Bucking the Trend:
A Closer Look at the Pros and Cons of Bringing Manufacturing Back to America

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There was a time when the "Made in USA" trademark carried an incredible amount of cache with consumers.

Like skinny jeans, Aerosmith, and Rocky Balboa it seems that time may be making a comeback. Consumer demand, political pressure, fast fashion, and the sudden revaluing of the "Made in America" concept have all contributed to the recent movement of bringing manufacturing back to the United States. While not a focus of this article, there are also social and ethical forces at work in this movement as well.

Labor cost has been widely recognized as the primary reason companies began shifting their manufacturing out of the United States years ago. However, with manufacturing costs in Asia on the rise, offshoring and nearshoring are more comparable from a financial standpoint than you may think.

The availability of technologies and worker productivity in the United States are typically superior to what companies will find overseas. In fact, according to the Division of International Labor Comparisons' Productivity Charts, the United States (155.7) has a higher "output per hour in manufacturing" than Japan, Germany, the United Kingdom and France and ranked 4th out of the 19 countries that were studied.

The U.S. also ranked 5th out of 19 countries in "average annual productivity growth" per year from 1979-2011. Additionally, The Boston Consulting Group (BCG) concluded that the American worker combined with technology in the U.S. makes them over three times as productive as the Chinese worker (ABC News, February 2012).

Companies are also now discovering hidden costs in offshoring and are beginning to reconsider reshoring, or bringing their operations back to the United States. According to an April 2012 survey by BCG, 37% of American manufacturing companies with annual sales over $1 billion are planning or considering moving their facilities from China to America. This is in addition to the already 50,000 manufacturing jobs that have come to the United States from overseas since January 2010 (www.reshorenow.org).

"What many manufacturers don't realize is that productivity is comprised of more than just hourly labor costs," says Jim Hoerig, Vice President of Manufacturing Solutions at CGS. "For example, an acre of land in India generally costs several million dollars. So while labor may be cheap, overhead costs are extremely high."

Because of the influx of manufacturing overseas in the 1990s and 2000s, the labor market in countries like China and India has been stretched extremely thin. Companies have been forced to employ people that are under-qualified and, as a result, quality has suffered dramatically while costs have risen.

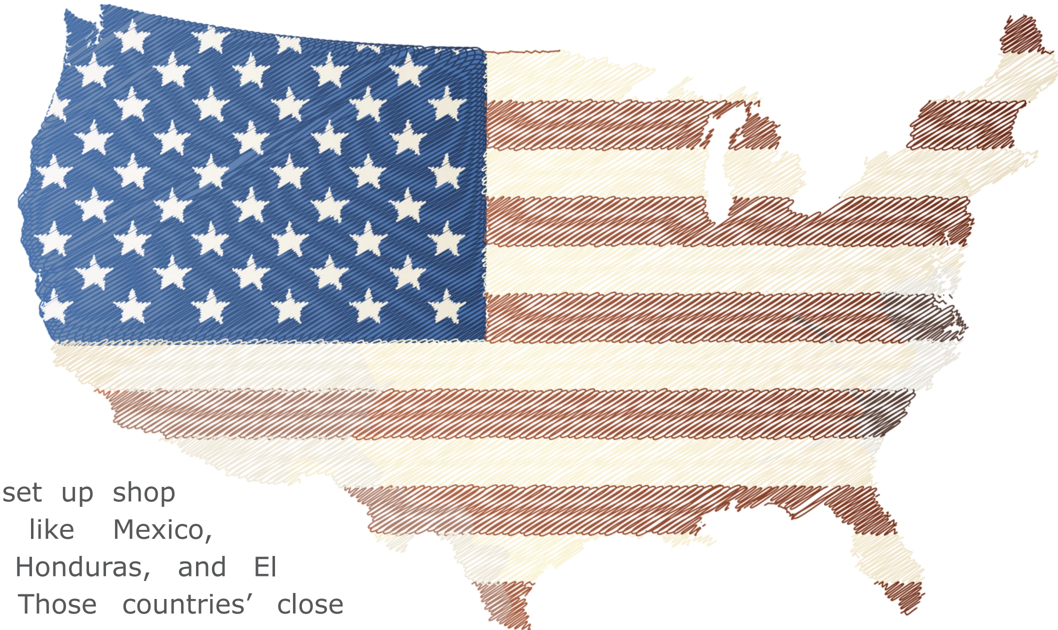
"A critical issue that arises for companies that take their manufacturing offshore to countries like China and India is the quality of their product," said Hoerig. "It's a difficult and almost impossible task to have people standing there 24/7 checking quality."

Although the cost gap between manufacturing in America and manufacturing overseas is closing, it's still currently cheaper in China than it is in the United States, albeit by a smaller margin than it was 20 years ago. The United States is on pace to have lower manufacturing costs than Europe and Japan by 2015, and it will be just 10% cheaper to manufacture in China as opposed to the U.S. by that time (The Boston Consulting Group, 2012). And in a significant change from the 1970s and 1980s, U.S. manufacturing jobs now have lower average hourly earnings than the typical private-sector worker (Bureau of Labor Statistics, 2013).

"While there may be a current shift to move away from manufacturing offshore, it's a tough concept to overcome specifically when you look at the benefits of taking your business overseas," said Hoerig. "Tax breaks, operational flexibility and the ability to free up valuable resources are always going to be attractive factors to companies."

In addition to those benefits, offshoring can also help companies become more "global" and expand their reach while ensuring faster problem resolution and a greater understanding of customer needs.

The idea of bringing manufacturing back to the United States is a bit of a misnomer because while companies may be shifting their operations away from China and India, not all of them will be returning to America.



Some will set up shop in places like Mexico, Nicaragua, Honduras, and El Salvador. Those countries' close proximity to the United States make them ideal locations for manufacturing sites because it enables companies to ship to U.S. customers in roughly one day.

Even with companies moving their operations back to the United States, this isn't something that is going to happen overnight. It's unlikely that the 17 million factory positions that were prevalent in the 1990s will return. And the jobs that do return will be vastly different than the ones that were lost in the 2000s, however any substantial improvement in American manufacturing is bound to boost the economy and be a catalyst for new innovation.

With all the recent talk of reshoring, Joseph Abboud is one company that never bought into the offshoring trend to begin with, remaining in the United States since their inception in 1987. They put high emphasis on investments in technology by using CGS's Leadtec, a shop floor control system that allows them to reduce manufacturing costs, reduce throughput times, and enables them to serve their customers in a unique way with speedy, efficient delivery times.

"Leadtec plays an important role in our success as a domestic manufacturer," said Richard Motta, Director of Engineering at Joseph Abboud. "By implementing CGS's shop floor control throughout our facility we have been able to achieve wall-to-wall best practices. 'Made in USA' has become our niche and Leadtec, along with other improvements enables us to efficiently manage the small orders while providing high quality and fast deliveries that our U.S.-based retail partners need in today's challenging market."

In the end, the decision of whether to maintain operations overseas or bring them back home won't matter unless companies have the proper tools and technology in place to effectively thrive in today's marketplace.

Leadtec by CGS is a comprehensive, state-of-the-art computerized shop floor control and incentive payroll solution designed to capture production events in real-time or batch data collection mode. The information and visibility provided by Leadtec empowers operators to monitor and increase productivity, while also enabling managers to prevent and resolve production issues before they escalate. Leadtec benefits manufacturers through improved profitability, reduced production costs, accelerated throughput time, and improved product quality. Worldwide in more than 20 countries companies trust Leadtec to better manage their manufacturing operations. Leadtec is a trademark of CGS.