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China big part of AME business model

Firm forgoes U.S. production, sources from Asia

By Bruce Meyer

Rubber & Plastics News Staff

TOWACO, N.J.—AME Corp. has come up with a business model whereby the firm uses manufacturing in China in a way it claims is good for all involved.

The Towaco-based firm recently closed its 35-employee rubber molding plant in Towaco in favor of having most of its production done in China. But AME President Ronald C. Knauf said the company—in the end—will employ the same number or more here in the U.S.

The closing is part of an ongoing “morphing” of AME from a company that made the majority of the products it sold as recently as two years ago to one that now sees itself as a full-line industrial services marketer.

“By the end of this year we’ll be employing more people at higher salaries,” Knauf said. “So we’ll have more American workers making more money by (taking production) overseas.”

Transformation of AME

Edward Dimitry founded AME in 1977 as an engineer with expertise in elastomeric materials and bonding those to various substrates. “His dream was to start his own business and do it better than the competition,” Knauf said.

Dimitry, whose family still owns the company, started making custom products and then branched into a standard line of fasteners and push buttons. After growing for the next 10 years, the firm went to Taiwan seeking vendors.

“We’ve been in Asia for more than 20 years, so we’ve mastered the art of dealing in the Asian marketplace,” Knauf said. “We understand culturally how to do business there.”

Knauf was brought on board as president four years ago. His first year there included an in-depth analysis of staff, product mix, assets and liabilities, market positions and market strategies.

AME quickly moved away from being a “pick and pack operation” for standard products sold mainly to small customers. “For us, that wasn’t profitable,” he said.

Order minimums were boosted from \$35 to \$150 with no loss in business, and later to \$500.

“Our real strength when you interviewed customers was our ability to make custom products and to support,” Knauf said. “We found that as opposed to being an ‘operationally efficient’ company, what we were was a client-intimate company. We service people in a way that they claimed was unlike any other vendor. We gave them engineering and solved problems quickly. That was our corporate strength.”

So even with the higher minimums, sales have grown by more than 20 percent each of the past few years, with 30-percent fewer customers. AME doesn’t release sales, though Knauf said they are “under \$10 million but growing substantially.”

Different options studied

During the evaluation, Knauf said AME officials analyzed the firm’s situation from several angles, including keeping production in the U.S.

They saw three avenues of possible growth. One was to build a large U.S. sales force and go to market with what it made. “Frankly, I didn’t see a huge market differentiator for us,” he said. “There were a lot of very high-quality, good service rubber molding companies in the U.S.”

The next scenario was to build volume through acquisitions and gain economies of scale by rolling a bunch of little companies together. But the feeling, Knauf said, was that option wouldn’t allow AME to offer the engineering expertise and customer support for which it was known.

So that left AME with option No. 3: developing a “unique selling composition” that had to do with Asia. This scenario kept engineering, research and development, and vendor relation functions in the U.S., with AME employing about 35 domestically, the same number that had been employed at its manufacturing plant.

But it also meant finding a manufacturing partner in Asia that would offer AME a wider breadth of product lines that it could offer to its original equipment manufacturer customers in the U.S.

“It was very clear that no matter how we did it from a financial point of view, to stay ahead of the world curve, we had to go to Asia,” Knauf said. “But we took an

arduous six months looking at it both ways. We spent a lot of time at the white boards. We ran every possible way to have it right here and we just couldn’t get it done.”

Partner in China

Knauf found the Asian partner it sought in Tianjin, on the northern side of China, with Synergy Hanil’s Precision Polymer Technologies Co. Ltd. business. Knauf was on a 17-day trip to China to interview vendors—it has several others in the country besides Synergy Hanil—and Precision Polymer was the next-to-last stop.

During a two-hour drive from the airport to the firm’s factory, he and Joseph Khoo, general manager of Precision Polymer, agreed on the basics of an accord the two firms would enter. “They had the breadth we were looking for,” Knauf said. “We had the American engineering and marketing that they were seeking. So we’ve been working in a united effort toward growing both companies.”

