Reshore Sewn Products,
Win the Reshoring Award
First National
Sewn Products Reshoring Award

● Eligibility:
  ● Sewn products
  ● Contract manufacturers and brands/OEMs
  ● Reshored to the U.S. 1/1/13 to 1/31/19
  ● For apparel: Reshoring includes any significant new or increased production that inevitably replaces imports

● Application Site: Will be announced soon
● Announce Winner: 2019 Spring Conference
● Massive publicity!
Benefits

- Benefits for the winner: Publicity
- Benefits for the industry: Recognition of increased U.S. competitiveness
Some Definitions

- Reshoring/Backshoring/Onshoring/Insourcing: Bringing back manufacture of products that will be sold or assembled here.
- FDI: Similar logic. Different owner.
- Localization. Producing near the consumer.
- Nearshoring: Mexico or Canada
- U.S. potentially the biggest beneficiary.
Reshoring Definition

- A product’s sourcing is shifted from offshore to the U.S.
- Can be captive or contract manufacturing.
- Apparel: Any new or significantly increased production, if generally taking share from imports. (Since only 3% is sourced domestically today.)
Relevant Trends

- **eCommerce:** Requires immediate replenishment
- **Rapid design changes:** Need to test products, collaborate with influencers, fulfill consumer expectations
- **Advanced technologies:** Minimizes impact of higher wages. Lessens production time
- **Heavy retail discounting:** Requires lower inventory, smaller MOQ
- **Rising offshore wages:** Reduces the price gap
- **Preference for Made in USA:** Helps with volume/margin
- **Mass and local customization:** Requires quick response

Sources: Mostafiz Uddin, Dhaka Tribune; Bill D’Arienzo, Apparel Magazine; Janice Wang, Sourcing Journal
### The Tide Turned in 2016

<table>
<thead>
<tr>
<th>Manufacturing Jobs/Year</th>
<th>2000-2003 Annual Average</th>
<th>2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Offshoring</td>
<td>~240,000</td>
<td>~50,000</td>
<td>-75%</td>
</tr>
<tr>
<td>New Reshoring &amp; FDI</td>
<td>12,000</td>
<td>77,000</td>
<td>+ 500%</td>
</tr>
<tr>
<td>Net Jobs Gained</td>
<td>~-220,000</td>
<td>~27,000</td>
<td>N/A</td>
</tr>
</tbody>
</table>


Reshoring and FDI
Mfg. Jobs Announcements

Reshoring

FDI

[Graph showing reshoring and FDI trends from 1997 to 2017]
We are Beating the Trend.

BLS Manufacturing Employment, 000s

\[ y = 18486e^{-0.031x} \]

\[ R^2 = 0.9123 \]
Flawed Company Sourcing Models

60% of manufacturers:
- Apply “rudimentary” total cost models
  - Wage Arbitrage
  - PPV (Purchase Price Variance)
  - Landed Cost
- Ignore 20% or more of the total cost of offshored products
- Also applies to BOP, call centers & IT

Source: Archstone Consulting survey, American Machinist Mag., 7/16/09
US: Unit labor costs in manufacturing in US$

Source: Oxford Economics/Haver Analytics
The Industry-Led Reshoring Initiative Provides

- Online Library of 5,000+ reshoring articles
- Case Study template for posting cases.
- Motivation for skilled manufacturing careers
- Summary of 15 surveys on consumer preference for Made in USA
- Resources for Retail Suppliers
- Free Total Cost of Ownership (TCO) software for:
  - Companies for sourcing
  - Suppliers of parts and equipment for selling
TCO Comparison Example

Present and Forecast US and China Price and TCO (US$)

Year 1
Year 2
Year 3
Year 4
Year 5
US TCO
China TCO
US Price
China Price
Chinese ex-Works Price, % of U.S.
Chinese Price and TCO, % of U.S.

% of Cases vs Relative Price or TCO

Source: TCO User Database, Reshoring Initiative
Based on price, Chin has a 28% average advantage. Based on TCO, about a 5% advantage.

