



eBook

# Reshoring Your Manufacturing Operations

Is it time...and are you ready?



# Reshoring Your Manufacturing Operations

For years, the trend in manufacturing has been to offshore—to go overseas to remain competitive. However, recently that trend has begun to change, and large U.S. manufacturers are leading the way in bringing manufacturing—or at least some facets of it—back to the U.S. If you have manufacturing operations overseas, have you considered this trend and whether it is a possibility for your organization?

This eBook provides a brief overview of what has prompted the trend and what you can do to prepare for reshoring should you decide it is the right step for your company

## Why Shift to Reshoring?

After so many years, why has there been a shift to reshoring? There is not just one reason; it's more of a combination of economic and cultural factors that make conditions more attractive for some manufacturers:

- Despite a vast difference still existing between other nations and the U.S., **wage rates** have been rising in many third world countries that perform much of the offshore manufacturing. This trend, coupled with benefits now being demanded by those employees, is decreasing the profit margin in higher priced products, such as electronics, produced in those countries.
- The **cost of oil**, the basic fuel required for all logistics operations, remains high, and these costs are passed back to the cost of the product through shippers, air carriers, and other transportation sources. In addition, carriers are looking to increase their profit margins, and the replacement of vessels will be a factor in future years, requiring a significant investment.





- With the phenomenal **growth of Asian consumer markets**, Chinese manufacturers, which have, until recently, been utilized primarily by the U.S., are now in much higher demand in
- **Quality and communication** issues continue to be a concern with offshore manufactured products. The issues tend to be with tier 3 and 4 companies (those that supply subcomponents to tier 1 and 2 manufacturers) and revolve around capacity. Typically, products that require a higher level of quality are best produced in the US, especially when service of the product, warranty aspects, and so forth, are taken into consideration.
- **53 days of “in transit” inventory vs. JIT** costs money. If the average time on the water, clearing customs, loading, transporting, and unloading equates to 53 days of “inventory in transit,” (and that does not take into consideration delays, spoilage, missed shipments, etc.), manufacturers need to stock 53 additional days of inventory. Also, in many cases, the manufacturer takes ownership once it hits the water, meaning payment is due before the goods arrive, possibly creating cash flow issues.
- Last but not least, today’s political and economic climate has sparked a call for products that are **made in the U.S.A.** Depending on their target market and the product they sell, this could be a very strong competitive advantage for some manufacturers and well worth the investment in reshoring.

*Reshoring: Is it time...  
and are you ready?*

## Still On the Fence?

If you're still not committed to the decision to reshore, consider this: According to Reshoring MFG, 60 percent of OEMs and manufacturers use "rudimentary total cost models" and ignore as much as 20% of the costs of offshoring. Have you considered that 20% in your calculations? Boiling it all down, here are the benefits to reshoring:

- Inventories can be reduced
- Lead times can be reduced
- Quality and consistency can be improved
- Issues with communication can be greatly reduced
- Innovation can be increased
- Red tape, including regulatory compliance, can be reduced
- Overall, total costs can be reduced

## How Do You Prepare for Reshoring?

So, if you've decided that reshoring is the right decision for your company, what do you do to get ready? While your company will have specific requirements, there are some basics that every organization should consider up front, regardless of industry or timeline, to get a jump on things:

- Staffing
- Site Selection
- Quality
- Customer Service
- ERP System



60%

*Of OEMs and Manufacturers use rudimentary total cost models.*



20%

*Ignore the costs of offshoring.*

## Location and Staffing Cross Paths

According to Harvard Business Review, companies should also **consider cost of staffing and government incentives** when deciding on location. Areas such as the Great Plains, the Appalachians, and the southern regions have skilled workers who cost less than large metro areas in the West, as an example. Also, governments in those areas are offering incentives for companies to set up operations there.

One company opened a facility in the Midwest, employing more than 1,000 IT service employees. Wages are 35 percent lower than at the company's headquarters, and the company also received \$50 million in government incentives.

35%

*Lower wages in the Midwest than at company headquarters.*

50M

*In government incentives were received by the company.*

## 1. Staffing

It has been years since manufacturing has gone offshore. First, this means that many who were in that workforce are no longer in the manufacturing workforce. Second, this means that technology has changed dramatically, so you will likely not be looking strictly for assembly line workers. You will need a workforce that understands technology as well. These days, you need to understand technology even to clock in—so things have changed. In short, your pool of work-ready candidates will probably be much smaller than it would have been in the past, which is why you need to get started now—before you lay the first brick in your facility. You might need to rethink your requirements. Consider looking for basic skills, such as knowledge of technology or a compatible background or education and then provide training for your specific requirements. And don't forget work ethic. Unfortunately, this is an issue, so if you find a candidate with the right "foundation," the rest can be taught. For example, many companies are hiring the retired or semi-retired. They have skills, experience, maturity, and a strong work ethic. You might want to consider looking at semiretired candidates for management positions. They can make exceptional leaders, helping you get things off the ground, mentoring younger, junior level managers into senior positions, ready to take over when the seniors are ready to take full retirement. The bottom line: start building your workforce NOW.

