SFU BUS 478
Section D400

Case Synopsis

RELIANCE FOUNDRY
CO. LTD.

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History and About the Company

Reliance Foundry started as a ferrous metal foundry, however, changing local economic conditions and strong international competition drove Reliance Foundry to permanently close down its domestic operations in 2003. Initially producing many types of castings, from decorative plates to cast wheels, they transitioned into mainly producing wheels and bollards. Bollards are decorative posts which can stand alone or be put over an existing post. Reliance Foundry specializes in metal bollards, but bollards can be made out of many different materials. After shutting down their local operations, they found new suppliers in China, and currently all their products are produced in China. By making this change they were able to regain profitability. For several years they managed to maintain this profitability but saw small growth until they launched a large online campaign. This involved search engine keyword optimization and a detailed online website. Over the next few years they saw unexpectedly high growth rates between 20% to 50%.[2] Their immense selection of styles with prices immediately shown online gave them an advantage over their competitors, which required contacting them directly for pricing options.

Table 1: Historical Timeline[1]

1925	• Reliance Foundry is established in Vancouver, British Columbia, Canada. • When the company first opened it relied on Municipal work to survive, making such things as lamp standards, some of which are still intact in Gastown, Vancouver.
1927	• Fred Done signed on to build a half ton furnace for Reliance Foundry.
1934	• Contracted to provide cast iron chain links for the original Second Narrows Bridge
1935	• Reliance Foundry begins to cast steel (originally casting cast iron)
1936	• Fred Done buys out two of the owner's interest, two man partnership with Mike Englebean starts
1939	• Casting 10 tons per day and working 48 hours a week, Reliance Foundry cast parts for gun emplacements and provides plates for bows and sterns of the Canadian-built Liberty Ships.
1943	• Fred Done buys out Mike Engelbean to become sole owner of Reliance Foundry
1950	• First foundry to cast Manganese Steel in Vancouver
1950	• Over 80% of foundry production devoted to Mining industry
1955	• Brian and Barry Done, Fred's sons begin to work at the company
1963	• Brian and Barry officially take over the foundry

1966	• Original 1927 Reliance Foundry site in Vancouver, B.C. burns down in a fire; foundry is relocated to a new facility located in Surrey, B.C.
1997	• Initial outsourcing of casting production begins.
2003	• Final castings production takes place. Castings production in the Surrey foundry is permanently halted, and all production is moved to facilities in Asia.
2005	• Reliance Foundry moves to new warehouse and distribution facilities in Surrey, B.C.

Today Reliance Foundry mainly supplies bollards, the majority of which are metal but recently plastic post covers were added to their product line up, which accounts for approximately 90% of their business.[2] Custom castings and cast wheels account for the remaining percentage of their business, but they eventually plan to transition out of wheel castings altogether.[2] Reliance outsources all of their production to China, however they design all of their products in house, which gives them full control over product designs and image.[2] With a strong relationship with the Chinese factories they are able to control quality and all production steps, however the Chinese factory is unable to do the final finishing at an acceptable level of quality.[2] This last step gets finished in Canada by either Reliance themselves or sent to a local finishing and coating company in Abbotsford.[2] All products are stored and shipped out of their warehouse in Surrey.[2] A majority of their customers are located in the United States, representing 75% of their business, while 20% is domestic Canadian customers and the remaining 5% are overseas customers.[2]

About the Industry

The market for decorative bollards is a relatively small portion of the site furnishing industry, while brightly coloured plastic bollards tend to be a part of the warehouse/industrial supplies industry. The majority of full site furnishing suppliers offer bollards, but typically bollards do not represent the bulk of their business. Rather, these companies supply a large range of complementary products such as benches, tables, and garbage bins. Similarly, warehouse supply companies offer post covers as a portion of their warehouse safety products but post covers do not account for a large part of their business. Bollards come in various shapes and forms, and can be made out of many different materials that include plastic, concrete, fibreglass and different metals. Bollards can also include other features such as arms to act as bike racks or lights to illuminate the area. Most of these products are targeted towards municipalities for public space furnishing, as well as businesses that wish to decorate their front structural boardwalks.

Due to a surge in security concerns in the United States from threats of terrorism, the demand for bollards and attractive covers went up in the past decade. This was due to an increase in security posts being installed around buildings, which are functional but not aesthetically pleasing, so companies looked for ways to cover up the posts and make them more attractive to fit their business. This increase in installing security posts explains why much of Reliance's demand comes from the United States.

To China!

As a result of increasing pressures from overseas manufactures and inability to increase employee productivity to remain competitive, Reliance began to investigate outsourcing to overseas foundries.

The back story: The path not taken

Initially the company wanted to build a hybrid manufacturing structure that utilized both domestic production and outsourcing.[2] The goal was to use cheaper Asian foundries for larger production lines and bulk orders, while retaining a streamlined smaller domestic foundry (which was one of only three remaining in BC at the time) for custom orders and small production runs that required specific compositions.[2] This would allow the company to both exploit cheaper overseas production capacity and maintain full control over quality and production process and offer the lower lead times required for producing custom requests such as proprietary wheels or casting.[2]

What Happened: The path taken

During this time Reliance continually tried to negotiate with the local steelworkers union to ensure the local foundry could operate profitably, however the union offered considerable resistance to any changes.[2] Prior to the final decision to shut down the local foundry Reliance spent time traveling to China to investigate firsthand the potential to outsource capacity to Chinese foundries.[2] It was quickly discovered that outsourcing could meet not only meet the needs Reliance required, but also offer a level quality that could in some cases exceed what could be done locally.[2] Based on this, Reliance formally decided to shut down their local foundry in 2003.[2]

As a result of this outsourcing strategy Reliance shifted to a new business model that focused purely on the design, marketing and distribution of bollards and other steel based product lines. Key Highlights of the new model include:

- Focus on the design and marketing of products
- Production no longer done locally but fully outsourced
- Develop and monitor process to ensure ISO and quality standards met by suppliers
- Build a very close relationship/partnership with outsourced foundry
- Ship items to local warehouse(s) for distribution out to customers.