Under their working relationship, AME currently doesn’t have an equity position in its Chinese partner, but does have control over manufacturing. AME executives also go to China to do management training with the Precision Polymer staff, covering such things as staff treatment, motivation and accountability.

“It’s some of the kind of stuff that’s historically been absent in the Chinese factory management,” Knauf said. “It’s been much more clinical, and we’re making it much more personal.”

For Precision Polymer, the benefit is being able to sell its products outside its Asian home, according to Khoo, who joined Knauf at AME’s booth during the recent National Manufacturing Week exhibition. “Although we are so far apart in terms of geography, we think our mindset is almost the same,” Khoo said. “We share the same strategy and we have similarity in product, in the way we deal with people and in the way we conduct business.”

Khoo said wages in northern China are lower than on the nation’s eastern side, but said the average \$150 monthly wage his firm pays its roughly 600 employees is about 20 percent above the market rate in its area.



RPN photo by Bruce Meyer

AME Corp. President Ronald Knauf (right) had Joseph Khoo, general manager of the Synergy Hanil plant in China, on hand with him at the recent National Manufacturing Week exhibition.

Knauf said that Precision Polymer and its other vendors all have the required certifications, such as ISO and QS, to ensure quality is never in question.

The relationship between the two firms is so good, he added, that the two are discussing having AME handle European sales for both companies.

He said there are several basic things AME can offer customers.

First, it can take the fear out of going to China for small- and medium-sized firms. It also can arrange financing to handle up to a \$40-million order, business such companies normally may pass on because of the need to buy new equipment.

“They call us and we go in and co-sell it, and we’re able to handle the order through China,” Knauf said. Customers also like being able to deal with R&D and engineering capabilities in the U.S., while still getting the benefit of low-cost Chinese production, he added.

About 95 percent of the AME’s sales currently are to OEMs based in the U.S. Knauf said it does buy some products from U.S. vendors as well, for use in “Made in USA” products.

Knauf: Critics wrong, outsourcing helps America

By Bruce Meyer

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TOWACO, N.J.—Ronald C. Knauf thinks people have it wrong when they say outsourcing is bad for America.

In fact, the president of Towaco-based AME Corp. has an entirely different take on the issue.

“If you look at most economists, they’ll tell you that the last recession was among the shortest and shallowest of the past 100 years,” he said.

In general, the economists attributed it to two reasons, according to Knauf, whose company gets much of the goods it sells in the U.S. from Chinese manufacturers.

“One is tax cuts, which put more money in the average American workers pockets,” he said. “Then the outsourcing of manufactured goods and the Wal-Mart mentality in manufacturing and retailing made goods and services cheaper. So people had more money and

goods cost less, and we spiraled out of the last recession quicker, so it was not as devastating.”

Knauf said he finds it hard to see the damages outsourcing has caused. He acknowledges that interest rates have gone up a bit but said that is because the Federal Reserve chairman has looked to protect the U.S. from inflation.

Looking at other numbers, he said housing starts continue to grow, unemployment is low and the consumer price index has been fairly steady.

“Certainly compared to Europe, these are boom times for us,” Knauf said. “Where is the harm? Where is the damage?”

The AME executive likes to look at the topic from a different perspective than what normally is seen in the press. “Maybe we’re using Asia, and they’re not using us,” he said. “We’re utilizing the talents of a less-expensive place to manufacture goods that fill our needs, and it has not cost us jobs in total.”

He likens it to the early 19th century, when the U.S. evolved from an agricultural society to a manufacturing nation. Farmers’ kids went off to work in factories and many predicted that “Henry Ford will be the death of the U.S.”

“But you know what, for 100 years we were a manufacturing power,” Knauf said. “If you look at the manufacturing and production numbers in the U.S., they continue to grow.”

Yes, there have been some jobs outsourced, he said, but it’s not true that there is little domestic manufacturing left.

“If that were true, who would we be selling this stuff to?” Knauf asked. “We’re selling it to original equipment manufacturers. We’re doing a way better job than Europe because we understand there’s a balance between buying inexpensive high-quality component parts for our OEMs, who are still here (in the U.S.), pumping out products.”