## 2. Site Selection

Another important consideration is location. You might assume manufacturing will come back to where your headquarters are located. But now that you have some options, why not weigh them? Is HQ necessarily the right spot? It might, but there are many factors that should go into this decision. It mostly depends on your market. First, where is your base of customers geographically located? If possible, manufacturing should be located where the cost of

distribution will be as minimal as possible because fuel and taxes, as you know, are significant costs. Second, what structure will be required to produce and distribute your products to your customers? Are your sales primarily online or do you have a retail component? Proximity to raw materials is also key. Where are the materials coming from? You need to consider outbound logistics to the customer as well as inbound logistics to the manufacturing facility. You may find that setting up multiple warehouse locations or bringing in a third party to assist with delivery might be most cost-effective. Overall, you need to compare the cost of goods sold—overhead, labor, etc.—to make an educated decision about location(s).

### 3. Quality

Quality is always a concern in manufacturing. If you have dealt with offshoring, you have likely also dealt with quality—either issues with quality or putting quality processes in place. Obviously, you'll need to do the same when you bring operations back on shore—but you'll be at an advantage because you can start at the ground floor. When you decide to reshore, make the decision to include quality in every phase of the operation. Include a solid quality component in your training processes and during the manufacturing process, take an example from a food manufacturer that built a new facility from the ground up and included in the design itself a quality component. The actual design of the facility made it easier for the company to comply with industry standards and with their own requirements—from how materials were received, stored, and handled, to how employees moved about the facility to how easily the facility could be cleaned. This company was also committed to continuous process improvements—always assessing processes and customer feedback to look for ways to create efficiencies and improve production and delivery. The company got a big head start by considering quality in the blueprints of the building.





## 4. Customer Service

Should a move of manufacturing make a difference in how you handle customer service? Maybe. The first thing you need to do is to determine if your customer service practices will be impacted by a move, and if so, how. Second, take this opportunity to evaluate your practices and determine how you can make them better. Now that you'll have your manufacturing operation stateside, you can take care of issues at the source. This is a distinct competitive advantage over companies that continue to offshore, so don't miss the opportunity to take advantage of it. Determine where your customer service staff will reside—consider having them close to your manufacturing facility so returns and exchanges can be handled more quickly and efficiently. You can also connect your customer service process to your quality process to ensure those issues are cleared up quickly. Like your quality processes, reshoring is an opportunity to take a close look at your customer service processes and build them as you build your facility.

## 5. ERP System

So, you have your building, your workforce, your quality and customer service processes falling into place. What about your technology infrastructure? How are you going to transfer operations of the manufacturing back to the U.S. from a foreign country? Now that you've determined that the COGS comparison of reshore versus offshore makes sense to move back to US – you also need to look at the tools you are going to use to manage the operations now and into the future. When you want to do business in the U.S., the great advantage you already have is that the infrastructure is already here to support your business (transportation routes, UPS, Amazon, etc.), so distribution can be established quickly. (If you've done business in other countries, you know not to take that for granted.) One area you will want to look at immediately is your ERP.


Are you using that country's version of the system you're using at headquarters? Are you using another system? A spreadsheet? You will need to start thinking right now about how to transfer that data into the ERP system in the U.S. For example, Microsoft Dynamics NAV easily transfers data from one country version to another, but you need to check with your software vendor about the system you're using to find out what you'll need to do to make the transition. Keep in mind that whatever you decide, you need to make sure you have a plan for now and in the future—a system that can take care of reshoring but that can also grow with you and handle technology needs such as the web and any of your company's unique processes.

## Looking for Help?

At ArcherPoint, we work with manufacturers every day to help them achieve their desired future state. With decades of experience and training, our team analyzes every location of your business, maps your goals to your processes and technology, designs an integrated manufacturing solution, and determines what needs to be done to pull it all together to deliver real value. From forecasting and planning to production and shipping, we'll get you where you want to go.

Let's schedule a consultation to discuss how you can make the move back home with ArcherPoint. Contact [emartin@archerpoint.com](mailto:emartin@archerpoint.com) today.

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