Harry Moser, 3/14/2018
CDF (Cost Differential Frontier)

What is the real value of producing close to demand?

- Based on lead time and variability in order rates
- Quantifies the cost of excess inventory, obsolescence and lost orders
- Developed by Prof. Suzanne de Treville, Univ. of Lausanne
- Can add 15% to 20% to the offshoring costs identified by the TCO Estimator

http://cdf-oplab.unil.ch/
Local production dominates
Balance the $700 billion goods trade deficit

- 5 million manufacturing jobs
- Cut U.S. budget deficit
- Strengthen the middle-class
- Increase manufacturing: 40%
- Strengthen recruitment
- Dramatically increase domestic demand
- Allow productivity and growth in mfg. employment
Virtuous Cycle: Reshoring/Productivity
Some Reshorners
Athletic Shoes

- China to Stratham, NH
- Expected 200 employees
- Expected $5 million investment

**Reasons:**
- Automation/technology
- Total cost
- Image/brand

Menswear

T O D D  S H E L T O N

• Built a factory to solve problems of quality and consistency
• Moved from off-shored outsourcing to on-shored in-house manufacturing
• Factory begun in 2012
• East Rutherford, NJ

• Reasons
  • Loss of control
  • Proximity to customers, lead time
  • R&D, customization
  • Lean manufacturing-inventory model

Socks
(Kept from Offshoring)

- Kept from offshoring, North Carolina, 2013
- 100 new jobs
- $28 million additional investment
- Expanding “Made in USA” program alongside Walmart’s initiative

Sources:
Women’s Apparel

China to Los Angeles, CA

Reasons:

- Quality control
- Rising labor and duty costs in China
- Nimble companies are better able to capitalize on a trend
- More sophisticated manufacturing techniques means production is no longer prohibitively expensive
Hooded Sweatshirts

- Reshored sourcing and production from India to Gaffney, SC, 2012-2013
- Spun yarn source: Parkdale Mills, Gaffney, SC (mill reopened in 2010)
- Fabric source: Carolina Cotton Works
- Reasons:
  - Freight cost
  - Lead time/time to market
  - Rising wages
  - Communication
  - Quality
  - Automation/technology

Source:
Woodridge, IL
Supplies heavy equipment companies
Had quality issue with a Chinese component
Found local IL source
Result:
- Quality problem fixed
- Inventory cut by 94%
- $60M order
Save on Out-of-Stocks/Overstocks

- Retail’s stockout/overstock losses: worldwide $1.1 trillion/year* / U.S. $250 Billion/year
- Reshoring improves delivery / product availability through shorter lead times via shorter supply chains
- Reduces inventory
- Top business issue for N. American retailers is increasing availability without increasing inventory (67%)


Typical Markdowns by Retailer Category

<table>
<thead>
<tr>
<th>FAST FASHION (ZARA)</th>
<th>TRADITIONAL U.S. APPAREL RETAILER</th>
<th>U.S. DEPARTMENT STORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% of items</td>
<td>50-60% of items</td>
<td>60-70% of items</td>
</tr>
<tr>
<td>15% markdown</td>
<td>40% markdown</td>
<td>40% markdown</td>
</tr>
</tbody>
</table>

Source: Sourcing Journal, Zara Gap: Change the Culture, Change the Game, Apr 2016/
Benefits of Apparel / Textile Reshoring

- **Smaller batches**: lower inventory levels and total cost
- **More flexibility**: mass customization, easier style changes and speed to market for fast fashion
- **Local for local**: positive impact on economy/environment for socially conscious consumers
- **Smaller runs of garments that sell at full-price are better than volume runs of garments that have to be sold at discount.**

Reshoring’s emotional connection with consumers is delivered by how, where and by whom the product is made.

Examples of reshoring’s value proposition:
- **Shinola**: connects quality and craftsmanship to the economic/social well being of the community.
- **New Balance**: historic factory building connects with history of townspeople.
- **Brooks Brothers**: capitalized on history/location when they reshored 70% of their manufacturing to a historic factory.

