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By David Rocks and Nicholas Leiber

June 22 (Bloomberg) -- When Sonja Zozula and Jerry Anderson founded LightSaver Technologies Inc. in 2009, everyone told them they should make their emergency lights for homeowners in China.

After two years of outsourcing to factories there, last winter they shifted production to Carlsbad, California, about 30 miles (48 kilometers) from their home in San Clemente. "It's probably 30 percent cheaper to manufacture in China," Anderson says. Besides hassles including shipping, "it's a question of, 'How do I value my time at three in the morning when I have to talk to China?'" he says.

As costs in China rise and owners consider the challenges of using factories 12,000 miles and 12 time zones away, many small companies have decided manufacturing overseas isn't worth the trouble. American production is "increasingly competitive," says Harry Moser, founder of the Reshoring Initiative, a group of companies and trade associations trying to bring factory jobs back to the U.S. "In the last two years there's been a dramatic increase" in the amount of work returning.

An April poll of 259 American contract manufacturers -- which make goods for other companies -- showed 40 percent of respondents benefited this year from work previously done abroad, Bloomberg Businessweek reports in its June 25 issue. Nearly 80 percent were optimistic about 2012 sales and profits, according to the survey by MFG.com, a website that helps companies find manufacturers.

#### 'They're Miserable'

"A decade ago you just went to China. You didn't even look locally," says Ted Fogliani, chief executive officer of Outsource Manufacturing Inc., the San Diego company working with LightSaver. "Now people are trying to come back. Everyone knows they're miserable."

For LightSaver, the decision was simple. Neither of the founders has ever been to China, which made communicating with manufacturers difficult. Components that were shipped from the U.S. sometimes got stuck in customs for weeks. And Anderson had to spend hours on the phone to explain tweaks in the product.

"If we have an issue in manufacturing, in America we can walk down to the plant floor," Anderson says. "We can't do that in China." Anderson says manufacturing in the U.S. is probably 2 percent to 5 percent cheaper once he takes into account the time and trouble of outsourcing production abroad.

#### Coming Home

Dana Olson makes a living convincing small manufacturers that it pays to produce domestically. About 10 percent of the roughly 60 companies that his Minneapolis firm, Ecodev LLC, has worked with have moved manufacturing to the U.S. or decided not to send it overseas, and another half-dozen are considering similar moves.

"There's a growing sense, with the economy doing what it's doing, of U.S. companies wanting to produce in the United States," says Olson. "It's very important to them to have 'Made in the U.S.A.' on their label again."

Since 2008, Ultra Green Packaging, one of Olson's clients, has used manufacturers in China to make compostable plates and containers from wheat straw and other organic materials. By year-end, Ultra Green expects to start producing the bulk of its wares at a plant in North Dakota to cut freight costs and protect its intellectual property.

"They're infamous over there for knocking off" products, says Phil Levin, chairman of the 10-employee company. "All anybody needs to do is find a different factory and make a mold."

#### FDA Approval

For Unilife Corp., moving production to the U.S. helped it win regulatory approval for pre-filled syringes with retractable needles that make it almost impossible for medical personnel to accidentally stick themselves. Although the company used Chinese manufacturers for earlier offerings, syringes pre-loaded with medications are subject to stringent U.S. Food and Drug Administration rules.

Unilife in March 2011 began making its syringes at a \$32 million, 165,000-square-foot plant it built in York, Pennsylvania. "The very thing in the U.S.A. that often-times we complain about --the complexity of the rules and the regulations -- works for us," says Chief Executive Officer Alan Shortall. "FDA compliance is the main reason we're here."

Even with strong Mandarin skills, Brian Bethke grew frustrated with manufacturing in China. The co-founder of Pigtronix, which makes pedals that create electric guitar sound effects, discovered that he couldn't adequately monitor quality at Chinese factories.

#### Guitarist Testing

The original idea for the company was to develop products in the U.S. and make them in China, where Bethke was living.

After several years of finding technical glitches in as many as 30 percent of pedals, the company decided to move production to Port Jefferson, New York. At its small factory in a Long Island office park, the company can run multiple tests on its products and even has a guitarist play each of the 500 to 1,000 pedals it sells monthly before they're packed and shipped.

Pigtronix's move back, completed three years ago, has helped improve cash flow. While manufacturing pedals in the U.S. can cost anywhere from three to six times as much as it does in China, Bethke says Pigtronix benefits from not having capital tied up in products that spend weeks in transit and then pile up in inventory.

"In China, you have high minimum quantities you have to order, so you're building a couple thousand of every guitar pedal," Bethke says. "Your carrying costs start to get huge." Today the company only makes those pedals it's confident it can sell quickly.

While goods for U.S. consumers are less likely to be made in China these days, overseas production may still make sense for companies that plan to target foreign markets.

"What we're seeing is regionalization, buying stuff from manufacturers in the region where you're going to sell it,"

says Michael Degen, CEO of Nortech Systems Inc., a contract manufacturer based in Wayzata, Minnesota, that has eight factories in the U.S. and one in Mexico. "It's very noticeable," he says. "We've seen movement in terms of manufacturing in country for country."

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--Editor: David Rocks, Patrick Harrington.

To contact the reporters on this story:

David Rocks in New York at +1-212-617-2997 or [drocks1@bloomberg.net](mailto:drocks1@bloomberg.net); Nicholas Leiber in New York at +1-212-617-2341 or [nleiber@bloomberg.net](mailto:nleiber@bloomberg.net)

To contact the editor responsible for this story:

David Rocks at +1-212-617-2997 or [drocks1@bloomberg.net](mailto:drocks1@bloomberg.net)