

Tight Squeeze

Some tube purchasers may be returning to U.S. suppliers because of quality concerns.

By John Conroy

Until recently, many in the industry held a "fairly consistent" belief that certain products would be "outsourced wherever the lowest-cost provider is," says John Panaseney, vice president of sales and marketing for Cloud Packaging Solutions (Greenville, SC). "Some people now have the mindset that that's not always going to be the case." Since the beginning of the year, he says he's heard "from a diverse group of companies" that are rethinking the notion that "everything had to go to China because it was cheap."

The "biggest challenge" facing the industry is that North American tube suppliers "are way more expensive than either of the South American or Asian markets," says Panaseney, whose company specializes in bulk packaging of tubes purchased from suppliers. "We pay 20 cents a tube [domestically], and we get it for 6 cents a tube out of China." Even when you factor in freight and other charges, the Chinese tubes end up costing 8 cents each, he notes.

While "unbelievable" pressures put domestic producers at a competitive disadvantage, the regulatory requirements play "in our favor," Panaseney says. FDA regulations act almost as a quality seal of approval for products made in the United States, according to many customers.

Industry demand for tighter quality standards has caused more buyers to search "for companies that can meet those standards" and meet order capacity, says Jessica Sievers, site administrator, Betts USA (Florence, KY). "There have been a lot of new contracts, as well as a lot of contracts being either broken or terminated" because of poor quality and poor order fulfillment, she says.

Panaseney says that contracts have

been voided because of quality concerns. "No question about that," he says. "One knock against bringing anything from outside the United States is the feeling is that the quality isn't there." He emphasizes, however, that the decision about whether to use nondomestic tube suppliers has to be made on a "a case-by-case basis."

The cost savings can lose their appeal when other factors sour, notes Tom Foster, director of sales for Silgan Plastic Tubes (Woodstock, IL). When that happens, customers often return. "We've had a couple of customers say, 'You guys are 40% higher than these guys and we can get the tubes in four to six weeks.' [Then] they come back two months later and say, 'It's an emergency. Can you get us a million tubes in four weeks? And we have a quality problem.'"

Foster believes that the proverbial pendulum—although moving away from cost as the overriding determinant—will not swing completely back in the other direction. "I think China will definitely always be here," he says, noting that the country's "bread and butter" is making commodity products in a consistent manner.

Problems such as language differences and shipping expenses have tarnished the lure of lower costs, according to both Foster and Panaseney. Foreign particles in tubes, pinholes, and misaligned type are also potential problems.

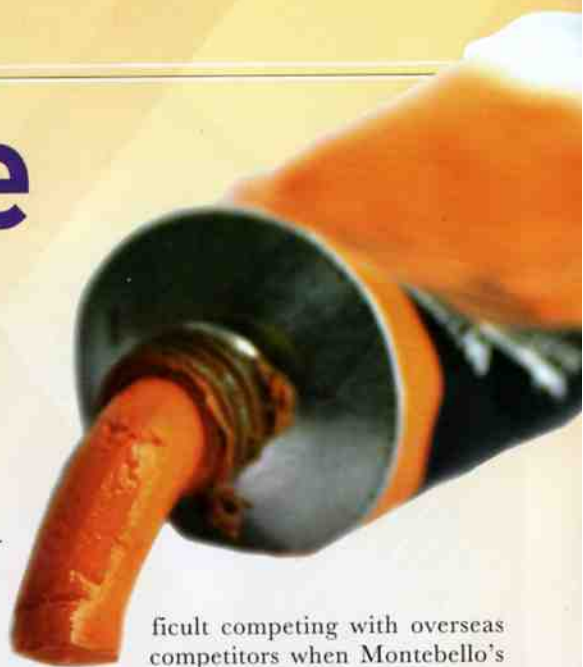
Montebello Packaging (Hawkesbury, ON, Canada), has seen some of its business migrate to low-cost manufacturers in Mexico, says Meghan Bennett, marketing and sales coordinator. But, she notes, customers often return after six months of using a non-American supplier.

Bennett acknowledges that it is dif-

ficult competing with overseas competitors when Montebello's tubes "are generally higher on a per-tube basis." Furthermore, she says many of the larger customers are "going to a global bidding system" that emphasizes cost. The Web-based system takes bids, automatically analyzes them, and determines the supplier with the lowest cost. As a result, customers "are starting to look overseas a lot more and see there's a price discrepancy, without considering all the cost factors." So far, the quality of Montebello's tubes has carried the day, and some clients that had switched to foreign suppliers have returned six to eight months later, she says.

The strength of the Canadian dollar against its U.S. counterpart has posed as much or more of a problem for Montebello than offshore competition, according to Bennett. With the Canadian loonie nearly on par with the U.S. greenback, the Ontario-based supplier has ramped up its American plant to overcome the shortfall. "Our costs haven't necessarily decreased as a result of our dollar being stronger," she says. Shrinking profit margins have provided incentive for Montebello to find ways to improve efficiencies.

For many U.S.-based personal care products companies, the devaluation of the U.S. dollar also has resulted in rising expenses for tubes imported from Europe, notes Hermann Riedlsperger, group vice president, CCL Tube (Wilkes-Barre, PA). Because the yuan is still closely linked to the dollar, imports from China have not risen at the same rate, but suppliers are complaining about eroding margins, he says.



The biggest impact for North American manufacturers is on the investment side, Riedlsperger says. "Nearly all high-end tube machinery suppliers are European, which means the cost of investment increased by more than 50% over the last few years."

Because U.S. suppliers can't compete with the cost of their Asian competitors and automation options are limited, companies such as CCL focus on high-end decoration, says Georg Pescher, general manager. Suppliers in the more developed markets can offset cheaper labor costs by using more integrated processes, he says. CCL, for example, has targeted investment in silk-screening, offset, labeling, and other decorating equipment; it has been working with strategic suppliers for resin and caps that should shorten lead times in comparison with "off-continent" suppliers.

China's production advantage has more impact on sales of 1-in. tubes, notes

Foster of Silgan, because they fit easier as shipped freight than standard 2-in. tubes. "We don't want to touch [1-in. tubes]," he says.

"The potential for offshore supply is reduced with larger-sized tubes," agrees Michael Hoard, director of marketing and business development for Alcan Packaging Ceval (Washington, NJ). Like

Quality in Asia

Regarding quality, International Cosmetic Suppliers Ltd. (ICS; Hong Kong, SAR) says it has developed its own extensive quality assurance program for tube manufacturing, which it has used for the past 15 years, reports Susanne Nichols, CEO and founder.

"Quality is a top priority at ICS. We are based at the source with offices in China and Taiwan and headquarters in Hong Kong. This close proximity to Asian factory sources means we can provide hands-on quality control and on-site production supervision."

ICS has also developed a supplier evaluation process, Nichols says. "Any factory ICS works with must pass rigorous quality assessment tests. ICS tube factory manufacturing sources are ISO 9001:2000 certified; comply with health, safety, and environmental regulations; and have also passed various audits."

ICS offers plastic tubes in various materials and with many options for decorating, applicators, and functions. The packaging supplier specializes in project management, concept development, tooling, manufacturing, design, and sourcing of components, sundries, and finished products. —*Daphne Allen*

CCL, Montebello, and other domestic suppliers under pricing pressure. Alcan Packaging has focused on running a lean operation and farming out low-cost component or new manufacturing processes in order to reduce costs, he says.

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