



## US mold shops see China factory as way into local market

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PLASTICS NEWS STAFF

GUANGZHOU, CHINA (Feb. 16, 12:50 p.m. ET) -- Like many foreign-invested mold making shops in China, Cosmos Tooling Solutions Ltd. began business by exporting lower cost tools to North America and elsewhere. But increasingly, the company is looking to China's expanding domestic market for growth.

Cosmos, in Dongguan, Guangdong province, is a small mold maker by Chinese standards, with only about 100 employees.

But its owners, plastics executives from the United States and Hong Kong, see a chance to broaden their business as China's internal markets want higher quality, a push that could be seen as unusual for an industry that typically worries more about China causing job losses.

"My personal goal for us as a company is that half of the business that Cosmos does ends up being domestic [Chinese] in nature," said Michael Zacharias, one of the U.S. investors, and also president of Extreme Tool and Engineering in Wakefield, Mich. "We want to grow the domestic business in China."

The Cosmos partners only set up the factory in 2008, and for the moment, all of its work remains exported.

While that may make the 50 percent target aggressive, particularly in China's notoriously cost competitive local markets, Zacharias and his partners said they see more interest on the part of Western clients (and some local firms) in getting their help in Dongguan making products for China's expanding market.

One of the targets, they said, is in the automotive market, where last year China surpassed the U.S. market to be the world's largest, by volume. Both of the American firms have a background in the U.S. auto industry, designing and making molds and handling product development.

"I can't give you any names, but one product is for the heavy truck industry, and it's a pretty big deal," said Stephen Davidek, another of the investors and the vice president of Future Engineering, Inc., a mold design, product development and engineering firm in Swartz Creek, Mich.

The third U.S. partner in Cosmos is Matt Catlin, president of Future Engineering.

Davidek said it will take time for China's domestic auto market to fully develop for them. But Zacharias said the partners feel they should get in early: "You can't wait for it to be prosperous, that's too late."

One factor pushing the interest in automotive is that China has local content requirements for cars to claim to be "Made in China," said Hercules Shum, the Hong Kong general manager of Cosmos and also an investor.

"In automotive, there are a lot of areas where people are still buying [parts] from other countries," said Shum, who worked for Hong Kong-based Ace Mold Inc. before joining Cosmos.

There is trade friction between the two countries over auto parts, with China last year starting an antidumping investigation of U.S. car parts.

Still, Zacharias said they see chances to apply their product development and engineering skills as China increasingly will develop cars suited to its markets.

"The stereotypical Chinese car will be much different... and because of that I think there will be opportunities for things not done here in the States," he said, noting more interest in vehicles designed for shorter commutes or in electric cars. "There's more of a need for the kinds of things Stephen and I do."

Both American firms are small. Extreme has 55 employees in the United States, and does about US \$8.5 million in annual sales, while Future has nine employees. They said the China venture will also look at industries like medical in China.

The partners said they began the venture, which is 50 percent owned by American investors and 50 percent by Shum and other Hong Kong partners, in 2008 as a way to meet what they saw as customer needs in the U.S. for less expensive tooling from China, but with U.S.-based project management.

The U.S. firms handle project management and final testing on the molds built for their clients in Dongguan.

Zacharias said his firm, which he said focuses on higher-end, expensive molds, transferred most of its knowledge to the Dongguan venture, as a way to ensure quality. He said the factory is not going after the same markets as Extreme.

"We essentially bared our heart and soul," he said. "Extreme has very defined business practices, we took all of our practices and exposed our partners in China... and they've adopted 90 percent of them."

The partners say they want to build the Dongguan shop into a higher-tech mold making operation, focused on areas like scientific molding, and are looking seriously at opportunities to develop an injection molding business as well.

Zacharias said the Dongguan operation made a profit in its second full year of operation.

In a Feb. 11 telephone interview, both Americans said their companies have added business as a result of the investments in Cosmos, although they described the relationship with China as a complicated one for the U.S. mold making industry, which faces intense competition from lower-cost countries.

"Strategically the one thing different about our companies [in the Cosmos venture] is we embrace global business opportunities," Zacharias said. "Even though that is not always comfortable, that is the way the world works. In the U.S. there are some people who don't like those thought-processes."

"The first reaction from a U.S. toolmakers perspective is we're going to see job loss and all kinds of things of that nature," he said, adding that his firm has not laid off any employees in the United States in the downturn.

"Having Cosmos as an arm of our company has enabled us to grow client relationships and create additional jobs," he said. "Nothing but positive has happened."

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