

Battling Imports

U.S. Companies Rethink Strategies to Compete With Products From Abroad

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The Oxford folder on your desk was assembled in Mexico. Your Paper Mate pencil is from Japan, and that blue-and-white J. Crew striped shirt was stitched in Mauritius. The pillowcase on your bed comes from India. Your dining-room table is from Italy; the tea candles on it are from Hong Kong. If you have a Schwinn or Huffy bike, it probably came from China.

Imports, and controversy surrounding them, have been around since the Boston Tea Party. Never, however, have they been so ubiquitous, or so threatening to U.S. manufacturing. Industry and union groups say surging imports are responsible, at least in part, for continuing U.S. job losses in the manufacturing sector.

Holding Their Own

Can any U.S. industry compete successfully against foreign producers? Of course. But it often requires new approaches to production, as well as relentless attention to such basics as cost control. Companies that are holding their own against the onslaught of imports have meticulously trimmed costs through automation and have streamlined processes to speed production and delivery.

Every industry, from computers to cars to hand tools, is affected by imports to some degree. The biggest surge in imports last year was in the petroleum and coal products needed to make steel, as well as in pharmaceuticals and medicines. But the most vulnerable domestic producers are makers of apparel, toys and furniture, which tend to be high-volume, labor-intensive products that don't require huge spending for research and development.

T-shirt makers, for instance, face more import competition than companies that make titanium hip replacements. As for toys, about 95% of those sold here are imported. And nearly half of all wood furniture sold in the U.S. was made elsewhere.

In these particularly hard-hit industries, imports have led to plant closings and bankruptcies. A sorry case in point: the collapse of **Pillowtex**, the maker of **Cannon** and **Fieldcrest** brand sheets and towels.

To avoid such a fate, one strategy for domestic producers is to establish their products as superior to imported counterparts, and thus worth a premium. Aside from quality, speedy delivery—facilitated by a company's proximity to its market—can be a powerful asset for a domestic manufacturer. In a 2001 survey, original-equipment manufacturers rated "ability to meet delivery schedules" as the most important factor in selecting a contract manufacturer. Price ranked fifth.

Domestic companies also can differentiate themselves by of-

fering custom-made products—a powerful inducement for consumers shopping for everything from computers to kitchen cabinets.

Brayton International makes furniture for schools, hospitals and hotels that is highly customized. Furniture maker **Thayer Coggin** can readily accommodate a shopper in search of black-and-white diamond-patterned dining-room chairs and matching barstools. And when some communities began banning brightly colored plastic playhouses and other big backyard toys, **Step 2**, a maker of plastic products, was able to rush out a new line in earth tones.

"Being in the U.S., forces us to stay in close touch with the consumer," says Step 2's chief executive officer, Tom Murdough. It also helps that the company maintains a tight connection with giant U.S. retailers—and presses for extra display space so its toys can be seen out of the box and compared with cheaper imports. (To keep down overall prices, Step 2 does import some items from the Far East, such as special batteries and the plastic food that goes with its toy-kitchen sets.)

Niche marketing is another way to deal with import competition. **Webster Plastics** decided in the early 1990s to focus on highly engineered plastic parts that are corrosion-resistant and can withstand high temperatures and pressure. Doing so meant eliminating more than half of its customer base. Sales fell, but profit has increased dramatically, says President Vern DeWitt.

In some cases, the best strategy is to abdicate production and outsource it overseas or stateside to contract manufacturers. Opting out of manufacturing is most pronounced among high-tech firms like **Lucent Technologies**, which has shifted from producing 70% of its own products to less than 30% in the past two years. Similarly, **3Com**, which makes computer networking equipment, recently said it would outsource all production to Singapore and a contract manufacturer in Florida.

Shell Companies

Outsourcing production, in whole or part, makes most sense if a product is stable, requires lots of labor and doesn't need lots of technical support, says James Womack, a manufacturing expert and co-author of "The Machine that Changed the World," a study of the auto industry. His concern, though, is that many companies needlessly embrace that strategy. "They just say: Everyone else is going to China, so we need to go," he says.

A better approach is a product-by-product analysis to determine what production is appropriate to move where. That's what **American Racing**, the largest producer of custom wheels for cars, trucks and other vehicles, is doing.

The custom-wheel industry has long been controlled by do-

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mestic producers. But in the past five years, China has built more than 30 factories to produce custom wheels, churning out more product than the whole North American market consumes, according to American Racing. As a result, prices have fallen anywhere from 20% to 50%, depending on the type of wheel, forcing many domestic producers to go out of business or become shell companies, outsourcing all their production to Chinese factories.

American Racing chose a triad plan, outsourcing lower-end wheels to China, shifting some production to Mexico, and keeping its highest-priced, highest-profit-margin wheels in the U.S. “We see this as a significant restructuring to survive” in the face of the Chinese challenge, says American Racing President Bob Hange.

Do you consider a product's country of origin in deciding what to buy? Write toletters.classroom@wsj.com.
