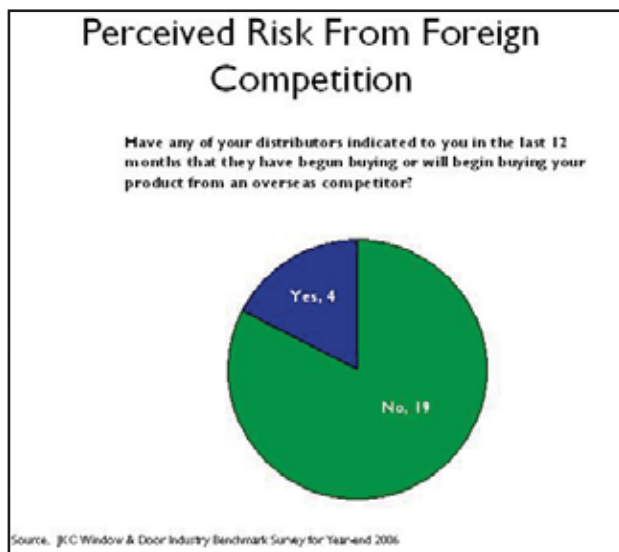




Focus on China

What U.S. Companies Can Do to Compete with Chinese Door and Window Companies

Did you know that imports of doors and windows from China can be 30 to 50 percent cheaper than equivalent U.S. products, and in some cases the final price is lower than the cost of the materials alone in the United States? Competition from China in this industry is here but as DWM columnist Mike Collins of Jordan, Knauff and Co., points out, the majority of door and window manufacturers don't perceive foreign competition as a significant risk and thus aren't taking steps to protect themselves (see chart below).



But some in the industry are paying attention. This was evident from the fact that numerous industry representatives filled every seat at a presentation given by Collins addressing this subject, held during a recent trade show.

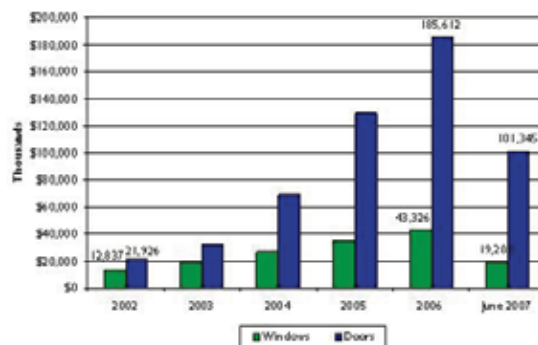
Imports on the Rise

"Imports are growing despite the fact that companies aren't preparing for this type of competition," Collins told attendees (see charts to the right).

Door manufacturers particularly should take notice, he says, noting that doors soared ahead of windows in terms of imports in recent years.

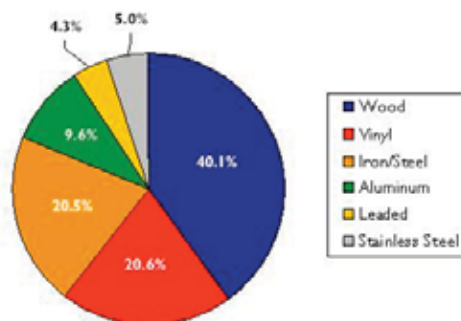
"These are much easier to ship and the majority of the door market can be addressed with a few standard

U.S. Window & Door Imports from Chinese Companies



Data Source: U.S. Census Bureau, Foreign Trade Division

Chinese Imports by Material



Data Source: U.S. Census Bureau, Foreign Trade Division (Through 6/30/2007)

sizes," he says. However, the products are not always assembled correctly.

He told the story of one door distributor in the United States that ordered a load of doors from China.

"When this company saw the sample they said, 'The door was so beautiful it could have been in a museum.' But when they received the shipment the door skins were on upside down," says Collins. "The Chinese company denied it and wouldn't replace the two loads. It was a small company so this was a very

significant hit for them.”

He also pointed out that patio door kits are another category of products being imported into the United States at significant discounts.

Chinese Strengths and Weaknesses

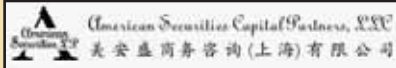
Some may not be worried about competition from China because they believe the products they provide are of lesser quality, but Collins warns this is not the case.

“The quality is there in China (despite the example above),” he says, while adding that the country graduates 350,000 engineers per year.

Competition is present at all levels. For example, what if you plan to stick to a policy of buying your major components from U.S. sources?

Collins says that private equity funds are opening offices in China .

Private Equity Groups and China



Many private equity funds are opening offices in China

- American Securities Capital Partners, Hammond Kennedy Whitney and The Anderson Group are among the most recent

Reasons for this trend

- Exporting goods to sell in China
- Sourcing component for U.S. companies they own
- Spotting sources of savings during acquisition searches

“This is significant because if they buy a company, the first thing they think of is what can be outsourced,” he says. “So they can outsource the components in China for less cost forcing other companies to follow suit.”

Other advantages held by Chinese companies are: lower business costs, favorable exchange rate and an abundance of plant capacity available. Additionally, the rate of research and development spending there is increasing 20 percent annually as opposed to a 4-percent increase in the United States, according to Collins.

While China has many advantages, it also has disadvantages, which include a lack of solid understanding of the U.S. marketplace and U.S. testing requirements and codes, as well as of value-added services such as installation and how to communicate effectively with U.S. businesses.

U.S. Advantages

But, while U.S. door and window manufacturers do need to be prepared for overseas competition, there are advantages here, too. These include implementation of lean manufacturing principles that allow U.S. customers to deliver solutions to problems faster than overseas competitors. This also includes a shorter supply chain and unparalleled research capabilities.

According to Collins, to compete effectively, U.S. companies have to take steps such as focusing on the strength of their brand, focusing on innovation and ensuring a motivated workforce as well as other steps aimed at achieving manufacturing excellence (*see below*), such as maintaining short lead times.

To Manufacture Excellence

- **Embrace lean manufacturing**
 - More cost competitive
 - Reduce complexity in products
 - Shorter lead times
 - Eliminate labor wherever possible
- **Eliminate inter-departmental conflicts**
- **Focus on short runs and fast delivery**
- **Decrease setup and change-over times**

“Short runs can’t be matched overseas. The shorter the lead time, the better you [U.S. manufacturers] are able to compete,” Collins said.

Collins also addressed the topic of U.S. manufacturers using overseas suppliers and the challenges of these relationships. These include: communication issues, logistics complexity, a longer supply chain and shipping issues.

“For some manufacturers, savings can be wiped out by the occasional rush air shipment, which is 25 times more costly than shipping by sea,” he says.

The bottom line is that there is competition, both here and abroad, and the most innovative and forward-thinking companies who focus on the customer are the ones who will survive in spite of this competition.

For a copy of Collins’ presentation e-mail him at mcollins@jordanknauff.com