A JOURNAL FOR BUSINESS & INDUSTRY

JANUARY/FEBRUARY 2016

Grayway

LEAD STORY

MADE IN AMERICA

Trending in U.S. Manufacturing: Reshoring

page 2

BRINGING MANUFACTURING BACK

WELCOME

Stephen Gray
President &
Chief Executive Officer

My how times are changing. It wasn't so long ago that the idea of bringing manufacturing operations back to the states after offshoring would have been far-fetched. But now, there's clear evidence that manufacturers are not only considering reshoring, but following through.

In this issue of the GrayWay, we'll provide evidence of the reshoring trend, what's behind it, and offer expert advice on what factors to consider when weighing reshoring versus offshoring options.

MIX
Paper from responsible sources
FSC® C016583
FSC www.fsc.org

Gray practices methods which protect our environment.

INSIDE THIS ISSUE

MADE IN AMERICA

Trending in U.S. Manufacturing: Reshoring

Harry Moser
Founder
Reshoring Initiative

For at least two decades—up until just a couple of years ago—the U.S. had been losing some 140,000 manufacturing jobs to the offshoring of production operations by U.S. manufacturers. **Low labor costs in Asia made it not only attractive to send manufacturing operations there, but a necessity for many manufacturers working to remain competitive in the global marketplace.**

But a trend is taking place now that once seemed improbable as more and more U.S. manufacturers are considering or are bringing manufacturing operations back to the states, or they are keeping operations here despite low labor costs overseas.

According to Harry Moser, founder of the Reshoring Initiative, about 240,000 manufacturing jobs have been brought to the U.S. from offshore over the last six years.

"Back in 2003, the U.S. was losing to offshoring around 150,000 manufacturing jobs a year, and we were bringing back through foreign direct investment and reshoring around 10,000, so we were losing net 140,000," said Moser. "By 2014—and again in 2015—there was zero net loss, and possibly a net gain. So, while reshoring fell off some in 2015 from 2014, foreign direct investment was very strong. We've gone from losing 140,000 manufacturing jobs a year to losing zero a year. That's a huge difference."

As pictured above, Walmart is investing billions in domestically manufactured goods—like textiles made by U.S. manufacturing plants—to help boost the economy.

The Boston Consulting Group (BCG) conducts an annual survey of senior-level, U.S.-based manufacturing executives at companies with at least $1 billion in annual revenues. In its latest poll released in December, 31 percent of respondents said their companies are most likely to add production capacity in the U.S. within five years. Just 20 percent said they are most likely to add capacity in China. Flash back to 2013: only 26 percent said production would be added in the U.S., while 30 percent said China would be the destination for new manufacturing operations. BCG called this finding "striking."

Hal Sirkin
Senior Partner and Managing Director
BCG

"There are hundreds of companies that have done it and we know that, according to the Reshoring Institute, there is now more reshoring than there is offshoring," said Hal Sirkin, senior partner and managing director of BCG who has closely followed reshoring over the last five years.

BCG isn't the only group providing evidence the reshoring trend is taking hold. In 2015, *Medical Design Technology Magazine* conducted a poll that showed that 49 percent of the companies surveyed had outsourced or offshored and, of those, 45 percent who had offshored are bringing it back. *Plastics News* released the results of Nexant survey last May that said about 70 percent of the plastics industry manufacturers have or soon will reshore.

Moser says his organization's website—www.reshorenow.org—contains a large, searchable database of evidence that reshoring is taking hold, with scores of real-life examples of companies that have or plan to reshore. He says the database is a helpful tool for manufacturers who are considering reshoring to see what other companies have done and how it might best work for them.

"Reshoring means more jobs, fundamentally. And it means, in some ways, better, higher-level jobs in robotics and automation."

–Hal Sirkin

The push to reshore is being led and promoted by some of the country's most recognizable and renowned brands. In 2013, retail giant Walmart announced its intentions to spend $250 billion on goods domestically manufactured over the next decade to help boost the U.S. economy and create jobs. In 2012, Apple, the world's largest consumer electronics company, announced its plans to move some manufacturing operations back to the states with a new Mac Pro desktop computer plant in Austin, Texas.

What's behind the reshoring trend?

Moser says advances in manufacturing like automation and robotics have replaced the need for a large number of low-wage workers to perform assembly and other production processes. Does this mean less jobs for U.S. workers when operations return to the states? The answer is yes—there are fewer low-wage, low-skilled jobs created as a result of advanced manufacturing techniques. But the good news is it takes a skilled workforce to operate today's sophisticated manufacturing equipment, which means manufacturers who reshore are creating more challenging, high-wage jobs at their U.S.-based plants.

