



Reshoring Initiative

Bringing Manufacturing Back Home

Reshore Sewn Products, Win the Reshoring Award

SEAMS Annual
Networking Conference
2018

Harry Moser
Founder & President
Reshoring Initiative



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

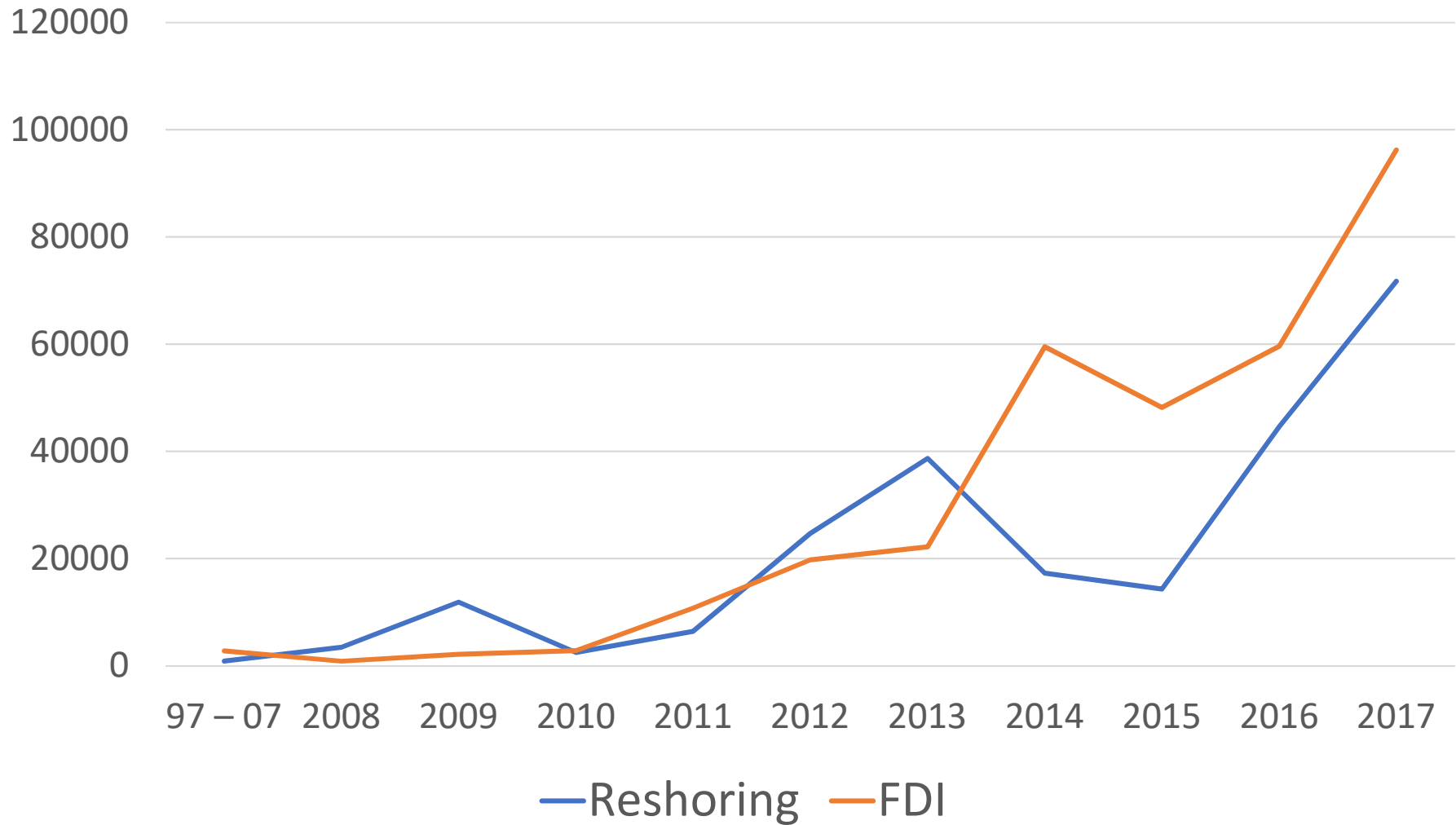
- **eCommerce:** Requires immediate replenishment
- **Rapid design changes:** Need to test products, collaborate with influencers, fulfill consumer expectations
- **Advanced technologies:** Minimizes impact of higher wages. Lessens production time
- **Heavy retail discounting:** Requires lower inventory, 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

