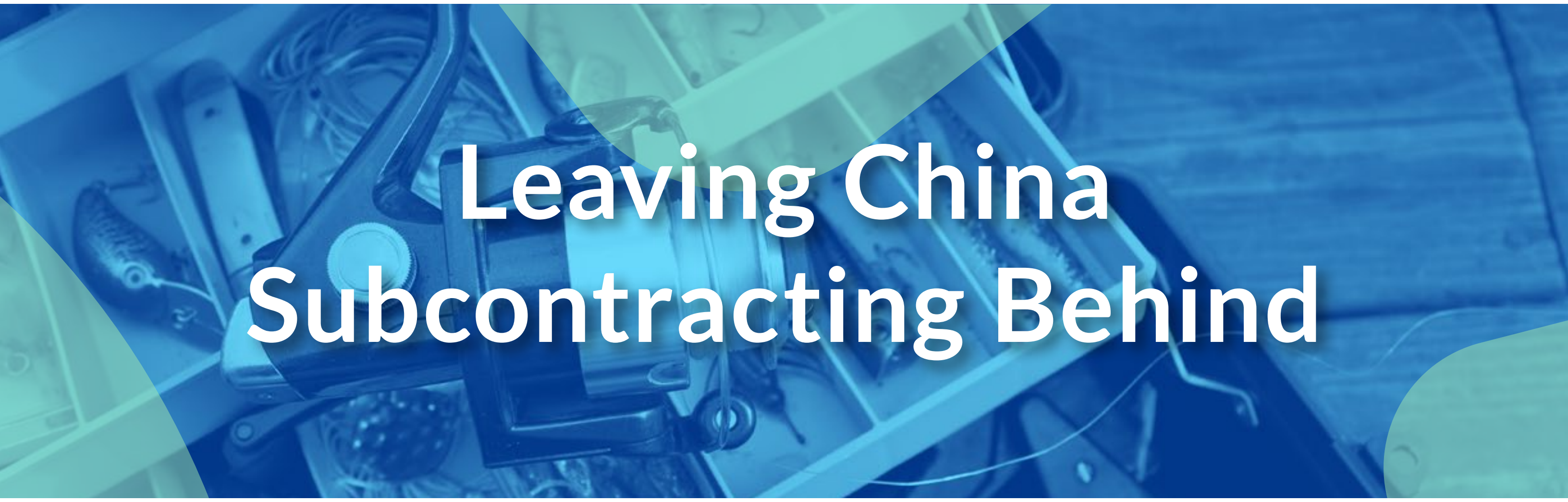
Strategic Footprint

Case Study



Leaving China Subcontracting Behind

More and more companies are realizing that the disadvantages of contract manufacturing in China outweigh the strengths. Many are taking back control and producing on their own to stay competitive, as two successes in this case study illustrate.

For nearly seven decades, US-based St. Croix Rods set the standard for making some of the world's highest-quality fishing rods on the market. Consumers loved their products and a quick glance at the company's social media accounts showed loyalty and appreciation for the company's commitment to quality.

Fishing rods have a low barrier to entry and as a growing number of lower-cost competitors entered the market, the company decided to shift production of one of its product lines to a contract manufacturer in China, as a cost-cutting measure.

Like nearly any company over the past 30 years that employs labor-intensive production, St. Croix thought it had found a competitive solution in China. Labor was abundant and cheap, and with a subcontractor, the company didn't need to make any capital investment.

However, the company's leadership soon realized that a combination of factors — even before the US/China tariff war came into play — made China subcontracting less attractive than it had been. They realized they needed an alternative.

Bob Penicka, Principal, Strategic Footprint
Bob successfully moved from subcontract manufacturing in China to production in North America for a high-quality US-based sporting goods company, on two separate occasions

Want to reduce your dependence on China?
Visit **www.strategicfootprint.com** and book a **free consultation** to learn how. Now is the **ideal time** to take back control.

Why China Subcontracting In The First Place?

Manufacturers were traditionally drawn to China by low landed costs and a seemingly inexhaustible supply of labor. As more companies added a manufacturing footprint in the country, China's supply chain infrastructure improved as well, to keep up with demand.

For a time, subcontracting in China worked well for St. Croix. The company cut costs for the product line, enabling it to compete with lower-priced competitors. But then, the company began experiencing issues in China.

The question was: could St. Croix produce on its own closer to home, yet still compete with China on price?

