

An offshore business-partnering model that works

As molding firms struggle with how to deal with offshore competitive issues, some have determined that putting manufacturing plants in places such as China is the only answer. Others have gone the partnership route, choosing to develop relationships with Chinese sources as a more cost-effective way to gain access to lower manufacturing costs without the risky capital investment of siting a plant.

Four years ago, **IMM** wrote about International Smart Sourcing Inc., a company that helps small manufacturers outsource their products to China. EHC is a subsidiary of ISSI, with a line of proprietary products. Acting as the middleman, ISSI oversees projects and keeps close tabs on its own Chinese vendors to ensure that the work is done right and that intellectual property is kept proprietary. Still, there are companies that accuse the Farmingdale, NY molding firm of being disloyal to U.S. manufacturing.

OUTSOURCING FOR SURVIVAL

Developing a relationship with Chinese resources offers a real advantage when coupled with the right approach. "Outsourcing manufacturing to China should not be viewed as a threat, but as a method to remain competitive and expand business," Pellegrino adds. Now, he says, a new attitude is taking shape.

"Customers and new prospects are looking at this with a more open mind," he notes. "They realize they have to go to China, because if they don't they'll be out of business. We have experienced this with Electronic Hardware Corp.," Pellegrino explains. "Outsourcing 75 percent of manufacturing resulted in the reduction of costs, improved profits, increased market share and an increase in employment of engineers, materials management and marketing personnel."

Expanding markets and reaching new consumer bases by making products in China that can be marketed in the United States is a viable and real opportunity for many companies. Some of ISSI's best accounts have been the OEMs. Custom molders and moldmakers have been more hesitant to work with ISSI, although the company is slowly gaining some attention.

It hasn't been easy. "We've had to learn a lot along the way," explains Pellegrino, not hesitating to add that not every job was a success. "Not everything is suited for outsourcing to China and we've learned to distinguish what works and what doesn't."

DEVELOPMENT AND COMMUNICATION

Pellegrino cited an example of large mold package of about 80 molds where ISSI was pushed by the customer to accelerate the program. The project consisted of all interacting parts from large, multicavity molds. "But the project wasn't fully developed and we didn't know going in that it was a design-as-you-go program," he says.

At one point, there were a total of 64 molds in production, all multicavity and all being revised. Meanwhile, the customer had already advertised the product as available. Time to market was essential. "We were led down this path by the customer; they drove both themselves and us crazy," says Pellegrino, stressing that product design and development require close contact with the customer, which ISSI handles from its facility in New York.

"It signaled us that we needed to improve our communications network with our vendors in Shanghai," Pellegrino. "Also, it showed us we needed to improve management and personnel both here and in China."

As a result, ISSI installed custom communications software, hired bilingual project managers that have an understanding of U.S. customers' expectations and brought the Shanghai offices up to ISO 9000 standards. The quality team put a program in place that brings manufacturing engineers from China to the New York facility for training. On the U.S. side, ISSI added a Director of Contract Manufacturing to oversee customers' offshore projects.

ISSI certifies the factories it uses in China, making certain that the facility can produce the work to the standards ISSI customers set. In one instance, Pellegrino says, they were approached by a man wanting to do business for ISSI. "We asked to see his factory, so he took us to a huge facility," he relates. "We then discovered that it wasn't this guy's factory, but he explained that this factory was just like his factory." Further investigation revealed that he had no factory, but, he assured ISSI, as soon as he got an order, he would build one.

ISSI also puts enough work in its partner plants to create loyalty with the owners. This helps prevent intellectual property theft. "Everyone is afraid of theft," confirms Pellegrino. "The best way to keep something a secret is to have stringent nondisclosure, noncompete agreements with vendors and clients. Additionally, we control and monitor the factories by putting one of our employees in the building of our major manufacturers. We deal with a group in China that we feel are honest and forthright," he adds. "Our integrity is critical so we're very, very careful about that." -Clare Goldsberry

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