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Facing Down the Dragon:
How American Firms Can Compete with Fast-Developing Chinese Competition

by Brooks Fenno

The Chinese are coming, or should I say have come. Much of our local production has already been outsourced to China. Now the Chinese are setting up their own offices in the United States. I should know. I recently helped a mainland Chinese company do just that. Chinese products are not only inexpensive relative to ours, but have rapidly become our equal in quality for basic and, more recently, intricately assembled products.

We can't stop the tide of change as we participate in today's evolving world economy. However, owners of manufacturing process companies (metals, plastics, wood etc.) and firms related thereto can fight back, not just to survive, but to grow and prosper.

If you are a mid-sized manufacturer, say with sales over $50MM, you have undoubtedly considered purchasing a company overseas in a country with low labor costs. This way you would have a "foot in both territories."

A slightly smaller company may seek to license or form a partnership abroad. Most likely such a firm is already importing an ever-increasing volume of manufactured products from Asia. But if you are a VERY small firm (50–150 person) or simply want to expand through internal production to protect your domestic interests, then read on.

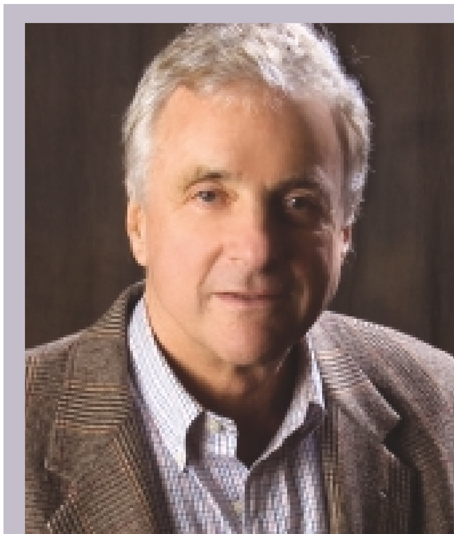
The operative phrases are "agility," "niche marketing," "untapped markets," and "value-added." In this era a manufacturer must be willing to commit personal and financial resources to shifting in new directions. The starting point is to formulate a practical action plan, one that takes advantage of Chinese weaknesses and the company's own strengths, based on both its unique "personality" and the character of its industry.

The Chinese are saddled with at least four inherent competitive disadvantages: longer shipping time, higher freight costs, less flexibility and a limited capacity to customize products and otherwise service buyers on an individual basis.

There are a number of strategies that can be instituted individually or in combination to foster effective competition. Some examples are: offering shorter production runs, promoting just-in-time delivery, tacking on vertical steps in the production of the finished product (thus creating "added value"), increasing market share (through acquisition), marketing to the U.S. government, expanding into niche markets, broadening market penetration, upgrading web page coverage and annexing "bell and whistle" features to meet individual customer desires (i.e. special coatings, finishes etc.). Knowing precisely what the customer wants and will pay for is an underlying component in selecting the best of these strategies.

A detailed and up-to-date understanding of both the manufacturer and its marketplace is critical. Determine the essence of how the company competes: seek out growth categories by monitoring incoming orders no matter how small the represented market segment is; assess the corporate operating environment by viewing the market through the eyes of key customers; observe trends through both involvement in industry groups and discussions with editors of trade association publications; and talk to knowledgeable suppliers.

This information should help position you to identify and become a market leader in pursuing the opportunities that do exist. Create and implement a viable action strategy. You will feel much better, particularly when you observe your sales once again increasing. Good hunting.



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