Source: Apparel Magazine, Feb. 2016, Reshoring Success Stories:
Promote Societal Benefits

- Study says: Documenting the societal benefits of reshored products → more sales at higher prices


- Consumer Preference for U.S.-Made Apparel
  - 53% of consumers say U.S.-made is an important factor in purchase decision
  - Among all generations, purchasing made in USA is important:
    - To support the U.S. economy (79%)
    - For better quality (46%)
    - More environmentally friendly (30%)

How important is it to you that the clothing you buy is "Made in the USA?"

- Very/somewhat important
- Neither important nor unimportant
- Somewhat unimportant
- Not at all important

Internet Search Engine Optimization (SEO) for American-Made Marketing

- Google searches for American-made climbing sharply (94%/2016)

- Companies should add “made in USA” or “American-made”:
  - To headlines and ad text
  - To title tag and snippet description
  - To page elements on landing page i.e. messaging, flag
  - To page elements on individual product descriptions

- Specifically state “Country of Manufacture” for all the components that comprise a product.

Summary: Reasons to Reevaluate Offshoring

- Appeal to rising consumer preference for Made in USA
- Reduce lead time, excess inventory, stock-outs, overstocks
- Labor costs rising offshore
- Strengthen your brand’s image
- Strengthen your customer base’s income
- Tools now available for the analysis
Woodridge, IL
Supplies heavy equipment companies
Had quality issue with a Chinese component
Found local IL source
Result:
- Quality problem fixed
- Inventory cut by 94%
- $60M order
<table>
<thead>
<tr>
<th>Rank</th>
<th>Negative Reasons Offshore</th>
<th># of times cited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Quality/rework/warranty</td>
<td>292</td>
</tr>
<tr>
<td>2</td>
<td>Freight cost</td>
<td>196</td>
</tr>
<tr>
<td>3</td>
<td>Total cost</td>
<td>147</td>
</tr>
<tr>
<td>4</td>
<td><strong>Delivery</strong></td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>Inventory</td>
<td>91</td>
</tr>
<tr>
<td>6</td>
<td>Rising wages</td>
<td>88</td>
</tr>
<tr>
<td>7</td>
<td>Supply chain interruption risk/Natural disaster risk/Political instability</td>
<td>78</td>
</tr>
<tr>
<td>8</td>
<td>Intellectual property risk</td>
<td>64</td>
</tr>
<tr>
<td>9</td>
<td><strong>Communications</strong></td>
<td>61</td>
</tr>
<tr>
<td>10</td>
<td>Green Considerations</td>
<td>53</td>
</tr>
</tbody>
</table>

Source: Reshoring Initiative Library, December 2017
## Positive Reasons to Reshore: Top 10 (Technology, Talent, Strategy)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Positive Reasons to Reshore/FDI</th>
<th># of times cited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government Incentives</td>
<td>527</td>
</tr>
<tr>
<td>2</td>
<td>Proximity to customers/market</td>
<td>493</td>
</tr>
<tr>
<td>3</td>
<td>Skilled workforce availability/training</td>
<td>446</td>
</tr>
<tr>
<td>4</td>
<td>Image/brand Made in USA</td>
<td>398</td>
</tr>
<tr>
<td>5</td>
<td>Eco-system (supply chain) synergies</td>
<td>336</td>
</tr>
<tr>
<td>6</td>
<td>Lead time/Time to market</td>
<td>251</td>
</tr>
<tr>
<td>7</td>
<td>Infrastructure</td>
<td>239</td>
</tr>
<tr>
<td>8</td>
<td>Automation/technology</td>
<td>211</td>
</tr>
<tr>
<td>9</td>
<td>Manufacturing/engineering joint innovation (R&amp;D)</td>
<td>155</td>
</tr>
<tr>
<td>10</td>
<td>Higher productivity</td>
<td>141</td>
</tr>
</tbody>
</table>

Source: Reshoring Initiative Library, December 2017
Objective:
Policy Tide that Uniformly Lifts all Industries
## Competitiveness Toolkit