"Reshoring means more jobs, fundamentally," said BCG's Sirkin. "And it means, in some ways, better, higher-level jobs in robotics and automation. Through the use of these technologies, manufacturers are producing more goods at lower prices, and that's good for the economy."

BCG's 2015 poll provides evidence of this, suggesting that reshoring is still likely to create new U.S. manufacturing jobs despite a clear intent by respondents to invest in automation. By a two-to-one margin, executives said they believe that reshoring will help create U.S. jobs at their companies rather than lead to a net loss of jobs.

Sirkin says its important to do the "correct economics" when considering the prospect of reshoring.

"There are so many things we can miss in the supply chain that are costly, including the time of executives and other things," he said. "But moving operations from—let's say China—to the U.S. at this point in time for a lot of manufacturers is a particularly attractive option."

Reshoring Initiative®
Bringing Manufacturing Back Home

MAKING “CENTS” OF RESHORING

When Bringing Manufacturing Operations Back to the U.S. is the Right Choice

IT WASN’T THAT LONG AGO when bringing manufacturing operations back to the U.S. was a taboo topic in C-suites and boardrooms across the country. For manufacturers of high-volume, low-cost products, that’s still likely the case. But drastic changes in the global economy over the last two decades—like a rising middle class in China and the changing workforce needs of today’s tech-savvy manufacturers—is opening up more conversations about reshoring, with some companies now following through.

Having studied reshoring from a variety of perspectives over the past several years, Andrew Whelan—now a consultant to business and industry—knows a thing or two about the subject. He once ran the global mechanical division for Flextronics—a leading U.S.-based provider of design, engineering and supply chain solutions with operations across the globe. He also engaged in more in-depth study on the topic while working as a consultant for Deloitte, commandeering a study on reshoring just a year ago.

Whelan says more and more companies are making the business case for reshoring; others are resisting the urge to offshore to low-wage nations; while others may never be able to justify reshoring due to the nature of the business they’re in.

“I think there are certain things that make sense to come back, and there are certain things that are going to just never come back,” he said.

"Tools like the Reshoring Initiative's Total Cost of Ownership estimator helps manufacturers factor in all relevant date when considering reshoring."

"I started my career at Flex in '99 and [offshoring] was just a default thing. The idea was that we had to get everything to China, no matter what. At that point, I ran a plant in Texas that supplied Dell, and I had to close it and move it to China. And then, we moved our desktop line to China, the servers to Mexico and, three years later, the servers went to China. Back then, it was the default—just get everything to China. And, now, I think you've got to take a more discriminatory look at things. Are things going to get reshored? Yes. Is everything going to get reshored? No."

"There is a reality that when you do try to bring something back from China into the states, you don't always get the quote that gives you that landed price differential," he said. "An example is aluminum profiles. I couldn't get Mexico or the U.S. to be competitive on aluminum profiles relative to Asia."

"But then there are certain things that you just can't move to China because of transportation costs, and things of that nature. Certain foams or insulations are just too big and bulky—the cost of transportation will just eat you alive. You have to consider these things on a case-by-case basis."

So how do manufacturers know when the time or business climate is right for reshoring? It's a complicated question, to be sure. The good news: there are resources available to manufacturers to help answer that question.

Take, for example, the Reshoring Initiative, founded by former manufacturing executive Harry Moser. Moser and his team have created what they call the Total Cost of Ownership (TCO) Estimator, a free online tool that helps companies factor in all relevant data—price, overhead, balance sheet, risks, corporate strategy, etc.—to determine the true total cost of ownership. Moser says the tool allows companies to better evaluate sourcing, identify alternatives and make a case when selling against offshore competitors. He says the tool is recommended by the U.S. Commerce Department to manufacturers that are weighing their options.

"Total cost of ownership is the most complete analysis," said Moser. "Some people would just look at the landed cost, but then there's considerations like customer preference for products made in America, intellectual property, how much inventory you have, write-offs, quality, etc. The TCO Estimator quantifies all of those things and calculates the total cost. And if you use total cost, then almost everything else is then considered."

For more information about reshoring or to access the TCO Estimator, visit the Reshoring Initiative's website at reshorenow.org.

THE NEW FACE OF MANUFACTURING

Partnership to Bring Manufacturing Back to America

The Reshoring Institute and American Cargoservice (ACS) announced in January a partnership to help companies bring manufacturing back to America. The partners will offer full-service project logistics to manufacturers who are considering reshoring, or bringing manufacturing operations back to the U.S.

