

CHESAPEAKE BAY CANDLE®

Testimony Of:

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**U.S. House Small Business Committee
Subcommittee on Economic Growth, Tax and Capital Access**

Hearing:

**“Made in the U.S.A.: Small Businesses and
a New Domestic Manufacturing Renaissance”**

Thursday, March 13, 2014 at 1:00 PM
2360 Rayburn House Office Building

Thank you for inviting me Chairman Rice, Congresswoman Chu, and distinguished members:

Pacific Trade International (PTI) is one of the leading home fragrance suppliers in the U.S., with 130 employees and nearly \$60M in sales. Marketed under the Chesapeake Bay Candle, BlissLiving Home and Alassis brands, PTI fragranced candles, diffusers and accessories are sold in major U.S. retailers such as Target, Kohl's, TJ Maxx, Marshall's and Home Goods.

Since 1994, PTI's products were produced and sourced from factories in China and Vietnam. PTI held an ownership stake in these factories and could depend on a reliable, high-quality supply chain. Beginning in 2008, we saw a rapid increase in the costs of labor, freight and materials in Asia, and also an increased demand for faster replenishment cycles from our U.S. customers due to the financial crisis and the need for lean inventory. The pressures on cost and inventory led PTI to become one the earliest proponents of "in-sourcing". The following reasons pushed us to make the U.S. our final destination for manufacturing operations, rather than considering traditionally less expensive countries such as Mexico and Poland:

1) Speed to Market

Our U.S. factory can deliver replenishment orders with one week, vs. 4 to 5 weeks from Asia. This makes our factory attractive for retailers particularly on seasonally sensitive products.

2) Cost of Shipping and Logistics

Avoiding transnational shipping and relying only on domestic shipping cut unpredictable cost variations due to oil price fluctuations and the constant demand-supply changes that impact ocean line prices.

3) Productions costs

Automated equipment used in the U.S. makes per unit production costs close to that of labor costs in Asia and delivers consistent, higher quality.

For these reasons, we decided to settle in Maryland where the brand was initially launched and where we are headquartered.

We found a number of unoccupied warehouses along the I-695 corridor near Baltimore. The number was staggering. 1 out of every 4 blue-collar workers was unemployed. We decided to build our factory there, taking advantage of the abundant warehouse space. We also wanted to give back to the community by employing local staff.

Built without government incentives or support from local agencies, PTI's new factory in Glen Burnie, MD, was budgeted to cost approximately \$4M in capital investments, working capital for start-up, and inventory.

We were unable to identify any source of available government financing that did not require a lengthy application and approval process. The Maryland Economic Develop Council offered the possibility of low-interest rate financing, but the review process proved to be too lengthy and the funding limits too restrictive to meet our needs. In the absence of viable funding options, the company proceeded with the project from its cash reserves, hurting its cash flow and liquidity.

The time to completion from initial lease execution was planned to be approximately 6-8 months with completion planned for Q4 2010.

In reality, the project took 5 months longer and ran \$2M over budget due to complications arising from the need for us to make the new facility compliant with all relevant codes for permitting. The state had not opened a factory for almost two decades. As a result, codes for manufacturing facilities were outdated. The lack of guidance from local and state agencies made the process more time-consuming and costly as we had to hire an architect, three engineering firms, and a general contractor to help sort through the design issues related to code compliance and permitting. Although we started to occupy the warehouse and pay for key staff as planned, the planned production start date was delayed from late 2010 to mid-2011. This delay resulted in losses from operating expenses carried before production could begin.

In the timeline below, the actual permit delay was two months due to redesign for compliance issues. Prior to that, there was a delay of at least one month due to confusion of code-related design issues. There was also another one-month delay related to construction of HAZMAT storage, ADA bathrooms, and sprinkler/alarm upgrades. Due to the local government's lack of understanding of what is applicable to a manufacturing facility, we were asked to study codes applicable to hospitals, schools, and restaurants, resulted in further delays. The following is a timeline of the process:

- December 2009: First strategic discussion with key customers regarding prospects of building a factory in the U.S.
- January-March 2010:
 - Business planning and site selection.
 - Chairman David Wang and COO Dale Williams reviewed potential sites in Ontario, CA, which were convenient to the Port of Los Angeles and major distribution partners. I reviewed sites in central and coastal Maryland. A comparison of initial costs, recurring lease expenses, labor markets and ongoing overhead costs was conducted.
- March 2010:
 - Initial orders for production equipment placed with German vendors.
 - Consulted fluid systems engineers to design and specify wax storage and mixing systems.
- April 2010:

