

Why “Made in the USA” is Back

Five Keys That Triggered America's Manufacturing Resurgence

By Erik Kessinger, Executive Senior Partner
Lucas Group

INTRODUCTION

“Made in the USA” is back. Reshoring is expected to generate between [two to three million manufacturing jobs by 2020](#), including strong growth in support services such as construction, transport and retail. With an estimated 3 million to 4 million jobs still overseas, the manufacturing industry is poised for steady job gains in the coming decade.

The American economy is already experiencing strong manufacturing job gains. An estimated 215,000 manufacturing jobs were added to the U.S. economy in the last two years, thanks in part to reshoring and foreign direct investment, reports the [Bureau of Labor Statistics](#). 2014 was a watershed year for American manufacturing, with the economy experiencing a net gain in manufacturing jobs for the first time in two decades. This steady growth continued through 2015, driving a positive growth trajectory that had not occurred since the late 1990s, according to the [United States Department of Commerce, Economics & Statistics Administration](#).

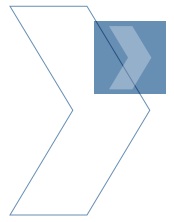
As an executive search consultant specializing in manufacturing and supply chain management, I get an insider's look into this ever-changing global marketplace from key industry decision makers. This includes the current trend to source jobs domestically. For the last two years, I've focused on understanding the complex factors driving reshoring and foreign direct investment. An in-depth understanding is key to anticipating future manufacturing growth trends and sourcing top industry talent.

From Offshoring to Reshoring: The Evolving State of American Manufacturing

America's manufacturing industry has experienced a boomerang in job loss and growth over the last 15 years, going from significant loss to a slow albeit steady recovery. While it's easy to blame offshoring or the Great Recession, a more nuanced investigation reveals complex macroeconomic factors underlying this change, including our own productivity.

America's manufacturing output has increased steadily over the past half century, and so too has our efficiency. As machines replaced humans on the assembly line, factories found they needed fewer people to produce the same output levels. However, America's efficiency and productivity are just one piece of the puzzle.

Changes in foreign trade policy also created new opportunities for cost-effective overseas manufacturing. The combination of increased automation efficiency and changing trade regulations led manufacturing jobs to disappear at an alarming speed during the first decade of the 21st century. Detroit, Toledo, Buffalo and Milwaukee – once major manufacturing capitals in America's “Rust Belt” – were amongst the hardest hit by job loss. Job loss for these



cities' corresponding states is staggering. Consider the [percentage of manufacturing jobs lost](#) in these four states between 2000 and 2010:

- Michigan: 47%
- Ohio: 40%
- New York: 39%
- Wisconsin: 27%

Manufacturing job loss was not limited to the Rust Belt; manufacturing jobs declined in all 50 states. In the 2000s, U.S. manufacturing suffered its “worst performance in American history” in terms of job loss, reports [the Information Technology & Innovation Foundation](#). Not only did America lose 5.7 million manufacturing jobs that decade, but the decline as a share of total manufacturing jobs (33 percent) also exceeded the rate of job loss in the Great Depression.

What triggered this seismic shift? In a paper for the [National Bureau of Economic Research](#), economists Justin R. Pierce and Peter K. Schott contend that foreign trade was the chief culprit. Pierce and Schott found a link between the sharp drop in U.S. manufacturing employment after 2001 and the elimination of trade policy uncertainty. Industries where the threat of tariff hikes declined the most also experienced greater employment loss due to suppressed job creation, exaggerated job destruction and a substitution away from low-skill workers.

“These policy-related employment losses coincide with a relative acceleration of U.S. imports from China, the number of U.S. firms importing from China, the number of Chinese firms exporting to the U.S., and the number of U.S.-China importer-exporter pairs,” write Pierce and Schott.

In 2011, [China surpassed the United States](#) to become the world’s largest producer of manufactured goods. What used to be built in Detroit was now being manufactured in Guangdong. For the American manufacturing industry, outsourcing and offshoring have been among globalization’s most disruptive consequences. But these pressures have also helped usher in a new era of innovation. As automation streamlines production lines, some lost jobs will never be recovered. However, this automation, coupled with reshoring and foreign direct investment, is creating new opportunities for highly skilled manufacturing and supply chain management positions that didn’t exist a decade ago.

