



# THE ProgRESsive

## Mission

"Our mission is to be the best-in-class provider of precision metal stampings, assemblies and value-added services. Res will operate safely, ethically and profitably to benefit its customers, associates, shareholders, and suppliers."

Res Manufacturing is a contract manufacturer of metal components for **SHAPE CRITICAL** **SURFACE CRITICAL** and **HIGH STRENGTH** applications.

We specialize in:

- ◆ PROGRESSIVE DIE STAMPINGS
- ◆ DESIGN ASSISTANCE
- ◆ PROTOTYPES
- ◆ TOOL BUILD
- ◆ HEAT TREATING, WELDING, TAPPING, MACHINING
- ◆ AUTOMATED ASSEMBLY

ISO/TS 16949  
Certified

## MANAGEMENT VIEWS

### The Hidden Costs of Sourcing From China

Recently, I had an interesting conversation with a customer that had decided to place an order for stamped components with a Chinese manufacturer. As I attempted to state my case for keeping the work in North America, he interrupted my argument with the phrase, "It doesn't matter." When asked to explain the meaning behind the words, he said the following: "I am not measured on total cost; I am only measured on direct unit price variance."

Unfortunately, in talking to others within and outside our industry, this scenario is repeated again and again. The ugly truths about the indirect and intangible costs associated with sourcing product from China are being lost,

ignored or hidden. My belief is that in the vast majority of cases, the costs are just lost, or not captured, due to a lack of understanding and/or appropriate costing systems that accurately capture truth.

Consider the overlooked costs noted on the chart below. Depending on the annual volume of components purchased, and the volume per container, overlooked costs per unit will vary. Based on one full container per month, and annual purchases ranging from \$500,000 to \$2,000,000 the total of indirect costs potentially overlooked will range from 10% to 40% of expenditures.

Adding the menu of costs shown below to the direct unit cost should level the competitive playing field significantly. If that is not enough to swing the sourcing decision to a North American supplier,

then the following intangible considerations surely must have a critical impact:

- **Airfreight** for rush or late shipments can run approximately \$350.00/lb
- Increased cost of **holding inventory** to accommodate longer transit times and the risk of potential stock outs
- Increased liability associated with **environmental and handling damage** to stock due to extended lines of supply
- The risk of sudden **unfavorable changes in the pegging of currency** to the USD
- The increased **burden and cost of on-site monitoring and auditing** of Chinese manufacturers
- The real risk of **product piracy and loss of intellectual property**

(Continued Page 2)

Indirect Costs of Sourcing from China	\$
Dedicated Personnel for International Sourcing (salary + benefits annually)	\$100,000
Travel Expenditures (5 trips/year, air, hotel, food)	\$15,500
Ocean vs. Domestic Freight Differential (\$.095/lb vs. \$.02/lb)	\$.07/lb
Freight Forwarder Cost/Shipment	\$65
Custom Broker's Processing Fee Cost/Shipment	\$100
Merchandise Processing Fee Cost/Shipment (.21%)	\$485 max
Continuous Bond Annual Fee	\$500
Harbor Maintenance Fee Cost/Shipment % of Content Value	0.125%
Letter of Credit Cost/Shipment % of Content Value	2%

Source: David Bumbar, Aurora Metals



### The Hidden Costs of Sourcing From China (Continued)

- The increased risk of loss due to **inventory obsolescence**. Increased inventory levels due to longer supply times puts a higher level of finished goods at risk should a design change occur
- The risk of increased **scrap** due to inventory spoilage. Lower inventory turns may lead to rust, refinishing, etc.
- Complications and mistakes due to **communication errors**
- Increased **time-to-market** due to longer delivery channels
- Increased risk due to **disruptions in the delivery channel** including: dock strikes, container shortages, weather, etc.

When all factors are taken into consideration, it is difficult to understand how going to China can truly be the huge bargain that has been reported. North American manufacturers are some of the most productive and effective in the world. We have a distinct logistical advantage that is under exploited. Our quality, creativity, and responsiveness, when compared to China, can only come out on top. Whether it is the media frenzy, the metrics that fuel our compensation plans, lack of knowledge, or lack of accurate costing methods that is causing the push to Chinese sourcing, I do not know. I do know that when I account for all the costs, and take all risks into consideration, I must buy North American.



David Tomczek  
Vice President of Marketing and Sales

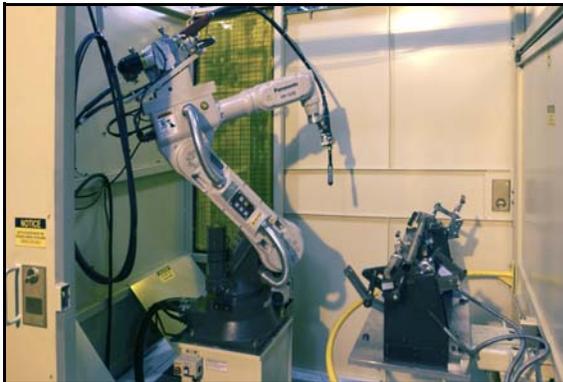
**ISO/TS 16949 Certified**

### Stamping Design Seminar in June, 2004

Res will be hosting another Stamping Design Seminar this June in Milwaukee. The presentation will include information about presses, stamping processes, production tools, material selection, stamped part characteristics, design considerations, guidelines for blanking, piercing, and forming, burr removal and finishing, dimensioning, and packaging. Emphasis will be placed on saving money from the design process to shipment. Share in the wealth of knowledge that has made Res the leader in its industry. Call Rachael Poyneer for details.

### Res is EDI Capable

Res is now capable of receiving and transmitting transactions via Electronic Data Interface. This system allows our customers to transmit planning schedules and orders and for Res to transmit advanced shipping notices, order confirmations and invoices. Ask us how we can work with you to transmit transactions electronically.



*Res' value-added services now include the latest technology in robotic welding.*

### Res is ISO/TS16949 Certified

Res has received ISO / TS 16949 Certification. TS 16949 is a new technical specification that works in conjunction with ISO 9001:2000 to meet customers' quality requirements. Unlike previous quality systems that are more procedure based, the new system evaluates all processes from start to finish as they pertain to meeting customer requirements. The ultimate goal of TS 16949 is continual improvement.

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