The Tide Turned in 2016

Manufacturing Jobs/Year			
	2000-2003 Annual Average	2016	% Change
New Offshoring	~240,000	~50,000	-75%
New Reshoring & FDI	12,000	77,000	+ 500%
Net Jobs Gained	~-220,000	~27,000	N/A

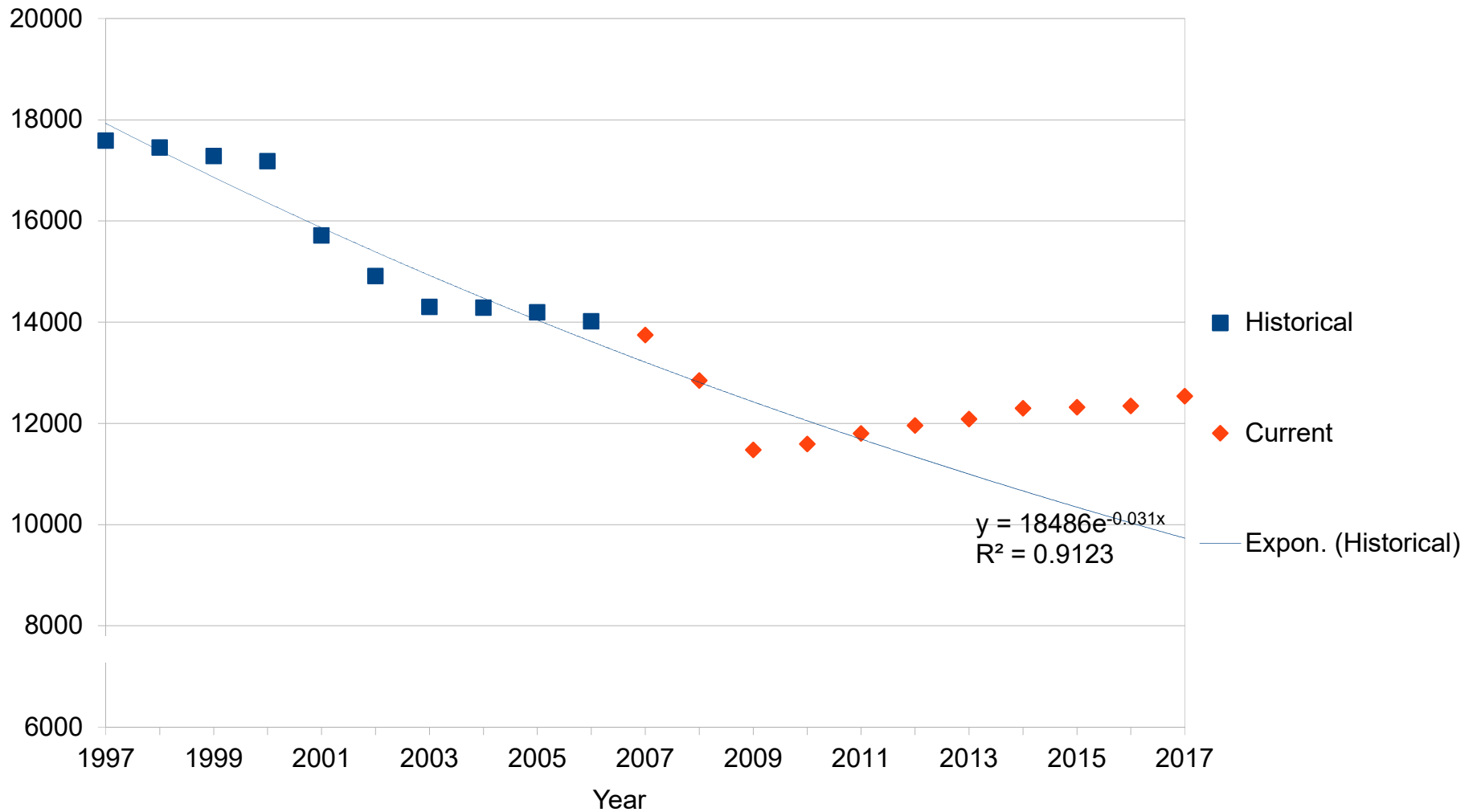


Reshoring and FDI Mfg. Jobs Announcements



We are Beating the Trend.