While concerns over the global economy persist, 82 percent of manufacturers are still planning to increase expenditures in the coming year, reports [PwC](#). Additional positive recovery indicators include:

- In 2014, the Purchasing Managers’ Index achieved its most favorable level since the Great Recession, reports the Institute for Supply Management.
- Energy prices are reaching comparative lows not seen in decades, a phenomenon spurring domestic production and curbing foreign demand.
- A recent reshoring study from A.T. Kearney confirmed 300 cases of reshoring in 2014, up from 16 in 2010.

U.S. manufacturing is far from dead. How did we enter this new era of resurgence? Five key factors are at play: (1) competitive labor costs; (2) quality manufacturing; (3) end-user proximity; (4) public relations pressures; and (5) innovation and entrepreneurship.



5 Keys that Triggered America's Manufacturing Resurgence

1. LABOR COSTS

- **Chinese wage/benefit costs increasing 15 to 20 percent per year; U.S. increasing only 3 percent.**
- **Diminished union discord and increased willingness to negotiate is closing wage gap.**

China's low labor costs have long been cited as a primary rationale for offshoring American jobs. In 2008, [U.S. wages were nearly 24 times higher than Chinese wages](#). However, as more companies relocated manufacturing jobs overseas, demand for highly skilled foreign workers increased. Wage and benefit increases of 15 to 20 percent per year at the average Chinese factory have squeezed overseas manufacturing product margins. In comparison, U.S. manufacturing labor costs dropped by 4.3 percent over the last four years, making reshoring that much more attractive. By 2020, the wage gap will have narrowed even more dramatically. U.S. wages will only be about five times higher than Chinese wages, down dramatically from 2008 when U.S. wages were 24 times higher than wages in China, estimates the [U.S. Department of Commerce](#).

Since labor costs account for a relatively small portion of a product's manufacturing costs, the savings gained from outsourcing to China have dropped to single digits. And for many of the companies I work with, these minor cost savings come at a high price: lower quality work and higher logistics costs.

At the same time, I've seen how diminished union discord is positively impacting manufacturing job growth. Union leadership is adopting a less confrontational approach to contract negotiations. With a focus on collaboration rather than long-term wage stoppages, unionized workers are increasingly seen as skilled assets rather than costly obstructionists. Unions are also more willing to accept concessions in order to bring jobs back to the United States. When GE moved production for its energy-efficient water heaters back to the company's Kentucky plant, GE negotiated a rate of \$13/hour, down from \$22/hour.

Manufacturing companies are ready to hire American workers. At the beginning of 2015, PwC found that 78 percent of U.S. industrial manufacturers planned to hire new skill function employees over the next 12 to 24 months with the broadest needs in engineering/design (62 percent), manufacturing (44 percent) and R&D (28 percent). Moving into 2016, 37 percent of industrial manufacturers still plan to add employees to their workforce, reports [PwC](#).

2. QUALITY MANUFACTURING STANDARDS

- **"Made in China" synonymous with shoddy manufacturing, even for Chinese consumers.**
- **Verifying manufacturing standard compliance adds an extra layer of cost, time and logistics management.**

For American-based consumers and businesses alike, "Made in China" increasingly connotes shoddy manufacturing, a lack of production oversight, and unsafe products. In 2015, a "[60 Minutes](#)" expose alleged that Lumber Liquidators manufactured laminate flooring in China that contained toxic amounts of formaldehyde and did not meet California health and safety standards. In a follow-up investigation, experts told [CNBC](#) that Chinese manufacturers cuts corners as soon as production begins in an effort to hold the line on costs. The Lumber Liquidators flooring scandal is just the tip of the iceberg.

The lack of quality oversight is evident throughout Shenzhen, China's manufacturing hub city. An estimated [90% of the world's electronics](#) originate in Shenzhen. In Shenzhen, it's standard practice for larger factories to place component part orders from several suppliers, leading to further lack of oversight. For example, an international



sales manager from the Shenzhen-based company CHIC told [Quartz](#) that some factories that claim to use Samsung batteries actually use fakes. The factories wrap a piece of paper around the battery with a fake Samsung label and pass them off as the real thing in order to bypass quality control standards. Swapping out batteries for a generic version may seem like an easy cost-cutting solution, but the practice can have serious safety ramifications, including an increased risk for spontaneous fires during charging.

