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## **Delphon Featured in Wall Street Journal**

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### **Made in USA? Now, Customers Get to Choose**

*By Christopher Conkey, The Wall Street Journal, 1085 words Aug 9, 2006*

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In the beginning, there was "Made in the USA." Then came "Made in China" and "Made in India." Now comes a different twist: "Made in the USA, China or India. You choose."

Pacific Plastics & Engineering, a privately held Soquel, Calif., maker of specialized devices for medical companies, lets customers decide whether to have their product made in California, or - for at least 25% less -- at plants in India or Taiwan. "We give our customers a choice," Chief Executive Officer Stephanie Harkness says. "We don't ever pull the wool over their eyes."

Other medical-device makers are offering the same option, the latest manifestation of a trend that has been unfolding over the years as more manufacturing moves abroad. United Plastics Group Inc., Oak Brook, Ill., and the Tech Group division of West Pharmaceutical Services Inc., Lionville, Pa., also offer customers a choice between costlier domestic products and less expensive ones made overseas. "It used to be a rare service ten years ago," says Tom Podesta,

vice president of sales and marketing for Tech Group.

Mr. Podesta says between 15% and 25% of his customers opt to have items produced at Tech Group plants in Latin America; the rest choose from its plants in the U.S. At least four of his firm's competitors offer their customers a similar choice, he says. "It's absolutely what customers want," says Richard Harris, chief executive of United Plastics.

Contract manufacturers produce goods designed by other companies -- some that specialize in automotive and electronic parts offer similar choices to their customers. And, of course, big companies with global networks of their own routinely move production around. Companies that buy parts from other companies can compare prices from domestic and foreign suppliers and pick one over the other.

Most companies giving customers explicit choices about manufacturing locations are businesses selling to other businesses, although at least one consumer company does something similar. Online lender E-Loan gives consumers the option of having mortgage applications processed faster if they have it reviewed by workers in India. The company says roughly 80% to 85% of customers choose the Indian option, which saves E-Loan money on labor costs. Some companies that deal directly with consumers quietly outsource back-office work; E-Loan says offering this choice is part of its strategy to build trust and loyalty with consumers.

Specialty medical-device makers are hypersensitive to quality, regulatory and intellectual property concerns, all of which can restrain the urge to source from overseas. But the lure of low-cost overseas labor has become irresistible. "The headline is that medical customers are starting to get into low-cost regions," says Mr. Harris of United Plastic. "I think it's inevitable."

PP&E, founded in 1989 with exclusively domestic operations, works closely with clients

ranging from start-ups to medical-device heavyweights like Boston Scientific Corp. to turn new designs into plastic parts and finished products. (PP&E is not related to Pacific Plastics, a San Diego-based company). Under pressure to reduce costs, the company started offering overseas-production options in 2001.

"Initially, companies moved forward with a lot of trepidation," says Tom Star, sales manager for PP&E. It took time for companies to grow confident that the overseas facilities, which PP&E contracts with but doesn't own, could meet exacting specifications for medical products, he says. Now 70% of PP&E customers opt for production in India or Taiwan. "It's only going to become a greater percentage of the work we do," Mr. Star says.

PP&E, which has 110 employees in the U.S. and 175 overseas, broaches the manufacturing issue during the ordering phase, verbally asking a customer if it is interested in "offshore pricing." If cost is the big issue, a PP&E sales manager recommends India, where lower costs on resins and labor can lead to savings of 25% to 40%, even after the cost of shipping. If a company is more concerned with speedy delivery, PP&E recommends Taiwan, where a tooling shop operates 24 hours a day, versus just 12 hours at the company's other locations.

Some customers are willing to pay more to produce in California so "they can see their baby being born up close," or manage unexpected developments, Ms. Harkness says.

PP&E customer Cannuflow Inc., a Silicon Valley start-up specializing in arthroscopy instruments, opted to have PP&E make a couple of its products at its plant in Soquel for three years. Recently, though, Cannuflow opted to save money on a new product by having PP&E make one of the parts in Taiwan. The device, which the company is in the process of hurrying to market, is called the Extravastat EntreVu, a fluid-drainage device that reduces swelling during shoulder surgeries. The pen-shaped tool has two main parts, both of which will require PP&E to

make elaborate molds that will shape the liquid plastic into a precise form.

The mold for the first part, a complex tube that manages the flow of fluids, will take between five and six weeks to produce at a cost of \$40,000. Cannuflow opted to have that made at the PP&E facility in California. The mold for the second part, a handle used to insert the tube, can be manufactured more quickly. Cannuflow decided to have it made at the PP&E plant in Taiwan, for \$9,000 less than it would have cost in the U.S., a savings of roughly 38%. The Taiwan-made mold will then be shipped back to the U.S., where it will be assembled with the U.S.-made part. The product will retail for \$45.

"The simpler stuff we did offshore; the stuff that needed more talented tool making, we did locally," says Ted Kucklick, chief technology officer at Cannuflow. "To have that kind of flexibility is very important . . . It gives you the ability to make the most capital-efficient decision."

Delphon Industries, a California-based manufacturer of devices used to transport hearing aids and semiconductors, began buying domestically produced trays from PP&E several years ago. Rising resin prices in recent years, however, led the company to opt to shift some production to the PP&E plant in Bangalore, India. "We needed something to drive our costs down further," says Jeanne Beacham, Delphon's chief executive. Ms. Beacham says savings from overseas production enabled the company to maintain its profit margins at a time when resin prices were rising.

Cannuflow's Mr. Kucklick says any stigma associated with overseas production has taken a back seat to potential savings. "Nobody looks for a 'Made in the USA' label anymore. With the customers we have, the sensitivity is to price," he says.