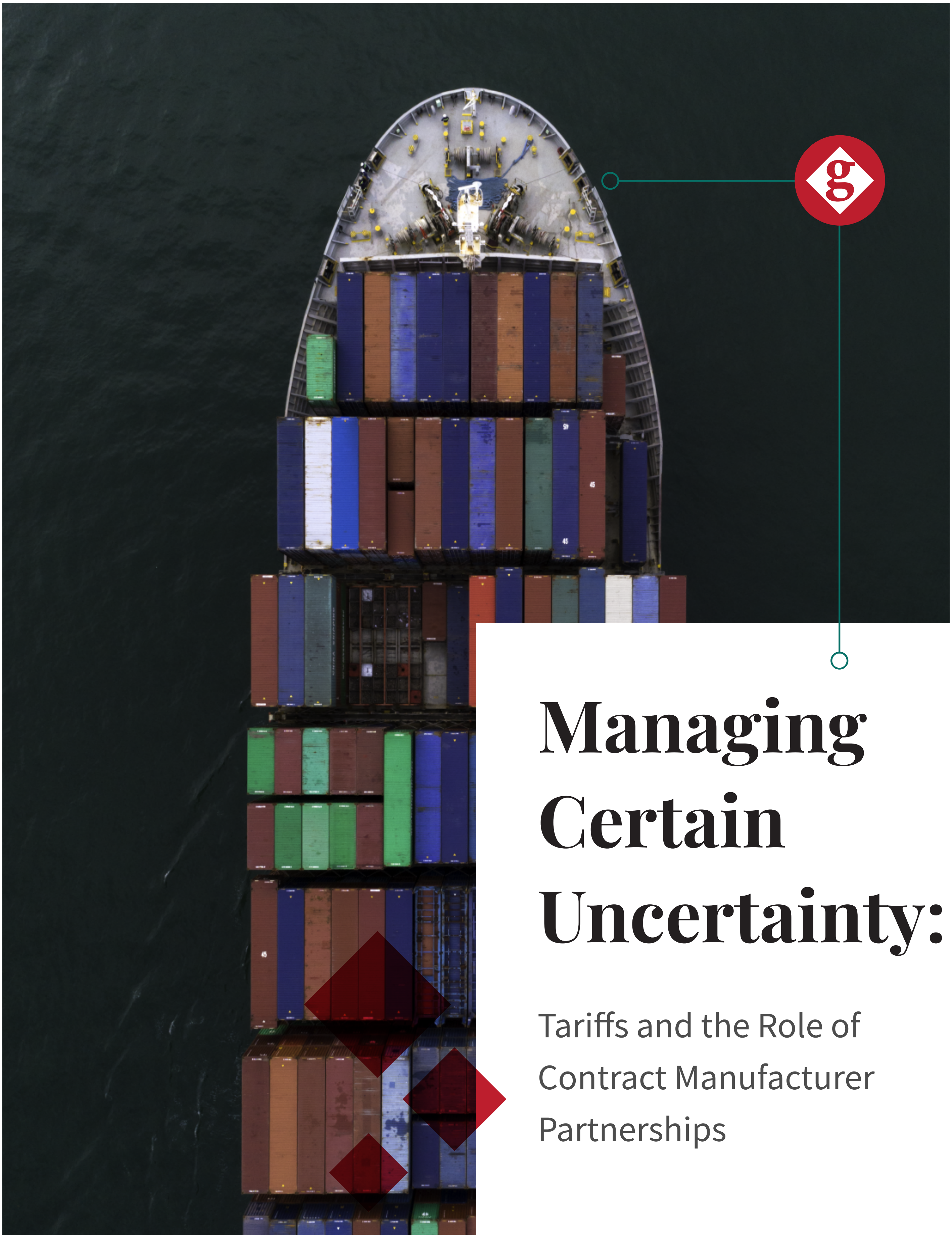

Managing Certain Uncertainty:

Tariffs and the Role of Contract Manufacturer Partnerships

Tariffs have long been a part of international commerce, and companies generally accept them as part of the cost of doing business in the global arena.

