# The Complexities of Re-Shoring

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**Mnet: I heard a lot about re-shoring in 2010. How did that change in 2011?**

**Longshore:** In 2010, we definitely started to see a trend of slowed off-shoring. A lot of people were very optimistic that there was going to be a large influx coming back from off-shore (locations) to North America, and I don't know if we've quite seen that yet. We've started to see companies with interest in moving their production back to North America.

**Mnet: Has the current state of the economy affected lack of re-shoring?**

**Longshore:** I think not just the state of the (local) economy, but the question around the whole global economy. A company can look today and try to do an analysis of their off-shore labor [costs], and what their freight costs are, and how much time they spend traveling out of the country, and they can draw some assumption based off of that, but that's a pretty fluid moving target. I can imagine it's extremely challenging for an OEM to say that it's the right strategy over the next three to five years.

**Mnet: Why did companies leave in the first place if so many want back now?**

**Longshore:** I think the primary reason that drove it was cost. For products that were very stable and being mass-produced, the cost advantage of taking it off-shore was a savings most manufacturers couldn't pass up. As with anything, supply and demand start to change, and their costs started to rise and stabilize.

And now many customers are looking at their product and not just the cost to build, but also the total cost of ownership to get that product deployed to their customer. They're realizing the savings may not be as great as they had anticipated.

**Mnet: If cost was the primary factor for off-shoring, what factors are convincing them to come back?**

**Longshore:** I think it goes market by market. Depending on what region an OEM is having their products built, there's various potential factors. With some of the natural disasters we've seen recently, some are starting to question the strength of the infrastructure in some of the low-cost regions. There are always changes in the political laws in a given region around employment.

**Mnet: Do you think that when companies off-shored, they didn't see the total cost of doing so?**

**Longshore:** I think there were parts of the picture that were underestimated. It's easy to get an exact sense of the manufacturing cost because that's what they were basing the decision off of, but some would underestimate the traveling cost — how often you would need to go off-shore. They neglected what the opportunity cost was — what the person traveling could have been doing if manufacturing was local.

So, I think a lot of those costs were underestimated. There are a number of other factors, such as how robust the infrastructure is and the labor laws, in a given region. I don't think those got as much visibility three to five years ago as they do today.

**Mnet: Are more companies concerned with intellectual property (IP) theft?**

**Longshore:** IP safeguarding is definitely a concern. Naturally, there are some customers who have their product developed off-shore somewhere, and it's not a big concern. For other customers, [their IP] really is the value they bring to the market, so that intellectual property safeguard is key to them.

Depending on how their product is built and how it's designed, some companies are able to build safeguards into their product, which alleviates the concern for them. But other companies feel extremely at-risk of having their product off-shore.

**Mnet: We've seen more manufacturers using services providers. Does that help keep local costs down?**

**Longshore:** Absolutely. If we look back a few years, what most companies

outsourced was purely the board-level manufacturing. And if there were problems out in the field, that product was typically returned directly to the manufacturer for them to take a look at.

Today, more manufacturers are looking to outsource as much as possible. From systems design at an early phase, to sourcing of materials, to manufacturing through system integration, direct order fulfillment directly to their customer, and in many cases, reverse order logistics. If there are problems with products being out in the field, it's not returned to the [designer] any more. It's returned to companies like mine — which produced it — to either upgrade or repair it.

We see a trend where more companies are looking to outsource everything they don't believe to be their core competency and their competitive advantage.

**Mnet: Why should companies re-shore right now?**

**Longshore:** [Creation Technologies customer] Stoke is a great example — they considered where they wanted to build their product. I think, as they evaluated the total cost of ownership, having it built locally provided a lot of value that would have been challenging for them to receive if they had moved production off-shore. Stoke is located close to our manufacturing facility, and so they're able to collaborate in real time with us.

That collaboration happens in real time because we're able to meet face to ace. Benefits like that are sometimes difficult to put a dollar value on, so I think sometimes the companies looking to bring production back should try to put a value around those items, on top of the cost of manufacturing.

Re-shoring a customer-by-customer, product-by-product evaluation of what makes sense to be built on-shore vs. off-shore. I think that for companies looking for focused, responsive partners, a cost-of-ownership evaluation will often show that on-shore is just as competitive, if not more competitive, than going to a low-cost region.

*For more information, please visit* www.creationtech.com *[1].*

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