

How To Work with China and PYA – Protect Your Assets

Biggest error companies make is that with familiarity comes a false sense of security.

BY DAVID HALE, PRESIDENT, SMART SOURCING, INC.

Getting quality products made in China is not a mystery. Nor is it difficult. But the proper amount of planning, relating well to the culture and diligent controls are required. Plus there are other specific tactics that are needed to achieve success.

The keys are straightforward:

- Identify your need and micromanage it.
- Qualify your factory partner in China by visiting personally.
- Do not ‘assign’ the project to an unknown friend, family member or broker.
- Be forever vigilant.
- Never relinquish hands-on control.
- Build on your relationship with your partner in China.

The biggest error companies make is that with familiarity comes a false sense of security.

That’s when you get recalls – when the reins are loosened. All is fine in the beginning. Products are delivered on time and within spec. The U.S. company is saving money and growing because it smartly moved labor-intensive manufacturing to a company in China. But then they become overconfident, and lose track of the products. Maybe some key people have moved. Maybe the product is actually being made in a different factory. You have to have a presence. It’s the only way to protect your assets. What we call PYA.

The benefit is that by outsourcing a project to China, a company can develop new products, which fulfill a customer’s desires and needs.

For example, if a molder who makes small parts for appliances has a customer who wants them to make a large part that requires different equipment, it makes sense to outsource rather than make a capital investment of millions of dollars. It’s the practical way to grow a business without any downside risk – as long as you PYA.

While toys made in China have been prominent in the news as recall targets, the situation affects all products, many in the B2B area.

We know from our clients that there is a strong concern for all products coming out of China. Matter of fact, a recent Harris Interactive poll found that a negative attitude extends to all products being made in China. We also know that many recalls are due to a design problem or a manufacturing error. This is all because no one is watching the store. The solution is to have a true hands-on approach on each factory floor.

Allen Field Co., a manufacturer of proprietary and custom fittings for the packaging, woodworking and textile industries, found that delegating production to an overseas resource lowered costs and enable its business to expand by adding to and diversifying its product line.

Robert Ahearn, vice president of sales and marketing for Allen Field has an interesting story. “We needed full-time support because of the large number of products we offer. The only way we were able to succeed is because we were assigned a dedicated, U.S.-based project engineer to help us. Outsourcing to

China gave us a competitive edge in price and freed up internal resources so we were able to focus more on sales, marketing and new product development.”

Our company, Smart Sourcing, is actually an outgrowth of necessity. Electronic Hardware Corp. manufactures custom plastic knobs for a variety of industries and in the late 1990s had exhausted all internal resources trying to cut, trim and slash operating costs. So it started a whole new business called Smart Sourcing, Inc. to help itself and others facing the same challenges.

Electronic Hardware was facing steep overseas competition, and was in the throes of near collapse. To overcome this, it had to find a practical way to maintain quality while reducing costs. The decision was made to find a plant overseas. The goals were to reduce costs, increase quality and maintain delivery performance. So in 1998 Electronic Hardware went to China, found and qualified a manufacturing plant and kept a close eye

on its assets. In two years, profits increased 48% and product rejection dropped to just 0.41%, which saved the company. This move also made it possible for capital and staff resources to be allocated to other areas, which created new markets and products.

When looking for an outsourcing firm, it comes down to experience, knowledge, planning, finding good partners and diligent work – that is the formula for protecting your assets.

David Hale is President of Smart Sourcing, Inc., a New York-based firm that enables clients to reduce the cost of product manufacturing. From assistance with product design and development for optimum manufacturability to shipping of the quality-approved part, the SSI support staff in China includes some 26 project engineers, quality control specialists and logistics coordinators who provide oversight throughout the entire manufacturing process.
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