Expand to low cost countries with caution, World Trade Week speaker urges

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GRAND RAPIDS — Just like your parents told you — you don't do it because all the other kids are doing it. Businesses shouldn't rush to set up shop or do business in China just because their competition is there.

That was one of the messages of Lou Longo, partner with Plante & Moran Global Services PLLC during his May 10 presentation "Competing with Low-Cost Countries — Strategies and War Stories from the Front Lines" during World Trade Week in Grand Rapids.

"In my opinion there's a lot of stupid investment capital going into the Chinese market," Longo told the audience. "China has seen a huge amount of investment capital." Plante & Moran has offices in the U.S. and China and affiliates around the globe. The company assists businesses with international strategy development and implementation — an intricate process with nine phases. Plante & Moran has had an international practice for about 15 years and a global services practices with engineers and an office in China for three years.

The process begins with analyzing the current status of a business and the desired international outcome and leads up to the execution of a defined strategy. Unfortunately some companies, desperate to boost business, and seeing competitors in China or customers calling for lower prices, approach Plante & Moran at about Phase 8 where they want to evaluate their entry options, according to Longo. American companies see dollar signs at the thought of capturing even a small percentage of the Chinese market of 1.3 billion people.

Longo will help companies separate fact from fiction and study the competition if the business has any.

"With low cost countries unfortunately the focus is always on cost," Longo said.

Cost of labor is just one of the factors companies should consider when deciding to branch out into international waters. Before deciding on any international venture, companies need to determine its value proposition, which is "how it really generates income or shows value" to decide whether to get involved on a global basis.

"It's very important to understand what's going on in their market sector around the world and their customer's market sector," Longo told *MiBiz*. He encourages business leaders to attend trade shows and see first hand what's happening in India and China.

Longo said many businesses discover the savings of low cost labor in China weren't as great as expected due to factors such as shipping and logistics.

Longo said one manufacturer became enamored with a Chinese company that wanted the U.S. company to export product to China. The Chinese company had only been around for 16 months with not a lot of financial backing. Company officials spent $8,000 in gifts to woo that business although orders never materialized.

"The U.S. company didn't do its due diligence on potential customers," Longo told *MiBiz*. "They hadn't done much business case development as well as assessment of their own capabilities about how a foreign joint venture could fit their strategy."

"If it sounds too good to be true, it probably is," Longo told the audience.

Longo outlined common misconceptions of U.S. manufacturers about low cost countries. Some businesses mistakenly believe that "absolutely no one in Asia can do what they're doing," Longo said. Even if a company believes that they are "the best widget maker that ever lived" with high quality, many businesses are humbled to find that some customers don't value that high quality.

Other misconceptions include the belief that a business has survived Mexico and NAFTA and low cost countries are just another distraction. Many U.S. businesses believe other countries don't have the required technology and experience to make complex products. U.S. businesses arrogantly believe that "our customers are loyal and besides we are the best."

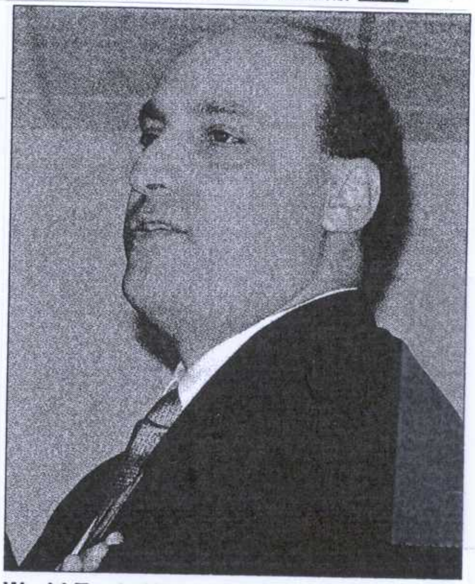
Many times production in the U.S. remains the best option especially if a company fills a niche or produces insufficient volumes or highly volatile volumes. Longo also noted that products requiring a high degree of interactive engineering with customers or products requiring late or frequent program engineering changes may be better left in the United States. Expensive shipping costs including risk of late shipments or transit carrying costs also need to be considered. Companies such as X-Rite, where color, graining or paint finish standards are critical may make the U.S. the best option.

Longo said one alternative would be a hybrid strategy where manufacturing is done in the U.S. and a low cost country like China with different but complementary focuses. For example, commodity component purchases or manufacturing could be done in China with sub-assembly manufacturing using China sourced components completed in the United States. Patent sensitive processes remain in the U.S. while high volume, stable engineering design products could be made in China.

Longo told the audience about a company that entered into a joint venture with a Chinese company after they discovered that business had successfully replicated one of the U.S. products. The U.S. company decided to adopt a "if you can't beat them, join them" approach.

Dan Carter, principal with Hungerford Aldrin Nichols & Carter PC, said his Grand Rapids-based CPA firm helps clients develop a China strategy. Carter said businesses considering selling or purchasing from China in the next year or two need to develop a China strategy right now.

"The second thing we tell them is that you need an expert and you probably need someone that is based in China, maybe Shanghai or Hong Kong. Having the right ties in China is going to be very important," Carter told *MiBiz*. MIBIZ



World Trade Week speaker Lou Longo, partner with Plante & Moran Global Services PLLC, spoke about doing business and setting up manufacturing operations in China.