There were frequent quality concerns with the product, which had to be shipped in bulk from Asia to the US, full of containers holding as many as 15,000 fishing rods each. Supply chain delays were also common, as the product had to spend 30-40 days on the water before entering ports and being delivered by ground in the US.

Intellectual property theft was also a concern, as there are few safeguards to prevent a contract manufacturer in China from sharing trade secrets with their other customers. St. Croix's leadership decided to make the move away from China subcontracting, so they brought in Bob Penicka, former COO of Callaway Golf, to explore alternative manufacturing scenarios that would not destroy the company's pricing model while enabling it to assume full control of production. Bob referred to the subcontractor as "a constant source of frustration" for the company. But the question was, could St. Croix produce on its own closer to home, yet still compete with China on price?

Contract Manufacturing in China – The Issues

Companies working with contract manufacturers in China have expressed common challenges. Some old, some new...

China Subcontracting

Traditional Issues | **New Issues**

Build It Closer to Home – A Second Success

Until recently, St. Croix had employed a Taiwanese subcontractor to make thousands of unique cork handles for nearly 400 different models of fishing rods. Like its partnership in mainland China, the subcontracting arrangement in Taiwan worked well at first, but soon issues arose around production time. What had started as 4 weeks expanded to 12 weeks, making it nearly impossible for the company to meet fluctuating market demand.

In need of an alternative, Penicka sourced a trusted, North American supplier to take over production of the cork handles in the US. Within the span of a few months, production was up and running.

While costs were a bit higher, lead time had been cut back down to 3-4 weeks, orders were easily adjusted to fit customer needs and the production quality was excellent. It was the second time Penicka had successfully shifted production to North America, and he hasn't looked back since.

Quality Control Close to Home

In recent years, contract manufacturing in China has lost its luster. A growing number of companies are shifting to producing on their own closer to their customer base, making them more responsive to consumer trends and shortening delivery times. In some cases, that may mean establishing one or more regional production locations around the world.

For St. Croix, regionalization meant setting up its own production in North America, gaining complete control in the process. The company is now fully responsible for manufacturing and quality control, it shortened product delivery times, no longer had to worry about the safety of its intellectual property and was not affected later when the US/China tariff war heated up.

Benefits of Taking Back Production

Companies like St. Croix that shift away from China subcontracting in favor of producing their own goods gain many benefits, including:

Diversification: A regionally diverse manufacturing base keeps issues in any one region from overly affecting production. Companies with sole reliance on production in China, for instance, are dealing with a lot more uncertainty due to the ongoing US/China tariff war.

Quality control: The company retains full responsibility for product quality, versus a contract manufacturer whose name isn't on the product at all.

Customer proximity: By having manufacturing footprints in different locations, companies can be more responsive to changes in consumer behavior. Proximity enables manufacturers to adjust to seasonal demand trends, for example, and quickly adjust due to shorter production lead times.

Flexibility: Different areas of the world face different issues, and it can be difficult to predict the ebb and flow of resources or human capital. Investing in different input sources is invaluable when a resource slows down or runs dry, as you will still have others to pull from.

Crisis response: Unpredictable events — such as floods, earthquakes, or regional pandemics — are inevitable. While companies cannot stop these events, they can soften the blow these natural or health disasters have on their supply chain through a diversified production strategy.

Should You Buy or Build?

Is your company too dependent on contract manufacturing in China? What can you do about it?

Contacting Strategic Footprint is a great place to start. Bob Penicka and Doug Donahue launched Strategic Footprint to guide other companies in moving away from contract manufacturing in a faraway location. Penicka and Donahue can help guide your company in establishing its own production, including building production cost models and assessing risks.

"Strategic Footprint came into existence in response to a need," says Doug Donahue. "More and more companies are looking to lower their risk and not be so dependent on contract manufacturing in China. We can not only help them get started, we can guide them through every step of the process," he added.

Want to learn more?

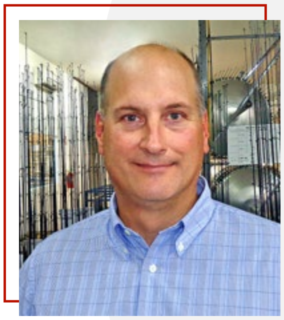
Contact one of our principals, Bob Penicka and Doug Donahue, for a free consultation. They can build a cost model of your end-to-end manufacturing process.

Now is the perfect time to take back control of your company.

Are you ready?

Contact Strategic Footprint

Doug Donahue:
Donahue@strategicfootprint.com



Bob Penicka:
Penicka@strategicfootprint.com

Strategic Footprint