- Lease was signed for Glen Burnie facility, a 120,000 ft² warehouse in Bay Meadow Industrial Park. The site chosen was a former warehouse for Reliable Liquors, which moved to a larger facility nearby. The facility was built in 1980 and permitted for use as warehouse/office space only. The facility encompasses 20,000 ft² of finished office space and 100,000 ft² of warehouse space.
- Met with local Chamber of Commerce officials and County Economic Development officials to identify possible incentives and financial aid resources.
- Met with Anne Arundel County Department of Inspections, Licenses and Permits (AAC DILP) to discuss permitting process and applicable codes. AAC DILP provided little guidance; they simply referred PTI to consult the 2003 International Building Code, the ADA code applicable for change of use, and NFPA 101 Life Safety Code F1 for manufacturers. We were advised the county would require “upgrades to the fire safety systems including smoke curtains for the office area, sprinkler coverage and alarms” to reflect change of building use from manufacturing/warehouse to mixed use with manufacturing.
- May 2010:
 - PTI commissioned a commercial architect to begin the design and layout processes for tenant improvements on the proposed Glen Burnie site.
 - Hired electrical, structural and mechanical engineers from the same firm to work with the architect on required upgrades.
- June 2010: Hired a General Contractor to coordinate architectural and engineering work and assist with code and permit issues.
- July 2010: Completed the first design for tenant improvements.
- August 2010:
 - Filed first permit application on August 8.
 - August 19 – first comment letter received, consisting of five pages and 30 action points. Key items included hazmat storage, fire safety plans, and HVAC for air exchange requirements
 - First contractor quotes received at costs 50% above PTI initial estimates.
 - PTI initiates a redesign with contractor to reduce costs and address hazmat storage and fire safety issues raised by AAC DILP.
 - August 20 – Retained independent fire safety engineers and began investigation of fire safety and HAZMAT storage solutions for redesign.
- September 2010:
 - September 13 – Received feedback on fire code issues from fire engineers, began redesign of HAZMAT storage and HVAC system to address code compliance in the most cost-effective manner.
 - September 28 – New permit application filed with revised plans for hazmat, fire safety, and HVAC.

- October 2010:
 - October 18 – Permit received.
 - October 25 – Construction begins.
- May 2011:
 - May 17 – Certificate of occupancy received from AAC inspector.
 - May 24 – First production begins.
- June 2011: Grand Opening

Since opening, the Chesapeake Bay Candle factory has gone from 17 employees to 80, and tripled production capacity. It is now one of the leading new job creators in Anne Arundel County, MD.

The company faces challenges in finding qualified employees. Most applicants lack sufficient skills or training. Basic reading, writing and arithmetic skills are often deficient and many are unable to follow instructions or function in a modern, collaborative production environment. To combat a 50% turnover rate in these jobs, additional incentives are being considered.

The local area also suffers from a lack of qualified mid-level supervisory talent, reflecting the absence of relevant vocational training and a vanishing ecosystem of other manufacturing companies.

Our recommendations to the Committee are as follows:

1. Create regional advisory offices within U.S. Department of Commerce or as an extension of the Small Business Administration to help small and mid-sized businesses navigate state, local and other regulatory requirements. Many investors may not know how to determine which states best fulfill their manufacturing and business needs, and a federal level review of each state will help speed up the selection process
2. Through the same mechanism, guide companies to relevant incentives for tax breaks, financing, training and other programs whether sponsored by local, state or federal entities.
3. Provide a resource guide specific to new manufacturing ventures to help identify local suppliers, private developers, and other assets critical to start-ups.
4. At the state level, provide a one-stop concierge service to help new investors understand compliance issues and the procedures related to building a manufacturing facility so they can make more informed decisions.
5. Encourage local high schools and vocational colleges to provide gateway programs to internships and apprenticeships for local manufacturers to draw upon as sources for qualified talent.

6. Help educate Americans that we need to be a nation that produces goods, rather than a nation that just purchases them. People should take pride in making things and the government should strive to eliminate the stigma associated with manufacturing jobs.