minimize cross silo interference and act as one team on a global basis will have a competitive advantage."

When a U.S.-based firm tries to reach out into other continents, it requires cultural sensitivity to succeed.

Ashok Goel, vice president and managing director with Mumbai, India-based packaging producer Essel Propack Ltd., said, "You need to pay respect to diversity and the local cultures."

Only with cultural sensitivity can one develop trust with foreign partners, which is essential in any business deals.

"Trust comes through work and cooperation," Helmar Franz told attendees. Franz, executive vice president for Chinese injection press giant Ningbo Haitian Group Co. Ltd., said, "You have to prove that you are trustable. It doesn't happen after two or three meetings. You need to build experience with your partner."

Buonomo shared Nypro's experience with a couple of its joint-venture partners -- Forbes Group in India and former state-owned enterprise Zhonghuan Group in China.

"If it's all about work, you don't build trust," Buonomo said. "Both in India and China, we spend a lot of time just being with each other, socializing. ... We talk about families, [and] what they were striving to do."

Franz echoed Buonomo's point: "[The Chinese] ask you how many kids you have and how they grew up. You have to be ready for such conversations. Once you give them the feeling that you want to keep a distance, they will accept the distance. But trust may as well not be built."

Goel, recent past president of the Organization of Plastics Processors of India, explained from the local perspective, "In the Eastern culture, people ask questions that would be seen as intrusion of privacy in the

West. You get to know about [business partners'] personal choices, participate in their family functions. That's essential for building trust."

## **On intellectual property**

Trust, however, is a two-way street. Despite great interest in entering new markets, many Western companies get cold feet for fear of having their products copied right away, and with little effective intellectual property protection in place.

"One of the things I caution people about is that if the product is easy to be copied and there's a market, it doesn't matter where it's going to be done, it's going to be copied," Michelini said. Therefore, "there has to be a process that's unique to the way the product is manufactured and it can't be detected in the end product. Otherwise, I'd be a little hesitant."

Ironically, being copied is not a privilege reserved for Western companies, Franz noted.

Haitian, a privately owned Chinese company, is a victim to the absence of effective IP protection in its home market. "Only in Ningbo, the city where we are, there's another hundred companies that make machines the same as ours. Thirty of them use our logo to a certain extent," Franz said.

While emerging economies in general take their time to bring IP issues to the top of their agenda, innovation seems to be the best possible solution for individual businesses.

"If you don't have innovation, if you are not constantly developing new products, you are in trouble. But if you have enough speed in innovation, copying is always the second choice," Franz said.

Meantime, the Chinese government has been making strides over the years to alleviate the problem, especially now that many Chinese companies are starting to build their own brands and register patents. When Patrick Whitney, director of the Institute of Design at Illinois Institute of Technology, organized the "Design for the New China Markets" conference in Beijing, his partner was the Chinese State Intellectual Property Office.

"The government asked us to work with them because of the attention at the government level to getting their IP act together," Whitney said.

"There's a tide of wave of interest in this area, they can't just care about it just from their side," he said. "As they start caring about protecting their own IP, they will care about the protection of IP in general."

The effort is coming not only from the central government in the capital but also from local officials at provincial and city levels.

Actively involved in meetings with the local government, Franz said the officials always encourage Haitian to develop its own brands and IP.

"They very well understand this. Once they become part of the international exchange of ideas, a lot of things will change in that direction. They are putting a lot of effort in it. In the next three to five years, we'll see a tremendous change," he contends.

## **Think outside the China box**

Every year, the largest share of the world's foreign direct investment gets injected into China, fueling a fast-growing juggernaut that has difficulty meeting its own government's plan to slow the booming economy.

At the same time, other emerging economies are striving to attract international investment. In addition to the fast-growing BRIC group of countries (Brazil, Russia, India and China), Buonomo also includes Thailand, Mexico, South Korea, Hungary, Poland and Vietnam in his "Top 10 emerging plastics countries" list.

As more discussion appears in the media about China getting more expensive, investors wonder whether that signals a trend of money migrating to lower-cost regions.

Chris Runckel, president of Portland, Oregon-based Runckel & Associates and chairman of the U.S.-Vietnam Chamber of Commerce, said the trend is surfacing, but it depends on the sector and end market.

"On the mold side, our experience has been that you can't beat China on price. They are the lowest and likely to remain that way for a while."

Meantime, some manufacturing work is moving out of China's Pearl River and Yangtze River delta regions, primarily for cost reasons. "These things tend to be plastic injection molding for small toys that go into [McDonald's] Happy Meals, for instance. They move to cheaper places like Vietnam."

Runckel said India is not yet ready to take over China. "We don't see [manufacturing] moving in any immediate term to India, because of expensive shipping and other costs. Places like Vietnam are cheaper and easier to deal with."

The selection of location is not simply a cost issue, he said. “The British invented bureaucracy, the Indians perfected it. It can be mind-numbing at times. It doesn’t mean you can’t get things done, but it can be quite a challenge, especially for a lot of the smaller companies.”

Even some Chinese are now seeking lower-cost options outside their borders.

Haitian had studied the possibility of moving some production to Vietnam, Franz said. “But when you put together the productivity and cost, it doesn’t make sense. It may not be the case for other businesses, but it’s true for machinery.”

China, on the other hand, has more potential to offer cost savings than Westerners recognize only on the country’s east coast. China’s inland and western regions remain to be tapped into for rich labor resources.

“The cost in Guangdong and Zhejiang [provinces] may be higher than Bangkok, but if you go to Anhui [province] or Wuhan [city], the cost is a lot lower, very competitive with other Asian countries.” Franz said.

“Chinese investors, at least, tend to go to Anhui, than to go to Vietnam.” Also, the Chinese government is pursuing and supporting such movement to the inland areas.

Asia is not the sole destination, either. Michelini cited the recent rise of Mexico.

“About a year ago, everybody that came to me wanted to go to China. In probably the last six to nine months, all of sudden, there’s been resurgence into Mexico.” U.S.-based companies have been moving assembly lines to Mexico, but there are not many component makers, she said. “As [original equipment manufacturers] open more plants in Mexico, it creates the need for suppliers. And it is different from China, because the parts will be consumed in Mexico instead of being shipped back to the States.”

### **Market outweighs cost**

“It’s not always about pricing or cost,” Buonomo noted. “Maybe we got so hung up on that [cost and pricing] we forget to sell whatever our best value proposition is, and it doesn’t mean you are going to win all the time, if you are always on the defensive, on what your price or cost is, the chances of a self-proving prophecy are pretty good.”

Franz said it should be a “vision” other than just cost that makes a company move to a new location.

Growing markets and sustainable business illustrate the vision.

“It doesn’t matter where you are. Business is business,” Buonomo said. The headquarters country will always benefit from more manufacturing and support services.

Nypro never went to a place in the world with the idea of exporting products back to the United States, said Buonomo, a 30-year veteran of the company. “Every plant we’ve developed overseas was to serve our customers in that particular geography. It is true that those companies did export back to the U.S., but a substantial amount went to take advantage of the marketplace that was developing.”

“I don’t think it’s a good idea to think of globalization as an export ploy or strategy. There’s a lot of potential in consumers in those un-matured markets.” American companies need to take advantage of those new markets, and it is a way not to lose business to global competitors.

Buonomo said a successful expansion into a new market demands customer growth, unique strength to serve the needs of customers, and an ability to run the business better than competitors.

“The winner of the game will be those who connect the dots correctly. How you take advantage of your network, how you utilize your resources, be it joint venture or 100 percent owned, wherever they are in the world.”