The recent escalation of tariffs between the world's largest trading partners — the United States and China — calls the future of about $660 billion in annual imports and exports between the two countries[1] into question, and introduces Mexico into the mix as a possible manufacturing alternative.

The tariffs situation understandably has OEMs on edge. Strategic planning and uncertainty of this magnitude cannot comfortably coincide in any business space, especially manufacturing. What to do?

Playing the Percentages

Unpredictability can't equate to inaction on the part of OEMs. Taking the traditional stance of passively accepting tariffs no longer works in the current climate of fear, uncertainty, and doubt — and key decision makers are feeling compelled to make moves. About 60% report the tariff talk has them "reassessing their business strategies" and recalibrating how they interact with China[2]:

- 10% intend to close down manufacturing operations.[2]
- 20% intend to modify production to accommodate operations outside of China.[2]
- 25% intend to redirect investments from China to other parts of the globe.[2]
- 42% intend to source raw materials from different regions.[2]
- 50% intend to seek new sourcing partners.[2]

These measures generally address severing over-reliance on outsourcing to China to avoid the expense of added tariffs, but they may result in short-term gain without a true long-term solution. For example, medical technology company Becton Dickinson moved the production of its medical devices from China to Mexico after tariffs were imposed on Chinese imports. Within weeks thereafter, the United States threatened to substantially increase tariffs on Mexican goods — putting Becton Dickinson in nearly the same unfavorable position it tried to avoid.[3]

Instead of trying to predict the next "right move" to stay ahead of tariffs, OEMs need to find ways to remain nimble. A pivotal strategy is partnering with a contract manufacturer with proven abilities to act fast, remain flexible, and mitigate risk without compromising final product design, engineering, quality, or time to market.

Contact Manufacturers: A Crucial Comparison

As an OEM, being able to carry on “business as usual” is ideal, and your current suppliers may provide the support you need to absorb the impact of turbulent tariffs. However, verifying you’re making the right contract manufacturing partnership decision is prudent.

Compare what your current suppliers provide to the advantages GMI Solutions offers:

Dual facilities/dual sourcing: The GMI facilities in Mequon, Wisconsin, and Shanghai, China, are identical in capabilities, processes, and methodologies. This mirroring:

- Allows for the seamless production and certification of goods for global markets to occur either within the United States or overseas.
- Provides opportunities to choose production locations and logistics that make the most sense from a tariffs standpoint.
- Guarantees uninterrupted production without having to transfer products, processes, and materials from one facility to the other, when large runs need to get to market quickly or if a catastrophic event/natural disaster incapacitates one of the GMI facilities.

Single-supplier management mitigates the risk of unanticipated service interruptions caused by a lack of supplies or another production delay, incomplete or inaccurate product validation, or the use of suppliers that are not properly vetted.

Non-vertical integration provides seamless integration of the OEM’s supply chain into the process instead of a complicated and often time-consuming transfer to exclusive GMI-approved suppliers. Deep knowledge of import/export nuances including international codes, SKU management, and the legalities surrounding which components and services could be used to avoid the imposition of high tariffs.

China Compulsory Certification (CCC) is a mandatory certification system in China that ensures products concerning health, hygiene, security, environment, and anti-fraud are safely made. Only after CCC is obtained can products that fall within these categories be imported into China and sold in the Chinese market.

Multiple currencies handling removes the complexity of conversion so transactions from any country are timely and accurate.

The questions surrounding the use of tariffs are far from answered. It puts OEMs in a precarious position unless they form solid partnerships with contract manufacturers that can identify, assess, and fill the gaps — like GMI Solutions.

Contact us today to learn more about how our proven flexibility, responsiveness, and experience can help you remain productive and profitable regardless of how the future unfolds.

SOURCES

[1] Office of the United States Trade Representative, The People's Republic of China (webpage)

[2] Fox Business, Trump tariffs encourage US companies to shift plans away from China, June 10, 2019

[3] Mass Device, Analyst: Mexico tariffs could hit some medical device makers hard, June 3, 2019

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