Creating Success

Reliance was able to launch a very successful marketing campaign by focusing on their online presence. For a few years preceding 2010, Reliance's net earnings showed no sign of growth until their efforts to gain online exposure in 2010 resulted in unprecedented growth in revenues. Reliance's revenues grew by 50% in 2010, followed by 20% growth in 2011, and another 20% in 2012. Their search engine optimization has helped their business significantly and they continue to focus their efforts on optimizing in this area.[2] Learning to use this search engine optimization also helped them identify new products their customers wanted, as they noticed that a lot of searchers that went to Reliance Foundry's website through the key words "post covers" were exiting the website quickly. It was realized that these customers were looking for plastic post covers, which Reliance did not stock. After identifying this, Reliance found a manufacturer of plastic post covers and now offers these through their website.

Another key element in their success is attributed to their focus on outsourcing their operations effectively. Currently, Reliance only handles the final assembly of their bollards. Manufacturing, coating and finishing of their products are all outsourced to other companies, which can meet Reliance's quality standards but at a price that keeps Reliance competitive. Reliance has come to adapt this business model based on years of experience in the industry and solid business relationships developed over time.[2] However, Reliance was careful not to outsource everything and kept what they felt were the important part of their business in house, such as research and development, so they can continually develop new products and have the capability to work with customers to design the right product for their needs when a custom product is required.

Where They Are Now

Reliance has tried to expand into other metal cast products, such as bike racks, but there were already many producers in the industry. This resulted in fierce price competition resulting in thin margins, which required high volumes for decent profits. In the end Reliance left the market to look for other products with higher margins.[2] This lead them to bike lockers, made out of fabricated steel, of which they have two types available for sale, and are working on new prototypes.

Reliance is also transitioning out of the casted wheels product line, as it is naturally declining and they do not wish to attempt to revive it. Casted wheels have a large potential liability, because if a product malfunctions the potential for injury or equipment damage is very high. Bollards, on the other hand, are much lower liability, since the types Reliance offers are for aesthetic purposes and are not intended to withstand large impact forces.

Reliance Foundry does no advertising other than through search engines keywords.[2] The majority of new customers are generated through web searches, and a lot of orders are made online, but many customers still prefer to order over the phone. About 70% of calls from customers are asking for information either not available on the website or that they had difficulty finding.[3] Reliance is constantly thinking of ways to improve their website in order to make it more user-friendly and reduce the amount of non-sales related calls. A large part of their online success is attributed not only to their key word optimization but to the fact that pricing information is easily found online, while most companies require the customer to request a quote to get information, which takes additional time.

Reliance has been very successful by focusing on bollards since they have history as a foundry and has knowledge on the best materials and processes to create a quality product. If a custom solution is needed they have the expertise above the competition to help the customer meet their specifications at the lowest cost.[2]

Looking Forward

Although mostly focused on bollards, Reliance is constantly looking for expansion to their product lines. Currently, they have designed and developed steel bike storage lockers as a prototype and are conducting research to evaluate the feasibility of production and marketing this product.[2] Reliance is also uncertain whether they want to expand more into the site furnishings industry, to compete more directly with competitors that offer full outdoor site solutions, or whether they should keep expanding their bollard line.

Outsourcing to China has not been without its complications, as they recently found out that their stainless steel bollards were rusting, which was due to using a new manufacturer.[3] They had to halt production and hire a specialist to determine what was wrong in the process that was causing these stainless steel items to rust, as previously there had been no problems. So continual quality testing is important for Reliance going into the future as they have less control over monitoring the production process.

Reliance is also entertaining the idea of purchasing part of their main supplier in China in order to manage their costs more effectively and to have more direct control over the quality of their products. As well, this option would allow Reliance to manufacture other product lines once the North American market is evaluated for those lines.[2] In addition, purchasing the manufacturer would allow for the possibility of shipping to customers directly from the manufacturer so they could decrease the size of the Surrey warehouse. Previous negotiations to acquire ownership of a manufacturer had broken down, first due to the inability to agree with the Chinese manufacturer over each party's control over operations, as the Chinese manufacturer wanted to have complete control over all current product lines and create a joint venture with Reliance to produce new product lines, while Reliance wanted to have some control over all product lines. Secondly, the owner of the Chinese manufacturer unexpectedly passed away. Now, new negotiations have started with the new owner.[2]

Similarly, Reliance is entertaining the idea of establishing another warehouse in the United States as the bulk of their business is currently transacted in that country. This expansion could help in reducing lead times and lowering shipping costs that are currently bear by their customers. Currently Reliance builds in customs costs into their pricing for customers across the border, so moving to a warehouse in the United States would cut these costs and allow Reliance to charge a lower price. However, a secondary distribution center could be costly to set up and operate. As well as managing this center could require significant resources as this location will more than likely become their main distribution center due to the high percentage of customers present in the United States.[2]

References

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