



Reshoring Initiative

Bringing Manufacturing Back Home

To reshore or offshore? How to objectively decide.

**Large companies: Why to source local
Suppliers: How to “sell” local sourcing**

Purchasing Fair
9/8/11

Harry Moser
President
Reshoring Initiative

“Manufacturing Is Expected to Return to America” “Renaissance in Manufacturing”

- “We expect net labor costs for manufacturing in China and the U.S. to converge by around 2015”
- “take a hard look at the total costs”
- Labor cost 20-30% of unit costs and will be only 30% below U.S. level. 10% savings exceeded by other offshoring costs.

Source: Boston Consulting Group press release 5/5/11

Flawed company economic model

60% of manufacturers:

- Apply “rudimentary” total cost models
- Ignore 20% or more of the total cost of offshored products

Source: Archstone Consulting survey, American Machinist Mag., 7/16/09

Reshoring Initiative's Objectives

- **Accelerate the reshoring process**
- **Change the Sourcing Mindset:**
 - From: “Offshored is Cheaper.”
 - To: “Local Reduces the Total Cost of Ownership.”
- **Train:**
 - OEMs: Why to source local.
 - Suppliers: How to “sell” local sourcing.
- **Encourage production near the customer**
- **Do the best we can on the unlevel field now**
 - Partial alternative to protectionism.

The Industry-Led Initiative Provides

- Free Total Cost of Ownership (TCO) Software for companies and suppliers/unions
- Online Library of 98 reshoring articles
- Media coverage of the trend: WSJ, USATODAY, IW, CBS, CNBC, etc.
- Regional Initiatives
- Motivation for skilled manufacturing careers
- Objective tools passionately promoted
- A solution to today's supply chain problems

Some major global supply chain problems

- Fragility:
 - Natural disasters: Japan, European volcano
 - Political instability
- Chinese and other LLCC:
 - Wages rising rapidly
 - Currencies poised to rise faster
- U.S. \$ declining
- Oil soaring

Reason price has been the dominant factor in sourcing: complexity

Decision Criteria	Alternative Sources	
	Offshore	Local
Price	Low	High
Total risk	High	Low
Balance sheet	High	Low
Customer non-responsiveness	High	Low
Lack of innovation	High	Low
Typical decision	?	?

TCO Estimator benefits

- Sums all factors to one Total Cost
- Flexible: values are 100% user selected.
- Broad:
 - 29 cost factors.
 - Via pull down menus you automatically insert:
 - Freight rates for 17 countries
 - Duty rates for parts or tools, e.g. molds
 - Present value and 5 year forecast of TCO.
- Easy to use:
 - Explanations and references to help select values.
 - Instruction Manual.
- Free

