Re-Shoring — Bringing Manufacturing Back

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Last May, the National Tooling and Machining Association and the Precision Metals Association sponsored a re-shoring fair that was all about bringing back work that has been outsourced to foreign competitors.

You may be wondering why this is happening. Did President Obama negotiate a secret deal with the Chinese to reduce imports? Are omniscient customers anticipating the crash of the dollar? No, it is not as simple as these answers. Re-shoring is the result of a whole host of nagging problems that U.S. customers have found out about the hard way. Here are some examples from manufacturers that have struggled with outsourcing in recent years:

Deliveries and customer change orders — Jerry Hoopman of Amfor Electronics is a contract manufacturer in Oregon that builds a wide range of cable assemblies for other OEMs. Many of these assemblies are made in China, but Amfor has been having trouble guaranteeing their customers accurate delivery dates because of unforeseen delays in the supply chain.

Another problem is that Amfor’s customers want to make changes to their order during the manufacturing process, which is difficult because of communication problems and causes delays in the manufacturing process.

In addition, Amfor found that after implementing lean improvements their costs of manufacturing in the U.S. are better than Chinese costs. Therefore, they are bringing the products back to manufacture in their Oregon plant.

Damaged parts and quality — Gregory Price is founder of the Oregon Small Wind Energy Association and works with manufacturers of small wind energy systems. He says that many of these small companies have tried to reduce costs by sending parts to Asia.

Many orders for key parts in the turbine are either damaged in shipment or do not pass the quality test when they are received. This causes problems for the manufacturer in terms of promised delivery dates and service problems after the system is installed.

Rising costs and financial terms — Four Northern California companies have re-shored products from China to Wright Engineered Plastics because of long shipping times and China's refusal to send products until payment is received.

Inventory and rising costs — Vaniman Manufacturing, which makes dental equipment, originally outsourced most of their sheet metal fabrication to China in 2002. The original piece part production price quoted was 50 percent lower than U.S. prices, but as time went by, the Chinese vendor required Vaniman to purchase in larger lots resulting in a larger inventory. The larger inventory then required more storage space.

These costs, in addition to the increasing costs of shipping and traveling overseas to visit the vendor, increased the total cost of ownership and ate up the 50 percent savings. Vaniman decided to bring their fabricated parts back to the U.S. to be manufactured by a local vendor.

Counterfeiting — Farouk Shami has built a $1 billion manufacturing company to make hair irons and other hand-held appliances. He is moving all of his production from China back to Texas, citing loss of control over production and distribution, as well as rampant counterfeits.

Customizing products and closer proximity to the customer — NCR is bringing all of its production of ATM machines back to a facility in Columbus, Georgia. The senior managers concluded that to really achieve innovation they had to be closer to their innovation center in Duluth and closer to universities and vendors. Part of the reason is that they want to be able to customize some products and get to the market quickly. This simply could not be achieved with a supplier in China

Cost of capital — Trevor Dunthorne, Vice President of Operations for All-Clad Metalcrafters in Canonsville, Pennsylvania, knows a lot about the long supply chains from Asia. All-Clad Metalcrafters manufactures very high-end cookware. The company was struggling to meet demand and decided awhile ago to manufacture the lids (1.2 million) in China. The Chinese supplier does a good job of manufacturing the lids and the quality is very high and within the standards of the other cookware.

But Dunthorne was concerned with the very long supply chain and the risks involved. He says, “If you can reduce the length of the supply chain, you can reduce the cost of capital. This frees up cash flow that can be used in the company on other projects. So, All-Clad is bringing the manufacturing of the lids back to America — closer to the customers and closer to the main factory.”

And the problems don’t end there. American companies can face a host of other issues while outsourcing to Asia:

- If there is a problem in delivery, the supplier may have to airfreight the product, which increases shipping costs.
- Container costs go up and down with oil.
- When parts are received with quality problems, there is the cost of rework, returns and delays in delivery.
- Delivery of parts just-in-time to an assembly line in the U.S. will always be problematic often for logistical problems beyond foreign manufacturing control.
- Anticipating problems in the supply chain after the manufacturing shipment because of trucking, customs, government agencies and shipping companies is difficult to control.
- Monitoring the vendor’s stability and internal problems is difficult unless you have a person on site.
- The Asian manufacturers can make material substitutions without getting approvals as happened recently in the cadmium-tainted toy scandal.
- Foreign legal systems may not punish offenders.
- U.S. government does not help smaller manufacturers with counterfeiting problems.

The long and short of it is that many manufacturers have begun to pull their supply chains back closer to their markets. They have learned that problems beyond their control like flu viruses, energy prices, earthquakes and geopolitical disturbances are threats to their supply chains. They also now know the additional costs of all of the unanticipated problems listed above.

U.S. manufacturers have now experienced many of these problems and are more aware of the hidden costs and risks, and are now in a better position to make realistic cost/benefit decisions on outsourcing. The tide is turning to manufacturing closer to the customer to reduce unanticipated risks. It is time to take a new look at the benefits of outsourcing vs. re-shoring.

Michael P. Collins is the author of the book, Saving American Manufacturing*. You can find related articles on his website at www.mpcmgt.com* [1]*. For more information on the re-shoring fair go to [www.NTMA.org](http://www.ntma.org/)* [2]*.*

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