

Cautionary Tale XXXIV Global Challenges

The global market place is not a level playing field. There are significant factors that distort markets. We all understand and accept that labour rates are vastly different across the spring manufacturing countries of the world. So will all spring manufacturing become concentrated in low labour cost countries? The answer to this question must give cause for concern unless you are in China, India, Eastern Europe or parts of the Far East where costs are low and growth can exceed 20% per annum. Whereas the spring trade is very buoyant in these parts of the world, it is not yet impossibly bad in USA, Europe and Japan, but will it continue? Are springmaking jobs safe?

I recently gave a talk to the UK Fasteners Industry about hydrogen embrittlement, a topic I may well re-visit one day in this column. However, one of the other speakers at the seminar described the way the fastener industry in the UK had been decimated with 84% of all fasteners being imported today. Contrast this with the spring industry, not dissimilar in make-up to the fastener industry, and you find that less than 16% of the UK requirement for springs is still manufactured in the UK. So why this massive difference?

First, it has to be stated that the UK market place has as level a playing field as anywhere in the world, and it is a moderately high wage economy with a very strong currency. There are no industrial or energy subsidies, no import / export tariffs with Europe and low tariffs with the rest of the world, so why has the fastener industry been lost to market forces but not the springmaking?

The answer, IST believes, lies with the fact that the overwhelming majority of fasteners can be bought from stock. So the Taiwanese fastener industry makes a magnificent range of stock fasteners, and has captured the world market by piling them high and selling them cheap. Springs from stock, on the other hand, are seldom exactly right - almost all springs have to be specifically made to the end users precise requirements, and it is this simple fact that has preserved the UK spring industry, and doubtless, the spring industries of USA, Japan and Europe. When you are making something precise to your customer's requirements, the buyer won't be able to find an equivalent (cheaper) stock item. The buyer might receive a cheaper offer from your competitor up the road, and this keeps all springmakers competitive.

However, if the end user moves his manufacturing to a low cost country, the springs will be locally sourced - is there a defence to this?

Probably not, unless your company investigates the possibilities of strategic partnerships, joint ventures, mergers, setting up new factories in the country to which your customer(s) have decamped. All these strategies could preserve your market and put you in line to take advantage of the growth in the country to which your customer has moved.

IST is a very small company offering global services, such as fatigue testing, failure analysis, information about spring materials and performance, and CAD programs. We are in the process of adopting the business strategy described here by appointing Zhou Wei to be our agent in China, Derek Saynor to be our agent in the USA for services not already covered by NIMSCO, and Amit Banerjee to be our newest employee in India. Global coverage for a small company who have to retain good awareness of world trends.

Maybe your company also needs a strategic partner in China, India, Latvia, Malaysia or wherever. The point of this cautionary tale is that the spring market has become global, and you need a strategy to flourish in it.

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