

KALSUN INC: SOURCING IN ASIA

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In the aftermath of COVID-19, sourcing strategy was very much on Karen Young's mind. Karen was Purchasing Manager for Kalsun Inc., a producer and retailer of home office accessories. The company had grown rapidly over the last fifteen years but a variety of factors had changed the business landscape. Foremost among these were the shift to working at home, competitive pressure that was depressing margins, and US-China trade tensions that could impact price and supply. The pandemic only heightened Karen's concerns. Even more people working from home meant demand and growth potential, but facility closings highlighted the vulnerabilities in global supply. Overseas sourcing had been on Karen's mind for a while, but working from home during the lockdown had given her time and perspective to think about the future.

The Laptop Stand

One of Kalsun's best-selling items was an adjustable laptop stand. Placed on a table or desk, it let a user stand and work. It could also be used to prop up a laptop when the user was sitting or lying down. Sales had quadrupled in recent years as experts promoted the benefits of standing at work. COVID had taken things to an entirely new level. With more people working from home and experts touting the importance of well-being while on the job, demand had taken off. Karen could not get enough stands from her Chinese supplier. She knew this was a temporary result of the pandemic's impact on demand and supply, but could see working from home being part of the 'new normal'. People had become used to it as never before and with the technologies for remote work. They also did not miss having to commute. Karen saw opportunity and was eager to take advantage.

The Chinese Supplier

For several years Kalsun had sourced the stand from GD Enterprises (GDE). Based in the Chinese manufacturing hub of Guangzhou, GDE had been in business for more than twenty years and had a large portfolio of international clients. Prior to the pandemic, they produced a quality product at a delivered price of \$30/unit. Karen's team had a good relationship with GDE management, and visits to the GDE facility were positive. The workforce was well trained, the factory floor was organized and clean, and people seemed to enjoy working there. GDE sourced all parts locally and had an extensive supply network within two hours of the plant.

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Similar to many producers in the area, GDE's costs were rising. Increases in labor, real estate, and energy costs meant the price of the stand had increased by an average of 10% per year over the last two years, and Karen anticipated similar if not larger future increases. She was also concerned about the changing trade climate between the U.S. and China. Karen was nervous that this could result in further price increases due to tariffs and longer, more variable lead times to clear customs in the U.S. This could add as much as three weeks to the current nine-week lead time and increase inventory costs. Karen anticipated that tariffs and customs delays could add a further 25% to the delivered cost.

Another consideration was that GDE was starting to move away from products such as the laptop stand and towards more technologically sophisticated ones. Conversations with GDE management led Karen to believe that GDE was looking to establish its own brand rather than just be a supplier.

The Vietnamese Option

Karen knew that companies were establishing sourcing options in Vietnam as an alternative to China. One supplier in particular, Hanoi Trading (HT), caught Karen's attention. HT was started five years earlier by two Vietnamese graduate students after they completed their MBAs in the U.S. While relatively new, the company was eager to establish itself and had built a small core of clients. HT came recommended by a former Kalsun employee who was a regular visitor to Vietnam and had done business with HT.

Given travel restrictions, Karen did not anticipate visiting HT in the near future. Instead, she relied on video conferences with HT's founders with her former employee serving as an advisor. During these calls, Karen was also able to observe the factory floor and working conditions. While not as modern as the GDE facility, it lined up with what the advisor had told her as well as research she had done on Vietnam. The facility had quality and reliability problems in the early days, but Karen was assured that these had been addressed.

Conversations with HT went well and a good rapport was established. It was clear that HT was motivated to build a relationship with Kalsun. A delivered price of \$25/unit was quoted with a maximum increase of 6%/year for the first two years. Lead time was anticipated to be nine weeks. Friendly relations between the U.S. and Vietnam meant tariffs, customs, and similar issues were not expected to be of concern. Indeed, China's posturing in southeast Asia motivated the Vietnamese government to strengthen trade ties with the U.S. HT did not have experience with a product like the stand so some effort and investment would be needed to ensure they met Kalsun's expectations. Karen anticipated this would amount to no more than



\$25,000 assuming no problems arose. She was concerned that HT would need to identify suppliers for some parts, but HT leadership suggested this would not be an issue.

A Third Way

A member of Karen's team suggested they also consider Tan Holdings Penang (THP), a Malaysian company they had worked with at a previous employer. THP was located in an industrial park outside the port city of Penang. An established company, they had a long history of exporting quality products to the U.S. Karen's colleague spoke highly of THP management's leadership style, communication skills, and responsiveness to overseas clients. The THP facility was modern and the workforce well-trained. To compete against lower cost locations in southeast Asia, THP had invested heavily in continuous improvement. They used lean manufacturing principles and shared these with key suppliers.

Several Zoom calls with THP leadership led to a delivered price of \$32/unit being offered. However, given their commitment to continuous improvement, THP pledged to hold the price constant for two years if volume guarantees were given. Karen did not consider this to be an issue. Lead time was anticipated to be 10 weeks. Karen understood Malaysia to be politically stable, and trade relations with the U.S. had generally been positive.

Motivated to Act

While it would be easy to wait until the pandemic had passed, Karen believed in seizing opportunity and positioning for what lay ahead. At the forefront of any decision was the need for a reliable supply of a quality product at the right price. Karen also recognized that the realities of sourcing in Asia, particularly given present conditions, could not be overlooked. She was relying heavily on the judgment of people she trusted, and while she knew how important relationships were when doing business in Asia, it was still a little unsettling. Karen wanted to take advantage of what she saw as a significant growth opportunity but knew that getting things wrong would have consequences.