Rosemary Coates
Executive Director
Reshoring Institute

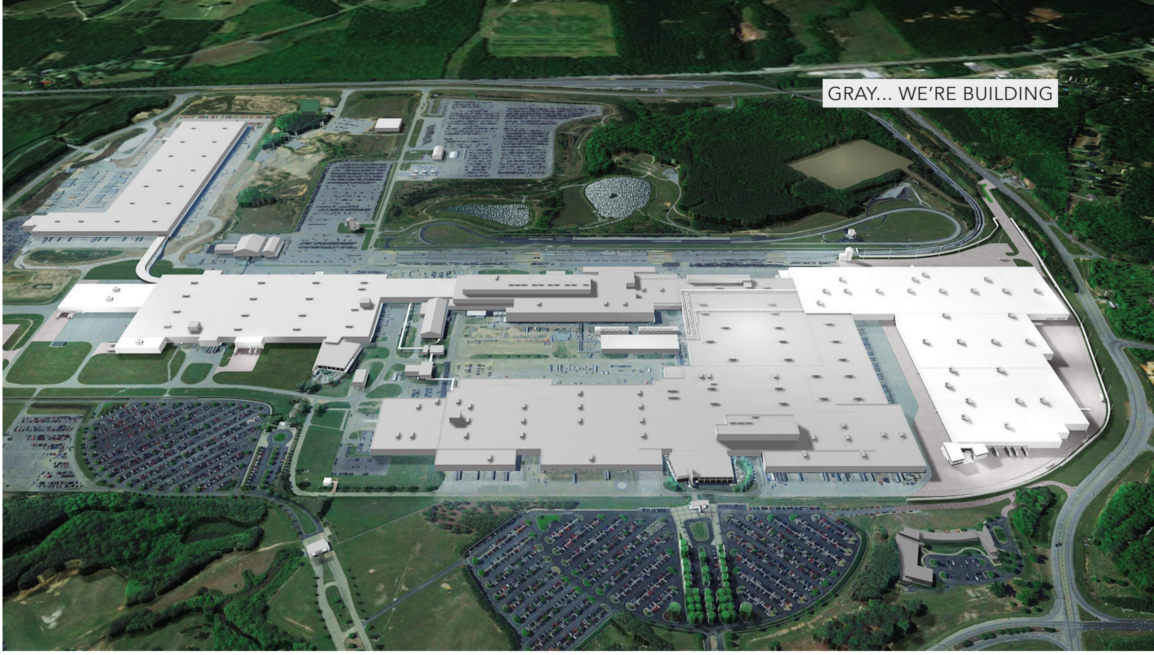
"We are delighted to partner with American Cargoservice and work together to support companies that have decided to reshore their production to the U.S.," said Rosemary Coates, executive director of the Reshoring Institute. "ACS San Diego offers expert assistance in moving production lines, equipment and products anywhere in the world. The Reshoring Institute assists by developing cost-comparison models, research and project management services."

The Reshoring Institute is supported by the University of San Diego Supply Chain Management Institute. The Institute offers downloadable research from its website, and personalized consulting assistance using student interns from the University of San Diego Graduate School of Business.

American Cargoservice is a full-service international and domestic freight forwarder. Since 1991, ACS has provided project logistics and transportation services for the energy, mining, and manufacturing industries.

To learn more about the partnership and its services, contact Rosemary Coates at rcoates@reshoringinstitute.org or Terry Simokat at tsimokat@ACSSAN.com.

Reshoring Institute



GRAY... WE'RE BUILDING

MERCEDES-BENZ U.S. INTERNATIONAL, INC.

VANCE, ALA.

Mercedes-Benz has selected an Alabama joint venture, BL Harbert International and Gray Construction, to design and build a new body shop, an assembly shop addition, and to relocate its energy center in Vance, Ala. The project spans a total area of 1,472,405 s.f. and will support the plant in the production of its next-generation luxury SUVs. Construction has already begun and is slated for completion in summer of 2017.

The existing plant currently employs over 3,500 people and more than 8,000 people who come onsite every day to support operations, including contingent workforce, contractors and suppliers. The expansion is expected to create some 300 new jobs.

The joint venture has a combined 70 years of automotive experience with 375 completed automotive projects, totaling more than $3.75 billion in volume.

Gray

10 Quality Street
Lexington, KY 40507-1450, USA
T 859.281.5000

Alabama, California, Kentucky,
North Carolina and Tokyo, Japan

www.gray.com