

Will Re-Shoring Take Off In 2012?

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We recently sat down with Kevin Logterman, the Managing Director of Industrial and Family Business for Cook Associates Executive Search, to discuss a survey the company had conducted regarding re-shoring initiatives in 2012. 85 percent of respondents said they saw jobs returning to America from off-shored locations in the near future, which sounds like fantastic news. 37 percent of those executives said that overseas costs were the most important factor in this shift, followed by logistics, and a number of other concerns.

The survey results are displayed directly below, and below that is our interview with Logterman, in which we discuss the results and their significance in 2012.

CHICAGO – According to a survey conducted by [Cook Associates Executive Search](#) [1], a leader in retained executive search, 85 percent of manufacturing executives see the possibility of certain manufacturing operations returning to the U.S., with 37 percent citing overseas costs as the major factor. Nineteen percent cited logistics and 36 percent stipulated other reasons, including economic/political issues, quality and safety concerns, patriotism and overseas skills shortages for highly technical manufacturing processes.

Cook Associates Executive Search polled nearly 3,000 manufacturing executives primarily in small- to mid-sized U.S. companies from October 13 through November 18, 2011. Participants consisted of C-level executives (CEO, CFO, COO) and key functional Vice Presidents (Operations, Manufacturing, Supply Chain). The survey data was supplemented by written comments submitted by individual executives.

The survey identified low-volume, high-precision, high-mix operations, automated manufacturing and engineered products requiring technology improvements or

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innovation as the primary forms of manufacturing returning to the States. “With increased manufacturing here in the U.S., we would expect increasing demand for engineering, product development, operations and finance positions,” says Kevin Logterman, Managing Director, Industrial and Family Business for Cook. “We’ll also see demand increase for finance/accounting specialists (CFOs, Controllers) who understand overseas operations and are able to calculate the true costs for exporting since they are difficult to quantify.”

Logterman commented, “The executives we polled told us that wage inflation in traditional overseas venues, especially China, is changing the value proposition for American manufacturers. Once, costs were the primary driver for moving manufacturing offshore, but now companies are doing the math and thinking more about staying at home. Also, executives told us that because logistics are complex to begin with, the financial argument has to be compelling and the dynamics are changing.

“In order to stay competitive in a slow economy, respondents are focusing more on quality and customer service as differentiators, both of which are better managed domestically. They also said that skill sets for certain manufacturing functions are not readily available overseas -- China and Asia generally are unable to meet the demand for skilled workers. Finally, patriotism was cited as a factor as executives looked for a return to a ‘Made in America’ mentality in the U.S.”

Manufacturing.net: What role does the economy have in re-shoring confidence?

Logterman: I don’t know if it’s reflective on the economy as a whole. I think, for the areas in which manufacturing is returning to the states, it has more to do with these companies looking at the economic ramifications of doing so. I don’t think there’s a direct correlation to, “The economy is getting better, let’s bring some of these jobs back.” I don’t know how much investment in capital companies are making to bring these jobs back — they may be refilling facilities and equipment that’s been mothballed since the jobs were sent away.

Mnet: What are the costs associated with this trend?

Logterman: Obviously, the first one is labor. China is raising hourly wage rates quarterly. And I think you’re looking at, with energy and fuel as it is, the cost of shipping can be expensive, especially for larger products. I would say those are the two primary cost issues. But I’m sure that differs by province or area.

I’ve talked to some executives recently who said they were willing to bring some jobs back and pay a slightly higher cost for labor, but what they got in return was higher quality (and) lower scrap rates, so that the total cost of the product was perhaps break-even or even better than it was overseas.

Aside from the wages, the specific business that seems to be coming back is the manufacturing that requires higher skilled labor — more precision manufacturing,

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precision machining. These are the sorts of products where quality, scrap and (inexpensive) shipping far outweigh the cheap labor.

Mnet: But a lot of people say there's a lack of skilled labor in America. How are these re-shorers dealing with that?

Logterman: We saw the need for higher skilled labor here in the form of engineers, product development, operations and financial people. What we're seeing is that our clients are upgrading these roles. I don't think our survey indicates there's going to be an increase in hiring, but what could be the result is a need for companies to upgrade their current positions. It may mean that they have 10 employees and they have to replace two of them with higher-level people.

Mnet: Many think that re-shoring will create new jobs for the unemployed, but will it instead be more about skilled people doing more work?

Logterman: I think with technology, companies are able to do more with less people. My feeling is that I think you'll certainly see some new hiring, but I don't believe you're going to see that direct correlation. Whereas ten years ago you maybe need to hire 100 people for a plant, today maybe you only need to hire 40 or 50. A lot of times these companies are bringing business back and putting it in existing facilities, and that does require those people who are currently in those facilities to do more.

Mnet: So, it seems that re-shoring is, of course, good for the economy, but it isn't a magical fix.

Logterman: I don't think it's a direct correlation, but it's definitely a big plus. If a company brings back manufacturing and it improves their ability to sell more product because of the quality of the product, the cost of the product, then the indirect result of that is perhaps adding even more jobs or growing their business. I think it's kind of a trickle effect, but it's definitely not the be-all-end-all.

Logically, if [a company] can either keep people employed, or bring new people in, they feel they are contributing to the betterment of our country, and the betterment of their community. Whether they're private or private equity-owned, they're very much a part of the community, and so being able to support that community by bringing jobs back creates value.

One of the things that inspired me to do this survey was that I was beginning to see some articles and comments from my clients that [work] was returning, and I was curious to see what the general population within my contacts felt. It was really cool to see the response. I think it's a positive for all of us.

About Cook Associates Executive Search

Founded by executive search pioneer Ruth Cook in 1961, Cook Associates Executive Search has thrived for more than 50 years because of its commitment to securing executive-level talent to drive corporate performance for clients. We specialize in

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recruiting key contributors that range from independent board directors to CEOs to functional VPs and other executives. Within their respective industries, our clients are innovators that span the gamut from Fortune 100 to early-stage companies, including publicly traded, family owned, private equity and venture capital backed companies. For more information, visit www.cookassociates.com/executive-search [1].

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[1] <http://www.cookassociates.com/executive-search>