Reshoring 101: Right-Sizing U.S. Manufacturing, Part 1

Tim Hutzel, Managing Director & Researcher, MainStream Management LLC, & Dave Lippert, President, Hamilton Caster & Manufacturing Co.

The story of how the United States lost its place in manufacturing dominance and why jobs were shipped offshore is highly relevant for business executives, government leaders, and anyone interested in understanding their true impact on the country and what it will take to reestablish America's prominence as a manufacturing leader.

Fall of U.S. Manufacturing Dominance

There are some Americans, mostly young, who do not know that the U.S. was once the manufacturing capital of the world, and "Made in America" was the most prevalent label on almost every product Americans bought. But the days of U.S. manufacturing dominance are gone. Most consumer goods purchased in the U.S. are now labeled "Made in China," "Made in Vietnam" or "Made in Indonesia." How you feel about this depends on your situation and point of view.

As a consumer, you probably welcome the low prices of products found in Wal-Mart and other big-box stores. As a U.S. business leader, you surely welcome the prospect of lower production costs. The Chinese government welcomes the business growth that is helping to achieve a major strategic goal — to become the next manufacturing capital of the world. And if you are a U.S. worker, displaced by the jobs exodus to foreign off-shored countries, you undoubtedly are struggling to make ends meet. Regardless of perspective, everyone feels the impact of offshoring.

Historical Perspectives: Outsourcing & Offshoring Outsourcing — A Common Practice

It has long been a common practice for companies that do not have specific manufacturing expertise or capability to have other firms make some components, or the entire product, for them — a process called outsourcing. Unless a company is completely vertically integrated (i.e., controls every part of the manufacturing process from mining the ore to wrapping the final part), it has probably outsourced some operations.

The original Ford Motor Company is a good example of a vertically integrated company that literally made the steel and then fashioned it into Model T automobiles. But the current Fords have many outsourced parts, which are assembled into the final product.

Most modern manufacturers have an area of expertise which they apply and then outsource the remaining processes. For many years, companies outsourced work to

other companies within the U.S., where an abundance of specialty shops existed. These shops not only made product components, but also made the patterns, molds and equipment needed to manufacture those components. The U.S. was teeming with skilled tradespeople, engineers and support personnel who managed the supply chain of component manufacturers.

In the latter part of the 20th century that began to change. The perfect storm was brewing, and it derailed America's manufacturing dominance, consequently putting thousands of manufacturing companies out of business and millions of skilled workers on the street.

Problems with Making It in America

U.S. manufacturers were being stretched a number of different ways that hampered productivity and profitability. For example, escalating state and federal tax rates, in conjunction with increasingly restrictive and burdensome regulations by agencies, have affected the cost equations for many manufacturers. More companies found themselves with organized labor contracts with restrictive, expensive labor practices, and rulings by the National Labor Relations Board tilted towards labor that penalized companies. Little could be done to increase selling prices to offset increasing costs because highly competitive, cheaper products were pouring in from countries offshore. Profits of companies that were making their products in the U.S. plummeted.

Although reshoring efforts are just beginning, the list of companies that have already reshored or are in the process of reshoring is growing. Here are a few:

1. General Electric – water heaters.
2. Master Lock – locker room locks.
3. Wham-O – Frisbies.
4. Windstream Technologies – windmills.
5. Tacony Corp. – vacuum cleaners.
6. Element Electronics – flat-screen TVs.
7. Lincolnton Furniture Co. – furniture.
8. Outdoor GreatRoom Co. – outdoor furniture.
9. Sleek Audio – audio equipment.
10. Peerless Industries – TV mounting systems.
11. Taphandles – beer tap handles.
12. NCR – ATM machines.
13. Coleman – coolers.
14. Horton Archery – bows.
15. ECI Biotech – diagnostic medical instruments.
16. Jarden – First Alert safety devices.
17. Whirlpool – hand mixers.
18. ET Water Systems – irrigation systems.
19. Chesapeake Bay Candle – candles.

20. Michigan Ladder – ladders.

China's Manufacturing Dominance Strategy

Deng Xiaoping, China's Communist Party leader in the latter part of the 20th Century, was a practical man compared to the idealist Mao Zedong, whom Deng succeeded. Deng saw the need for China, with 20 percent of the world's population, to be socialist on one hand, yet capitalistic on the other. Deng recognized the need for China to be able to support itself, and with his policies and commitment, China began its emergence into manufacturing.

Labor in China was both abundant and cheap, and the Chinese government either subsidized or incentivized state-run and private companies to manufacture products to compete with those made in the U.S. To further enhance the appeal of Chinese products, the Party refused to allow the yuan to float on the open market keeping it and Chinese products artificially cheap. The playing field was not level, but there were no good, obvious solutions for the U.S.

For example, in 1998, the Huffy Bicycle Company could not compete with the flood of Huffy look-alikes coming from Asia, which sold at a fraction of the bikes made in Celina, OH. The result? Huffy began to manufacture its bicycles in Asia.

Offshoring — Outsourcing Outside America

Many other U.S. companies had similar experiences and the offshoring rage was on. Product names that were once stamped "Made in America" began to be made offshore. You might remember a few: Radio Flyer's little red wagons; all Mattel toys, including Barbie dolls; Converse athletic shoes; Ohio Art's Etch A Sketch; General Time's Seth Thomas clocks; Levi's Jeans; and even Hershey's chocolate bars and candy kisses. The list of products made offshore would not surprise anyone today, and the list is a very long one indeed.

However, offshoring brings with it a mixed bag. At first, there was the good news. For the U.S. consumer, products became more affordable and the family budget was allowed to stretch — we bought more stuff with the same dollars. For the U.S. company offshoring, manufacturing costs were lower, the impact of government agencies and organized labor was reduced and profits were higher.

But after a few years of buying foreign made products, consumers learned that cheaper prices also meant cheaper quality products that did not last as long or did not perform as advertised. It was easier and cheaper to throw away the offshored products than it was to try to repair them or make them work properly. Offshoring contributed to our becoming a "throw away" society.

What's your take? Please feel free to comment below! Please tune into tomorrow for part two of this two-part piece. For more information, please visit www.mainstreammanagement.com *[1] and/or* www.hamiltoncaster.com *[2].*

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