

Overseas manufacturers losing price advantage

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Wright Engineered Plastics, which makes plastic parts like these ecological funnels, is getting business from some U.S. firms.

About 18 months ago, a plastics factory in Santa Rosa started getting inquiries from small U.S. companies looking to bring some manufacturing back from China.

The inquiries to Wright Engineered Plastics started amid soaring oil prices. Even after oil went down, the interest continued as raw plastic became more expensive in China while the local firm's material costs dropped, helping offset the advantage of lower overseas labor.

"We're actually winning bids based on quoting prices, which is extraordinary," said Barbara Roberts, chief executive of Wright.

Economist Ross DeVol with the Milken Institute in Santa Monica said such small wins can help teach California how to slow or reverse the trends that have cost the state more than 500,000 manufacturing jobs since 2001.

"Instead of a defeatist attitude, we have to think strategically about what we can do," DeVol said.

The answer may be small manufacturers - Wright employs 48 people - doing small batch orders for little companies like CP Lab Safety.

The Novato firm recently started producing its plastic laboratory equipment in Santa Rosa, after it had outsourced the work to a factory in China for eight years.

"It has become more cost-effective for small businesses like us to bring the manufacturing back to the United States," said Kelly Farhangi, president of CP Lab.

Farhangi runs the company that her husband, biotech executive Ron Najafi, founded in the 1990s. The firm employs five people and a network of contractors who market 80 lab safety products.

As Farhangi and Najafi explained, CP Lab shifted production to China in 2000 when the dot-com boom drove up costs in California. But material and labor costs in China have quadrupled over time. Though still lower than in the United States, the Chinese advantage has been eroded by other costs like communications and transportation.

Najafi said they realized last year that CP Lab didn't have enough volume to offset the expense of long-distance production.

"We were pretty much at the same price whether we manufactured in the U.S. or in China," he said. That prompted the shift to Wright, a manufacturer that started making parts for the electronics industry in the 1970s and now caters to medical and biotech customers.



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Scott Huntsman inspects plastic parts that are made by Wright Engineered Plastics in Santa Rosa.

Other small jobs

Roberts said Wright has picked up two other small, specialty manufacturing jobs from China in recent months.

One is a baby products manufacturer that isn't ready to be named. The other is CoolSystems, an Alameda firm that makes therapeutic devices for athletes.

Mark Puhlovich, supply chain manager for CoolSystems, said the plastic parts being made in Santa Rosa are only small components in his product. CoolSystems markets a device called GameReady, which is like a blood pressure cuff filled with a cooling substance. Professional athletes use these devices, which can sell for more than \$2,000, to treat swelling.

While more labor-intensive portions of the system are still made in China, Puhlovich had several reasons for moving plastic production back to the United States, starting with quality.

Other factors favoring U.S. production include a weaker dollar that makes overseas goods more expensive, and the costs of financing. Overseas orders must generally be paid for in advance, while he can get 30 days after delivery to pay a U.S. supplier, he said.

Volume is also crucial. Overseas manufacturers want big orders. "They will charge a higher price for the small runs and the savings may not really be there," Puhlovich said.



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Barbara Roberts, president of Wright Engineered Plastics, says her company is even getting some bids based on price, which has been rare in the past because of overseas competition. Now costs are going up in other countries.

Other advantages

Manufacturing experts say quicker delivery times and lower inventory requirements also favor U.S. factories.

"You can't do just-in-time delivery when you're having it made in China and thrown on a boat," said Brent Meyers, chief executive of the Corporation for Manufacturing Excellence, a consulting firm in San Ramon.

Meyers said it is difficult to know how many small orders may be trickling back into the state from China because the manufacturing sector is populated by thousands of small firms whose activities are tough to track.

Based on government statistics, he estimates there are about 3,700 manufacturing firms in 18 Bay Area and Central Valley counties. Nearly half of these manufacturers employ 25 to 49 workers - a category that includes Wright Engineered Plastics. Another thousand or so have 50 to 99 employees.

Meyers said he hears anecdotal reports that low-volume orders are coming back to these small manufacturers, presumably saving or creating some jobs in the process, but the phenomenon is tough to quantify.

"I'd call it a latent trend," he said.

DeVol, the Milken economist, said this trickle-back effect doesn't seem like a huge opportunity relative to how many manufacturing jobs California has lost.

"But it does provide a chance to think about which functions could come back to California," he said.

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