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The future of RUBBER MANUFACTURING in America

Santa Fe Rubber battles Chinese imports head on

One of several manufacturing cells at Santa Fe Rubber's Whittier, Calif., plant.

By Mike McNulty
Rubber & Plastics News Staff

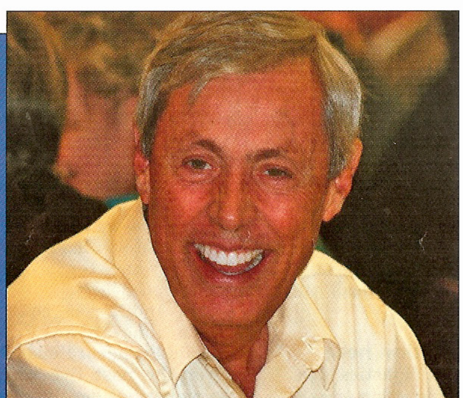
William Krames doesn't figure Santa Fe Rubber Products Inc. will be making mass quantities of 10-cent rubber widgets any time soon.

The product's been replaced by the 4-cent widget made in China.

ONE COMPANY'S PERSPECTIVE

That's the state of the rubber products manufacturing industry these days, said Krames, owner, president and CEO of the company. U.S. rubber product makers have lost millions of dollars in business to lower-priced overseas competitors, mostly in China.

Most U.S. manufacturers had been lulled into a false sense of security and didn't see the offshore train coming in the 1990s, he said. The threat became real to Santa Fe Rubber in 2000.



Santa Fe Rubber's William Krames

Competition has become fierce, Krames said, because as customer expectations rise, buyers want more for less from manufacturers and U.S. firms lose longtime customers to countries like China and India.

When Santa Fe Rubber officials recognized that serious competition from overseas companies was going to be a constant threat rather than a short-term problem, they made plans to change.

During the last six years, the Whittier, Calif.-based custom rubber product molder has used many methods to hold its own against competitors based in overseas locations.

In the process Santa Fe Rubber has lost some high-volume, labor-intensive business to low-cost manufacturers in China.

An executive from another company told Krames that his firm lost a contract worth $800,000 annually to a business in China that now produces the same product at half the cost.

Some losses, some gains

"I brought a customer to our company almost 20 years ago, and we lost the customer because the new president wanted to go offshore to have his products produced for less," Krames said. "It's hard to compete because the Chinese government is subsidizing companies there," and they don't face the numerous costs and compliance issues U.S. firms are saddled with.

"We do have a couple customers who went to China for the cost savings, and, guess what, they're back," he said. "It's not all moonlight and martinis over there. Customers still have to get their products delivered."

Santa Fe Rubber has fought back aggressively, cutting costs dramatically, and found higher-end niches where it could operate effectively to keep its offshore competition somewhat at bay.

"Originally, I didn't think that China would be this big a threat, but there it is," he said. "I got kind of tired of being the victim. You can't just sit around and lick your wounds."

The manufacturing business has offset its losses with new customers looking for more demanding, more technically oriented applications, said Krames, who began working in the rubber industry in 1963 after he graduated from college.

The company, which has been QS 9000 certified since 2000 and recently obtained ISO/TS16949:2002 registration, has put more emphasis on the side of its business that features silicone, fluoroelastomer, nitrile and a number of other elastomers to gain new ground and maintain a good distance between it and offshore competitors.

It also expanded its full-service laboratory capabilities and added molding machinery, allowing it to offer parts at cheaper rates.

Krames doesn't know if that strategy will last forever, but it is working now. And he has other plans on the drawing board.

Santa Fe Rubber's expanding injection molding operation has played a significant role in reducing unit costs for customers, Krames said.

"The cheap and high-volume business—the 10-cent widget—is fading in the U.S.," he said. "We're trying to insulate ourselves with higher-end business that's not as labor intense. This is a challenge most manufacturers are facing."

Santa Fe Rubber—which makes rubber goods for the oil and gas, aircraft, plumbing, automotive, beverage dispensing, and a number of other industries—has become less reliant on automotive and other traditional products in favor of niche markets. Most of its goods are produced for U.S. companies, but about 25 percent are exported to Denmark, Mexico, Brazil and other nations.

Adapt or die

Rubber product manufacturers must change and adapt in a global economy to remain competitive, Krames said. Santa Fe Rubber, which operates out of a 33,000-sq.-ft. facility in Whittier with a work force of 75-80, has made sizable capital investments in the last few years and plans more in 2007. That includes the addition of two machines and a liquid injection molding press. Krames expects to convert a 6,000-sq.-ft. building in the rear of its factory to house the machinery.

The firm bought a LIM press last year to add that capability to its portfolio as it began targeting segments of the medical, food service and—to a lesser degree—automotive industries.

"We have to envision opportunities and formalize a direction," he said, "and it's more important now than ever before to have a strategic plan. Otherwise you're just bobbing in the water. You have to be innovative and visionary.

"The old way of doing business won't work anymore. Those that don't recognize that won't stay in the game much longer."