

It's a small-biz world

by Bruce V. Bigelow

Outsourcing work to China isn't just for big companies anymore.

Kevin Heath, who owns Electra Motorsports in Santee, Calif., set up a machine shop in Shenzhen, China, early last year to manufacture the electric go-karts and related equipment he sells to amusement parks around the world.

Heath, who says he had about a dozen employees a few years ago, now employs 20 people in Shenzhen - and he has cut his operating costs in half.

SMALL-BIZ WORLD - Electra Motorsports owner Kevin Heath, left, and manager Jeff Van Stone inspect their go-karts at their Santee, Calif., shop. The vehicles are built at the shop Heath opened in China. CNS Photo by John Gastaldo.

"My dream was to have this great American workshop," said Heath, a South African who moved to San Diego in 1986. "But by the time workers' comp and everything else is done with me, we could have a \$3 million or \$4 million business and still end up with nothing."

He estimates that the overall cost to employ a machinist to build his go-karts has dropped from \$50 to \$60 an hour to \$5 to \$6 an hour.

"It doesn't mean that China is free," said Heath, 48.

While his manufacturing costs are far lower, Heath said his shipping costs are far higher and obtaining the factory, business licenses, export permits and other approvals "was a very complicated and tedious job."

Heath's move to Shenzhen is unusual, said Scott Wang, director of the Asia Desk at the San Diego World Trade Center.

"China today still is not an easy place to do business," Wang said. "If you want to have a direct presence, you have to make sure that you have the right people. It's a different government, different everything, and you simply cannot apply U.S. business practices in China."

It is far more common for American companies to contract for manufacturing services with a company based in Hong Kong that also has operations in China, said Ed Mayers of San Diego, who has designed factory layouts throughout Asia.

"The only way I would do this would be to partner with people that we know and trust," Mayers said.

Statistics about American companies that have outsourced manufacturing operations in China are hard to come by.

The U.S. Department of Commerce does not keep track of such data. Neither does the American Chamber of Commerce-China.

"In general, there has been a surge in the number of small and medium enterprises setting up (as opposed to moving) operations in China," said Jim Zimmerman, a U.S. lawyer in Beijing who is the chamber's chairman.

The primary intent for most, though, is to tap the China market, Zimmerman said. Reducing operating costs usually is secondary.

Bay Area venture capital firms, in particular, have been pushing the startup companies they fund to develop a global plan for their businesses, said Sean Randolph, chief executive of the Bay Area Economic Forum.

"More and more VCs are telling their small companies to have a global strategy now," Randolph said. "They are saying, 'We want to see now how you're going to reduce costs and increase your efficiencies.'"

Moving production to China has been confined mostly to multinational corporations since the 1970s because they had the expertise needed to understand foreign laws, customs and trade rules, Randolph said.

"That has historically ruled out small companies because they typically don't have the sort of resources to keep up with changes in governments, laws, intellectual property and piracy," Randolph said. "That has changed in recent years, although there still is a level of risk in China that remains a barrier for most small companies."

Since China joined the World Trade Organization in 2001, Randolph said, it has become "a relatively more transparent environment" and there are more lawyers and other professionals to support American companies there.

Heath said he has financed his move on his own, although he has begun to search for an outside investor because he sees new opportunities to expand his business.

The machine shop he established in Shenzhen is about 10,000 square feet, which is roughly the same space he occupies in a Santee business park. Heath plans to nearly triple his capacity in China by taking an additional 18,000 square feet next door, and offer his low-cost manufacturing services to other small businesses.

In addition to making the low-slung go-karts for Electra Motorsports, Heath's Chinese shop last year began making foam surfboard blanks for a San Diego surfboard maker and conveyor belt equipment for a specialized construction-equipment company.

"We chose to go with Kevin principally because he's very quality-minded," said Alan Swift, a San Diego construction equipment manufacturer.

Surfboard maker Eddie Van Zyl said he didn't want his company identified, because some individuals have angrily confronted him about outsourcing jobs once held by Americans.

"People are just really weird about it," Van Zyl said. "And at this stage it's just so critical to get any customer I can."

When Heath arrived in San Diego, he was primarily interested in racing motorcycles in the Baja 1,000 and other off-road competitions. In 1979, he was the youngest rider to win the South African Formula Vee National and Regional Road Racing Championships.

Heath has continued to race. For the past three years, he has entered the Dakar Rally, a grueling, 5,400-mile endurance race through the Western Sahara. In the 2007 race from Lisbon, Portugal to Dakar, Senegal, Heath rode with Las Vegas software entrepreneur Ronn Bailey in a yellow Chevy LS7 buggy, which failed to finish the race.

In 1996, after working mostly as a photographer, Heath founded the company now known as Electra Motorsports, which he modeled on go-karts designed to run on indoor courses in Europe. He saw advantages in developing battery-powered electric go-karts instead of the gasoline-powered models that chug along outdoor tracks in the United States.

He opened a track called Speedworld Indoor Racing in Santee in 1997, selling it two years later because he preferred the manufacturing business.

Sales last year amounted to \$1.2 million, Heath said. His best year was in 2002, when sales reached \$1.8 million.

The go-karts Heath makes run on a powerful 48-volt direct-current motor. There is no clutch, so the electric go-karts accelerate far more rapidly than gasoline-powered models, Heath said. Because electric go-karts emit no fumes, they often are purchased for use on indoor tracks in cold climates on the East Coast, he said.

A single kart costs \$5,000, and typical orders for karts, barriers and other equipment amount to \$200,000, he said.

Heath estimates it could take him five years to realize the potential of his move to Shenzhen.

"The goal isn't to be the biggest company in China," Heath said. "I don't know what the goal is, but it's got to be manageable."

It's a small-biz world by Bruce V. Bigelow