Consider the case of the exploding hoverboards, arguably 2015's must-have holiday gift. Fire departments from Louisiana to London battled serious house fires that resulted when the charging boards spontaneously burst into flames. Amazon ultimately pulled hundreds of nearly identical listings from its marketplace. The hoverboards were all manufactured in Shenzhen and then sold through third party distributors in the US; none of the hoverboards were subject to any safety or quality requirements or official inspections.

In order to verify manufacturing standard compliance, companies need to hire local auditors, make regular site visits and conduct independent lab testing on Chinese-made products. All of these processes add an extra layer of cost, time and logistics management that companies don't have to face in the United States, where manufacturers adhere to contract stipulations and strict safety standards.

The U.S. quality advantage is important to manufacturers and end-users whose brands depend upon quality manufacturing. Following the 60 Minutes expose in 2015, shares of Lumber Liquidators stock plummeted.

Adherence to strict quality standards is essential in industrial manufacturing, precision machining and distribution/logistics. Quality adherence is also important for high-end consumer goods, an area dominated by Chinese production over the last 25 to 30 years. While high-volume consumer manufacturing will likely remain the purview of overseas companies, the manufacturing companies I work with are bringing products like power tools, 3D printers and complex industrial machinery back U.S. soil for assembly and distribution.

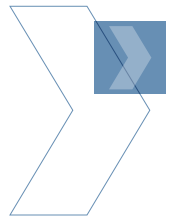
3. END-USER PROXIMITY

- **Nearly half of all manufacturers report problems with cycle and delivery time.**
- **Close end-user proximity essential for order flexibility and customization.**

One of the key advantages that America has over foreign production is logistics. Manufacturers are realizing that the physical location of supply and manufacturing operations can have a significant impact on overall competitiveness. An unbalanced network – where supply is physically separated from demand – makes it difficult for businesses to deliver on the very customer expectations that are critical to driving growth.

Time and time again I've listened to manufacturing companies discuss their frustrations with meeting seasonal demand and custom order production. Market speed is vital for manufacturers to take advantage of purchasing trends and seasonal fluctuations like the Thanksgiving through New Year's holiday season. Getting products to consumers quickly is especially important for businesses that practice just-in-time warehousing. In some cases, offshoring has negatively impacted a company's competitive advantage, limiting growth and revenue, reports Accenture in a 2011 study on offshoring/reshoring trends.

For example, nearly half of the 287 manufacturing companies that [Accenture](#) surveyed reported problems with cycle or delivery time. Forty-six percent of respondents reported product quality concerns as a result of offshoring manufacturing and supply operations. From my personal experience, I can attest that quality concerns may be even



higher than this report indicates. When goods are produced halfway around the world, companies lack sufficient flexibility and agility to respond to demand fluctuations and shifting consumer needs. Manufacturers are then faced with the dilemma of either sacrificing high quality standards or settling for higher production costs. When these companies chose to reshore jobs, they shorten the supply chain and are better positioned to meet customer delivery demands.

4. POSITIVE CORPORATE IMAGE

- **Eight out of 10 Americans willing to pay more for American-made goods.**
- **“Made in America” successful advertising campaign for major consumer goods manufacturers.**

As the U.S. economy continues to recover from the Recession, a key part of this recovery has been the revival of “Made in America”. What started as a grassroots movement to control purchasing power and invest in American ingenuity by “voting with the wallet” became marketing gold for manufacturers. A watershed moment for corporate advertisers came during the 2012 Super Bowl, when [marketers paid NBC millions to run ads with a “Made in America” theme during the game](#). These ads included spots for General Electric’s “GE Works” that shows refrigerators being built in the United States; an ad for Hyundai featuring workers at the car company’s Montgomery, Alabama factory; and Chrysler Group’s “Halftime in America” that featured Clint Eastwood declaring, “The world’s going to hear the roar of our engines.”

“Made in America” resonates with consumers overseas, too. Over [60 percent of Chinese consumers are willing to pay more](#) for products labeled “Made in America” than “Made in China”, with Chinese consumers paying a premium as high as 80 percent for American-made products over Chinese-manufactured products of similar quality.