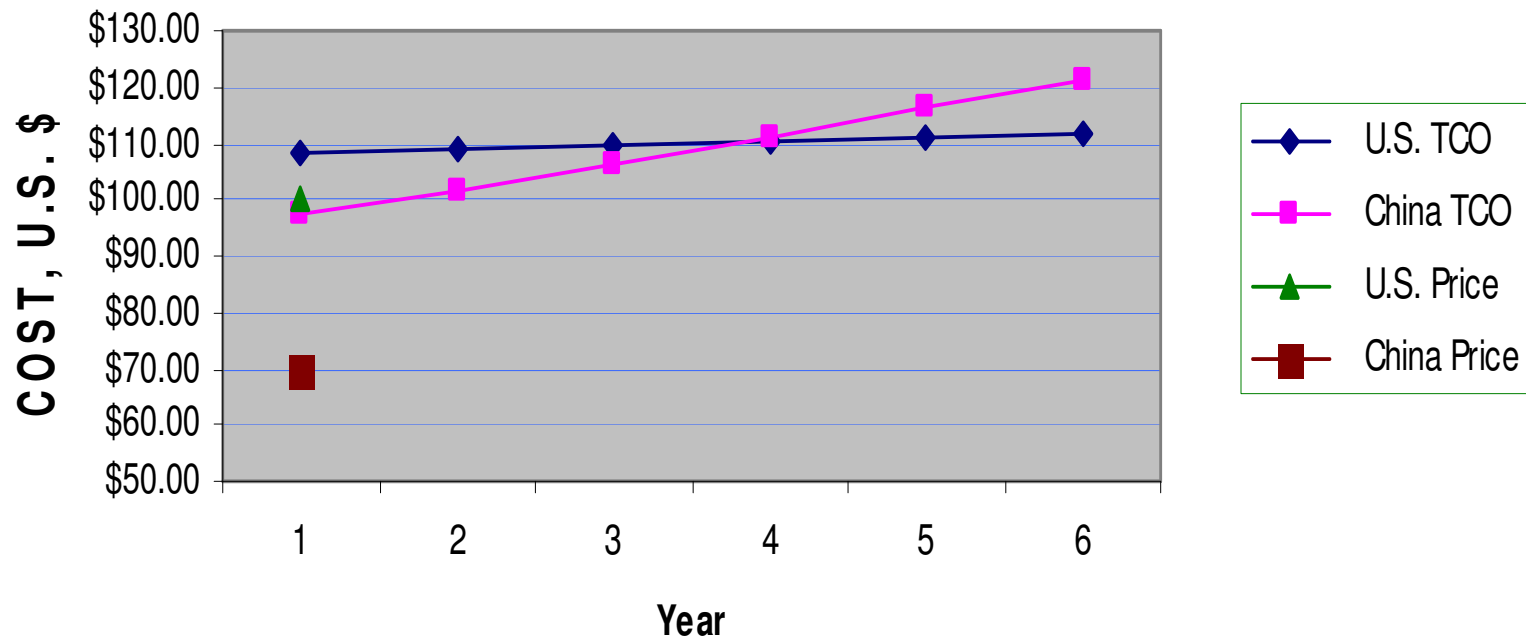
Example: some Assumptions: a Part

Chinese unit price	\$70	Product liability risk*	0.5%
U.S. unit price	\$100	IP risk*	1.9%
# units/year	12,000	Innovation*	0.5%
unit weight, lbs	2	Trips/yr	2
Shipments/year	6	Prototype cost*	\$5,000
product life, yrs	5	Country political instability risk*	0.4%
Packaging*	1%	Wage inflation, annual*	8%
Payment on shipment	Yes	Currency appreciation, annual*	5%
Quality*	2%		

