

# **RESHORING**

## **An Assessment**

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ALLIANCE FOR  
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# Key Manufacturing Indicators

- Auto/Light Truck Sales strong
- New Single Family Home Sales/Starts/Permits are up since 2009 but only ~50% of 1990-1999 average
- Real Fixed/Equipment Investment rising
- Balance of International Trade (-China) improving
- Industrial Production Index still below 2007 levels but rising
- Capacity Utilization at 76.1%
- ISM PMI is 56.2 (positive all but 1 month since '10)
- New Manufacturing Orders at pre-recession levels
- NFP Employment at 136 million (138 million in '08)
- Alarming decline in size of labor force (63% down from 66%)

# Key Manufacturing Trends

- Energy Boom
- Auto Industry Strength
- The “Cloud” and Broadband
- Additive Manufacturing
- Reshoring

# What is Reshoring?

- Also called “onshoring,” “insourcing,” “nearshoring,” or simply “bringing jobs home.”
- A manufacturer that shifts its production for the U.S. market from abroad to the U.S.
- A foreign investor that begins production in the U.S. for the U.S. market or for export.
- A manufacturer that awards a contract to a U.S. producer rather than an overseas producer.

# Is It Time to Rethink Your Manufacturing Strategy?

For the past 10 years, China was the answer to many manufacturing questions. That's no longer automatically the case.

MIT Sloan Management Review, Winter 2012

# Manufacturing's Secret Shift

Companies are beginning to realize that having offshored much of their manufacturing and supply operations away from their demand locations, they hurt their ability to meet their customer's expectations...

Accenture, 2011

# Takeaways

- Although labor accounts for 5-10% of production cost, 74% cite it as "most important" sourcing factor
- 59% of companies plan to pursue new supply options
- 37% plan to align supply/demand
- 34% plan to "be more selective" on offshoring
- US by far has largest demand-supply gap, and mid-sized organizations plan to fill it...



# Measuring Costs of Offshoring

60 percent of U.S. manufacturers, when calculating costs, use rudimentary tools that ignore 20 percent or more of the total cost

Archstone Consulting, 2009

# Strategic Calculations for Reshoring

- Innovation: connection between ability to innovate and proximity to production
- Mass customization: Additive manufacturing and other trends require proximity to customer
- Environment: life-cycle cost equation may be a stronger factor in future. Proximity matters.
- Strengthening supply chains: When OEMs reshore supply chain proximity can/should follow.

# Is Reshoring Happening?

- 34 percent of companies with \$1b+ sales considering it (MIT Forum for Supply Chain Innovation, 2012)
- ~50 percent of companies with \$10b+ sales said they were considering it. (Boston Consulting Group, 2012)
- 40 percent of manufacturers had reshored some work (MFG.com survey, 2012)

# Factors Driving Reshoring

- Changes in wage rates abroad
- Higher shipping costs
- Rising value of foreign currencies vs. \$
- Increasing energy price advantage
- Increasing consumer preference
- Adoption of lean-manufacturing processes, automation and quality standards in U.S.

# Why Reshore?

- Fewer “hidden” costs
- U.S. companies know the U.S. market, language, legal/measurement/regulatory systems
- Fewer tariff and non-tariff barriers
- Reduced cultural bias
- Mitigate risks of foreign gov’t policy changes, favoritism for domestic companies, changes in exchange rates, political instability, lack of legal protection vs. theft/piracy/counterfeiting

# Case studies: reasons for reshoring

1. Higher foreign wages and currency values.
2. Lower foreign quality leading to high warranty costs and rework.
3. Delivery times are too long.
4. Freight costs are rising.
5. Travel costs, travel time, onsite audits prohibitive
6. Inventory costs are too high
7. Total costs are rising.
8. IP is being stolen or at risk.
9. Communications are difficult.
10. Image and brand impact of Made in USA

# Industries that are reshoring (so far)

1. Electrical Equipment, Appliances, Components
2. Transportation Equipment
3. Machinery
4. Fabricated Metal Parts
5. Plastics & Rubber
6. Computers and Electronics
7. Furniture

# High Profile “Reshoring” Cases

- General Electric
- Apple
- Google
- (Wal-Mart)
- Ford
- Airbus
- Toshiba
- Lenovo
- NCR
- Flextronics



# Reshoring From Where?

1. China (at least 60% of cases)
2. Mexico
3. Japan
4. India
5. Taiwan
6. Philippines

# Reshoring to where?

- South and Midwest represent over 50% of cases.
- Top states: California, Ohio, North Carolina, Illinois, Texas, Michigan, Tennessee, Georgia, Kentucky

# The Playing Field in 2015

Total-cost parity will be achieved in 2015 between Southeastern U.S. and coastal China in the following industries:

- Computers/electronics
- Appliances
- Electrical Equipment
- Machinery
- Furniture
- Plastics/rubber
- Fabricated metals
- Transportation goods

Boston Consulting Group, 2011

# Reshoring...and exporting?

U.S. manufacturing sector could capture \$70 to \$115 billion in annual exports as a result of significant cost advantages over Western Europe and Japan

Boston Consulting Group, 2013

# High Profile “New” Exporters

- Toyota
- Honda
- Siemens
- Yamaha
- Rolls-Royce
- Michelin

# Behind the numbers

- Adjusted for productivity, U.S. labor costs projected to be 15-35% lower than Western Europe and Japan by 2015 for many products
- Prices for natural gas are projected to be 60-70% lower
- Electricity is projected to be 40-70% cheaper in the U.S.

# Industries poised to win export markets

- Transportation equipment
- Chemicals
- Machinery
- Computers
- (Petroleum and coal products)
- Electrical equipment, appliances, components
- Primary metals

# Potential Jobs Impact

- 600,000 to 1.2 million direct manufacturing jobs by 2020
- 1.9 to 3.5 million indirect jobs
- 2.6 to 4.7 million total jobs
- Lower unemployment rate by 2 to 3 percent
- Diversify export mix (energy, commodities, food, aerospace, scrap)



# Cautions

- Exchange Rates
- Energy Exports
- Government Policy
- Economic Conditions
- Foreign Government Responses
- Skills of Future Workers
- Automation/Productivity Mean Lower Jobs Impact

# A Manufacturing Policy?

1. Research & development
2. Access to credit
3. Infrastructure development
4. Energy development
5. Tax reform & incentives
6. Education & training
7. Results-based trade policy
8. National economic development strategy

# Administration Policy

- Corporate tax reform proposal (deep incentives for domestic manufacturing)
- Train and place 2 million skilled workers
- Creation of a network of manufacturing innovation hubs
- Advanced Manufacturing Partnership
- Energy Policy
- Export Initiative
- Auto Rescue

# Questions/Discussion

**Keep in touch:**

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