<table>
<thead>
<tr>
<th>Factor</th>
<th>Model</th>
<th>Δ Price Advantage</th>
<th>Time to Implement, Years</th>
<th>Ease of Passage, 1-10, 10 High</th>
<th>Severity of Secondary Impacts, e.g. WTO, 10 High</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% VAT</td>
<td>≈ The World</td>
<td>15%</td>
<td>5</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>$ Down 20%</td>
<td>≈ The World</td>
<td>10%</td>
<td>3</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>100% use TCO &amp; CDF</td>
<td></td>
<td>10%</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Skilled Workforce</td>
<td>Germany and Switzerland</td>
<td>5%</td>
<td>10 - 20</td>
<td>8</td>
<td>1</td>
</tr>
<tr>
<td>Less Regulations</td>
<td></td>
<td>3%</td>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Healthcare $ -30%</td>
<td>Germany</td>
<td>3%</td>
<td>15</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Make duty rates =</td>
<td></td>
<td>3%</td>
<td>3</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>15% Corp. Tax rate</td>
<td>Ireland</td>
<td>2%</td>
<td>1</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>51%</td>
</tr>
</tbody>
</table>
Chinese Price and TCO, % of U.S.

Source: TCO User Database, Reshoring Initiative
Based on price, Chin has a 28% average advantage. Based on TCO, about a 5% advantage.

Harry Moser, 3/14/2018
Desired Goods Trade Deficit, % Reduction | Number of Mfg. Jobs Brought Back | Required Δ U.S. Price if Price Used | Required Δ U.S. Price if TCO Used | Time to Steady State* 
--- | --- | --- | --- | --- 
20% | 1 million | -10% | 0% | 10 years 
40% | 2 million | -15% | 0% | 15 years 
60% | 3 million | -20% | -5% | 20 years 
80% | 4 million | -25% | -10% | 25 years 
100% | 5 million | -30% | -15% | 30 years 

Assumes: Gains only from reduced imports

* Mainly to develop the skilled workforce
Use MAC to Manage the $

- $ consistently overvalued
- MAC: Market Access Charge
- Charge foreign financial investors a market access fee when:
  - Dollar overvalued
  - Trade deficits
- MAC charge rises as trade deficit rises.
- MAC falls as trade deficit falls.
- Permanent trade balance, maximum employment, and benefits of global trade.

Source: Dr. John Hansen, International Economist, CPA
Selling using TCO

- Focus on profit impact, risk management, strategic benefits
- Ask about products that are causing the customer problems
  - late deliveries, poor quality, intellectual property theft, excess inventory, lost orders and travel costs.
- Overcome mandates
- Work with natural allies:
  - Lean, Green, Compliance, Quality Champions
- Maximize the advantages of proximity
- Match “Chinese” price or ......?
Would love to cooperate with members on:

- Testing:
  - Made-in-USA impact on volume and price
  - How to help consumers find Made-in-USA products
- Documenting reshoring cases
- Enabling reshoring
- Convincing brands and retailers
Questions for you!
Mark and Pass in your Business Cards!

- Who:
  - Wants to reevaluate offshoring? A
  - Has a reshoring case to report? B
  - Will compete for the Award? C
A non-profit with 27 sponsors

Platinum
- AMT
- DGS
- Gardner Business Media, Inc.
- Modern Machine Shop

Gold
- +GF+
- United Grinding Körber Solutions

Silver
- PMA
- NTMA
- SME
- Wessel Group
A non-profit with 27 sponsors

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- AFS
- DARCO
- American Welding Society

Steel
- Swiss Machine Tool Society
- BIG KAISER
- NIXON PEABODY
- BLS & Co.
- NIMS
- IC

Iron
- USCTI
- Canadian Tooling & Machining Association
- EROWA
- MSSC
- Precision Resource
- Women in Manufacturing
- Legacy
Do the Math. Compete with Imports!

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www.reshorenow.org

Useful links:
ACETool
Cost Differential Frontier
Total Cost of Ownership Estimator™
Skilled Workforce
Economic Development