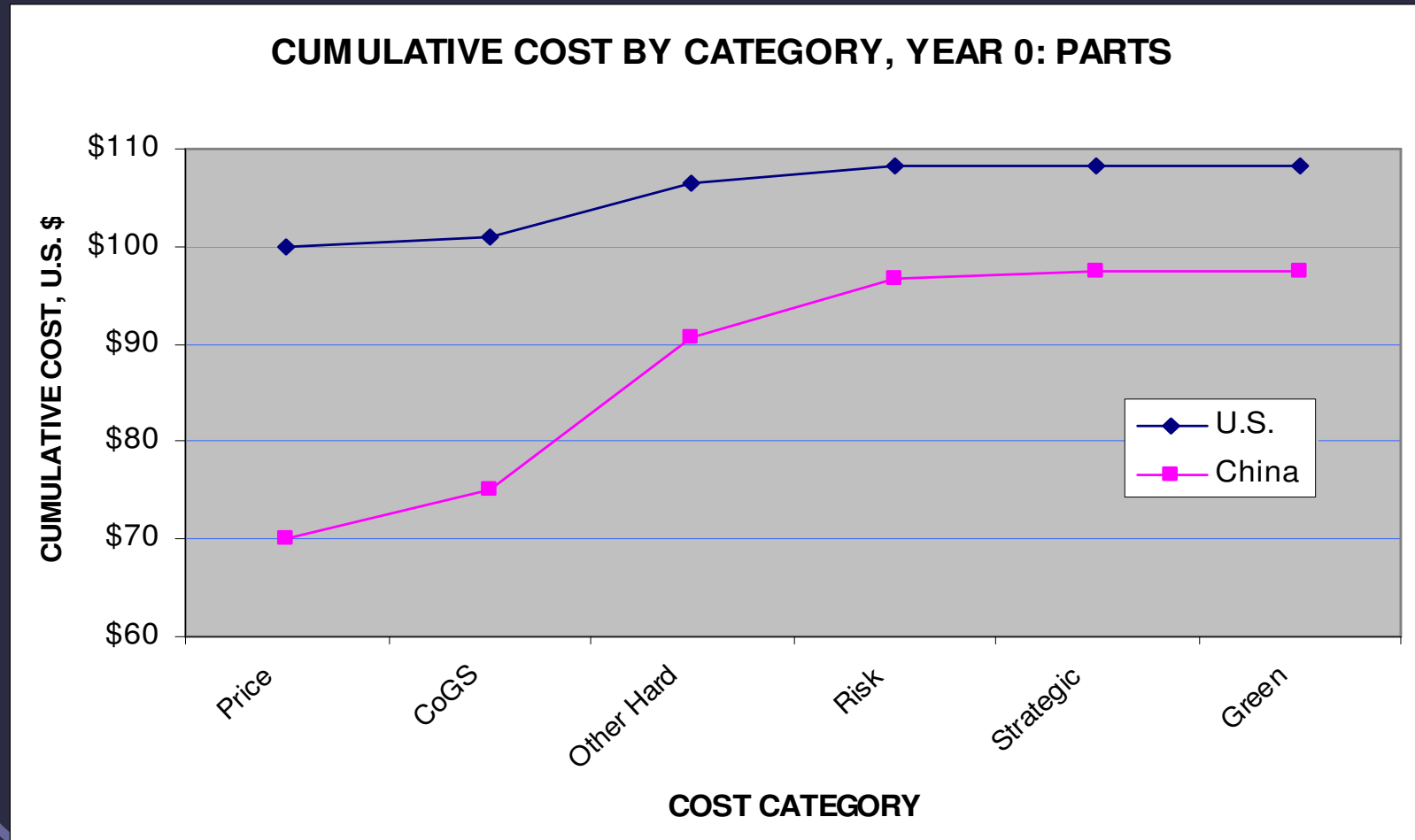
* Chinese differential vs. U.S.

TCO Comparison Example: a Moderate Labor Content Part

PRESENT AND FORECAST U.S AND CHINA PRICE AND TCO: PARTS



Cumulative Cost by Category



Deming on Total Cost

- “End the practice of awarding business on the basis of price tag. Instead, minimize total cost.”

Source: “4th Key Principle for Management,”
Out of the Crisis, W. Edwards Deming

GE water-heaters: an example

Bringing Production back from China:

- Water-heater production
- Unionized facility in Louisville, KY
- 400 jobs, renovated facility
- Reasons:
 - Tax incentives
 - High-tech new model
 - Ease of design collaboration with workers: cut cost \$20
 - 2 tier contract
 - Chinese cost: -30% becomes +6% considering inventory and delivery problems
- Will move a “significant piece” of appliance production back

The fastest and most efficient way to strengthen the U.S. economy

- Reshoring breaks out of:
 - The economic zero-sum-game of tax/borrow and spend.
 - The increases in consumer prices of relying solely on currency changes.
 - The waiting-for-policy-decisions problem.
- Assures that the pie grows, to the advantage of all Americans.
- Grows the pie by taking back what we earlier lost.
- Focuses on the manufacturing sector which has suffered so many job losses for decades.
- More efficient than exporting, stimulus programs or tax reductions.

Potential benefits

- Eliminate trade deficit ~ \$600B/year
- 3M manufacturing jobs
- 8M total jobs ► 4% unemployment
- Budget deficit impacts:
 - US: more than is likely from debt limit talks
 - IL: not enough

How to participate: companies

- Use the TCO Estimator. Free.
- Buy and sell thinking TCO
- Call on the Initiative to train and help your supply chain, sales teams and customers.
- Submit reshoring cases, esp. after using the Estimator
- Sponsor

A non-profit with 13 sponsors

Platinum



Gold



Silver



Bronze



Other



For more information, to increase U.S. jobs and help slow the offshoring flood now!

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Competing with/avoiding LLC competitors:
<http://us.gfac.com/company/careers/swot.cfm>