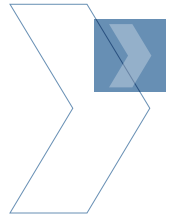
Today, there’s a stronger awareness among Americans about the importance of buying products made in the USA, with nine out of 10 Americans citing domestic jobs as a reason for choosing “Made in USA” goods.

5. INNOVATION AND IP PROTECTION

- **IP theft costs the U.S. an estimated \$300 billion per year.**
- **China responsible for as much as 80 percent of all IP theft.**

From Thomas Edison to Henry Ford to Steve Jobs, the United States enjoys an impressive history of invention and ingenuity. Nothing encourages entrepreneurship quite like the freedom to take risks, the freedom to fail, and – perhaps most importantly – ironclad intellectual property protections. The U.S. has strong IP protections in place; China does not. In 2013, the bipartisan [Commission on the Theft of American Intellectual Property](#) warned that IP theft is costing the U.S. as much as \$300 billion per year, with China responsible for as much as 80 percent. The majority of IP theft doesn’t occur through cyber-espionage. IP theft still takes place via more traditional methods, including bribery and on-site stealing. The length of supply chains makes it increasingly difficult for major corporations to stop overseas IP theft.

Despite its manufacturing prowess, China is more renowned for replicating technology than for creating it. The bipartisan Commission on the Theft of American Intellectual Property estimates that Chinese IP theft costs American companies hundreds of billions of dollars a year– an amount that’s roughly equivalent to the total amount of U.S. exports to Asia. Compounding the problem: the International Trade Commission’s process for sequestering



stolen IP is slow and inefficient. Increasingly, companies are returning to the United States not only because of our reputation for innovation, but also because of our strong IP protections.

CONCLUSION: NEXT STEPS FOR MANUFACTURING IN 2016

Today, the future of American manufacturing is far more promising than anyone could have imagined a decade ago. In the rush to take advantage of cheaper Chinese labor costs, companies made outsourcing decisions based primarily on production and labor costs, overlooking logistics concerns, quality concerns, IP protection problems and higher shipping/freight costs. Companies that initially estimated savings of 50 percent ended up saving only 10 percent once they factored in all their supply chain variables, reports [Inbound Logistics](#). Offshoring separates manufacturing from engineering and compromises lean production, lengthening delivery time and making build-to-order or mass customization a costly undertaking. Add in a spike in foreign labor costs and a lack of overseas quality oversight, and reshoring becomes an increasingly attractive business decision.

Top Reshoring Industries & In-Demand Skillsets

Currently, the top three reshoring industries according to [A.T. Kearney's Reshoring Index](#) are electrical equipment, appliance and component manufacturing (15 percent of reshoring cases); transportation equipment manufacturing (also 15 percent of cases); and apparel manufacturing (12 percent of cases). Apparel manufacturing is especially significant as industry watchers predicted these jobs would never return.

That said, all lost manufacturing jobs are not expected to return. Looking forward, labor-intensive industries are likely to continue to remain offshore. It is also important to keep in mind that while end-user proximity is a primary driver for reshoring, close proximity can also be achieved in Mexico, a country with loose labor regulation and lower wages. Thanks to NAFTA, goods can be produced more cheaply in Mexican border towns like Reynosa and then trucked into the United States via South Texas. Concerns over the slowing global economy will also impact reshoring and may result in slower manufacturing job growth across the board.

As we look forward into 2016, the most in-demand skill sets are LEED certification for the building and construction industry and knowledge of sustainability and lean transformation. Building materials, aerospace, and consumer products (including consumer packaged goods), are three industries poised for steady job growth. The most in-demand job titles include COO, Vice President of Operations, Vice President of Operations & Supply Chain, and Vice President of Global Logistics.

Manufacturing's Future in 2016

Labor costs will always be an important variable when considering manufacturing operations, but other variables including end-user proximity, IP protections, energy costs, and quality control matter, too. Increasingly, manufacturers are also moving towards a "total cost" perspective. Labor costs in the United States may never be as cheap as overseas markets. However, automation and other measures that improve productivity also undercut the primary attraction of outsourcing to China: access to low-cost labor. At the same time, a reduction in logistic problems and the ability to quickly meet customer needs, such as customized products or customer-specific SKUs, may outweigh the limited overseas cost savings. Coupled with strong domestic energy production and positive public sentiment supporting American ingenuity, "Made in America" makes smart business sense.