

'You don't read about the pitfalls (of offshoring), but if you're a poorly run company in the states, you're still a poorly run company in a low low-cost country.'

Steve Doman
chairman and CEO
Empire Electronics

Offshoring saves Troy supplier jobs

BY TODD DAVIS

oakland@mbizreview.com

"Offshoring" is not a dirty phrase for Steve Doman and Empire Electronics; instead, it's meant survival and success.

Expanding into Honduras in 1996 to cut manufacturing costs, the once-struggling Troy-based automotive electronics parts supplier has seen sales grow 360 percent since 2001, reaching a projected \$45 million this



Doman

year. Plus, it saved 50 or so jobs in Michigan and is adding space in both Central America and Oakland County.

There were risks associated with moving Empire's manufacturing operations outside the United States, said Doman, the company's chairman and CEO. The rewards, however, have outpaced the troubles.

"You don't read about the pitfalls (of offshoring)," said Doman. "But if you're a poorly run company in the states, you're still a poorly run company in a low-cost country."

Time was ticking in 1989, when Doman was hired to turn around Empire's business as its new president. He was given three months, or the owners would close the company, which was losing \$53,000 a month with annual sales of \$1.6 million.

First, he spun off a majority of the company's parts distribution business, and next the printed circuit board manufacturing operations. He kept the wiring harness portion of the business, still marginally profitable, and began to expand upon it.

Once the company was realigned toward manufacturing, Doman had to shore up the company's manufacturing efficiencies – possibly offshore – if Empire was to compete in the labor-intensive industry with other low-cost manufacturing countries.

Doman in 1995 began weighing the options of relocating the majority of the company's manufacturing operations offshore, despite the odds, he says, that half of such ventures end in failure.

He traveled to Mexico frequently to study his options, as did other automotive electronic parts suppliers looking to cut labor costs at the time. He also traveled to Asia and India.

The potential to cut labor costs by more than half meant that jobs would be lost in Michigan, Doman said.

"Even the most efficient manufacturing operations in the United States can't make up for the difference in labor costs," he said.

At the 11th hour, with his mind was set on Mexico, Doman boarded a plane to Honduras to see what the small Central American nation of 7 million people could do for Empire.

"I was never fully comfortable with Mexico," he said. "I always felt like I was being pushed."

All Doman knew about Honduras was that it was in Central America.

The country, about the size of Tennessee, registered among the highest poverty levels and unemployment rates in Central America. But Doman said governmental institutions were more accommodating and more supportive than corresponding agencies in Mexico.

He also discovered that the Caribbean Basin Initiative – similar to the North American Free Trade Agreement – allowed reductions or exemptions in tariffs among the 24 participating Central American and Caribbean island countries.

"I felt Mexico was too big a play for our organization. Honduras was just right," he said.

By mid-1996, Empire was operating in Honduras.

But it took more than finding the facilities and capable workers in a country still feeling the impact of nearly a decade of civil wars in neighboring Nicaragua and El Salvador, Doman said. The startup required the transfer of knowledge to the country and Doman "embracing the Honduran culture."

There are as many pitfalls in moving manufacturing offshore as there are in keeping them in the United States, said Michigan State

Empire and Central America

Empire Electronics

Headquarters: Troy.

Founded: 1981.

Revenue: \$36 million (2004).

Top executive: Steve Doman, chairman/CEO.

Facilities: Troy and San Pedro, Honduras.

Employees: 1,400 in Honduras; 52 in Troy.

Republic of Honduras

Location: Bordering Guatemala,

El Salvador, Nicaragua and Caribbean Sea

Population: 6.9 million.

Main industries: Agriculture, textiles, wood products.

GDP: \$18.79 billion.

Imports: \$3.3 billion.

Exports: \$1.46 billion.



Source: Empire Electronics

Source: CIA World Fact Book, 2005

University Economics Professor Charles Ballard.

"If you don't have management that's on top of the game, you're not going to redeem yourself by going to Honduras," Ballard said. "It's not going to be a panacea."

Cultural barriers, shipping costs, increased inventory demands can all offset labor cost benefits, he said. But, he said, it's an inevitable shift, similar to the transformation the United States experienced a century ago as it moved from an agrarian society to manufacturing.

"It's an ongoing process where the simpler things are being done in lower skill-level markets," Ballard said. "I think there's a lot of nostalgia that if we're not a manufacturing society, then what are we doing?"

The willingness of the United States as a whole to allow companies to outsource low-skill labor strengthens the nation's economy overall, said Alan Deardorff, professor of international economics and public policy at the University of Michigan, despite the current negative effects it's had on Michigan's labor market.

In European countries where industry and labor have been protected, the tradeoff has been slower growth for greater security, Deardorff said.

"In the long run, the country as a whole shifts toward higher-skilled, higher-paid employment," he said. "Our economy has done extraordinarily well at adjusting, and by and large, is still prospering."

In Troy, Empire is adding engineers, marketing and program managers to administration and quality control. It employs 52 people and expects to double the size of its 40,000-square-foot distribution center adjacent to its headquarters.

Within two years, it also will add 80,000 square feet to its existing 200,000-square-foot manufacturing facility in San Pedro, Honduras, and increase its workforce in the country to 1,800.

"Ninety-eight percent of the business we win today was not going to be sourced in the U.S.," Doman said. "It has really forced companies to become lean, to take a hard look at themselves."

And Doman has started traveling to China and Vietnam to tap ways to better serve the growing Asian markets.

"Believe me, the Hondurans know all about China," Doman said. "We all realize the competitive pressures on a global basis."

■ Todd Davis is a freelance writer.