The Real Cost Of That Pool Toy

Laurie Keyser Brunner, President, MainStream Management LLC

My cell phone rang. A simple question from a friend: “You’ve worked in China. Can you recommend a manufacturer to produce my patented pool toy?” Ordinarily, rattling off potential Chinese producers would have been easy. But, having just spent a week touring U.S. manufacturing facilities in Ohio, I dramatically altered my response. “Have you considered a US-based producer? Why not keep the job in America?” My friend was surprised: “Really? I hadn’t thought of that.” And, therein lies the root of the problem.

When we think about profitably manufacturing goods, China is at the top of the list, followed closely by Vietnam, Indonesia and Malaysia. But, I am here to report that manufacturing in America is alive, if not exactly well. And, the best of U.S. manufacturers can compete with—and beat—the cost of overseas production. All it requires is a change in attitude and policy. Rebuilding U.S. manufacturing requires a paradigm shift in our thinking.

The key issue is profits. Profit — the noble pursuit of business and the driver of economic growth. In the case of manufacturing profit, the pressure to offshore is based on an invisible supply chain reaching from the plush offices of Wall Street all the way down to the dust on the plant floor. The supply chain is cash and profits, derived from manufacturing output. Yet, little consideration is given to the vast distance between the investor and the worker. Profits drive the relationship, but does the pursuit of profit really encourage the right decision-making for the long-term sustainability of the entity, its stakeholders and its customers?

Sustainability is a word that is often used in the context of environmental issues, but in the case of manufacturing, the definition of sustainability takes on added dimensions. Manufacturing sustainability includes the economic and social impacts of decisions, and must also take into account the concept of stewardship [1] — the responsible management of resources.

What I saw on the shop floors in Ohio is a day-in, day-out routine, and with an average tenure of plant workers of nearly 25 years. They have given their lives to these companies. At Airstream, the iconic manufacturer of travel trailers, 25 percent of the workforce has been on the job more than 30 years. Amid the daily routine on the plant floor, Airstream leadership has established a culture of improvement and an efficient Lean manufacturing process. Workers can see the positive impact of that change. There is enthusiasm to provide ideas for continuous improvement and as a result, Airstream’s business is thriving. While Airstream is a non-union shop, I found similar attitudes at both union and non-union plants, where leaders have embraced efficiencies and engaged employees in a process of improvement.

The change in today’s thinking about U.S. manufacturing requires leadership to

answer the question, “Is our decision to off shore 20 years ago still valid today?” That decision made two decades ago may have lost most of its raison d’etre, and with the benefit of 20/20 hindsight, it’s not hard to see why.

The total cost of overseas production goes well beyond the more easily quantifiable financials; it must include the multitude of issues necessary to do business thousands of miles away. Factors such as production lead times, culture and communication challenges, quality assurance, intellectual property rights, shipping costs and time zone differences all must be factored. And, this is not withstanding the rising costs of overseas labor, customer demands for “I want it now,” the socio-economic costs of laid off U.S. workers and the broader economic impact of producing goods outside of the United States. These are just a few of the real costs of offshoring that are too often overlooked.

Reshoring isn’t just about skilled versus unskilled labor. Even unskilled tasks can be performed more efficiently within a Lean environment in the U.S. This includes riveters at Airstream, where 15,000 rivets go into one travel trailer with exacting quality standards. While it takes six months of training to be proficient enough to flawlessly do this, Airstream’s efficient production environment has kept all manufacturing in the U.S., and this includes the manufacture of trailers that are now being shipped to China, Australia and Europe.

Midmark, an Ohio manufacturer of healthcare equipment, has realized both market share gain and closer alignment with their mission of customer care by keeping 90 percent of their manufacturing in the U.S. Although Midmark produces highly customized products — medical chairs, examination tables and cabinetry — they’ve created competitive advantage based on solely just-in-time inventory and Lean process that has customers “raving” about the swift delivery and processing of their orders.

The list of companies that are recognizing the U.S. manufacturing advantage is growing. Smaller quantities that require a precise production process are opportunities to reshore. Production that is highly customized can also be more efficiently produced in America. Even clothing manufacturers, such as Brooks Brothers, are finding benefit in a “Made inAmerica” label. And, foreign corporations, such as Toyota, Mercedes and Volkswagen, which are now producing U.S.-made vehicles, provide further evidence that a paradigm shift is underway.

These green shoots of U.S. manufacturing capability herald a resurgence in domestic production — an “American Industrial Spring.” Businesses, like my friend’s, need to do a full accounting of the costs of overseas production, costs which go well beyond the P&L statement. Now for the rest of the story: All components of my friend’s new pool toy, including the labeling and mesh carrying bag, will be “Made in America.” She, like others, found that U.S. manufacturing can profitability be the very best.

Laurie Keyser Brunner is President of MainStream Management, LLC, a company providing corporate renewal and financial restructuring, operational improvement, and transaction services for middle market privately-held companies and public-

traded companies: www.MainstreamManagement.com *[2]*

Source URL (retrieved on *04/19/2015 - 3:52am*):
http://www.impomag.com/blogs/2013/01/real-cost-pool-toy?qt-most_popular=0&qt-recent_content=1

Links:
[1] http://en.wikipedia.org/wiki/Stewardship
[2] http://www.mainstreammanagement.com/