BLS Manufacturing Employment, 000s





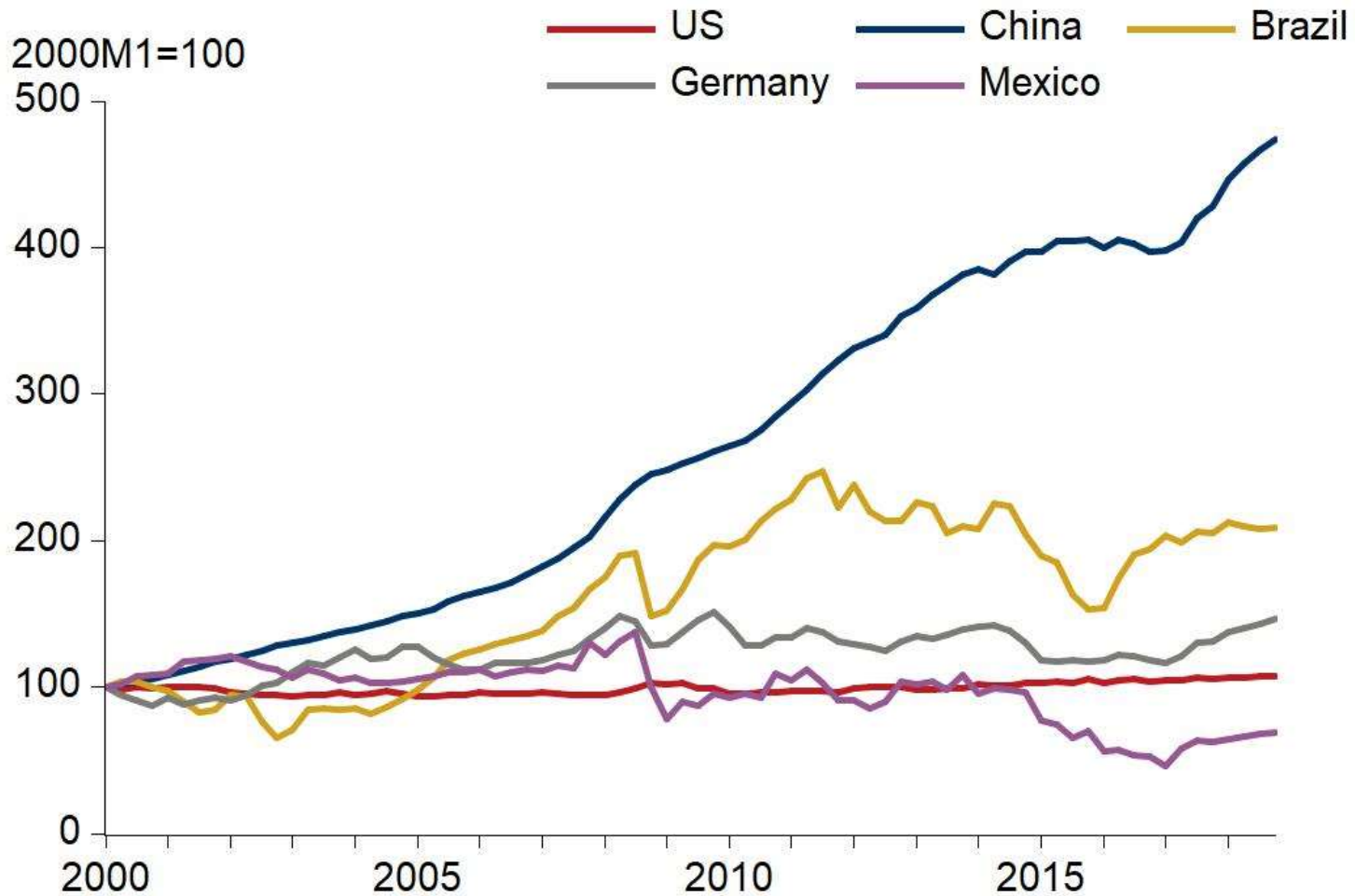
Flawed Company Sourcing Models

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

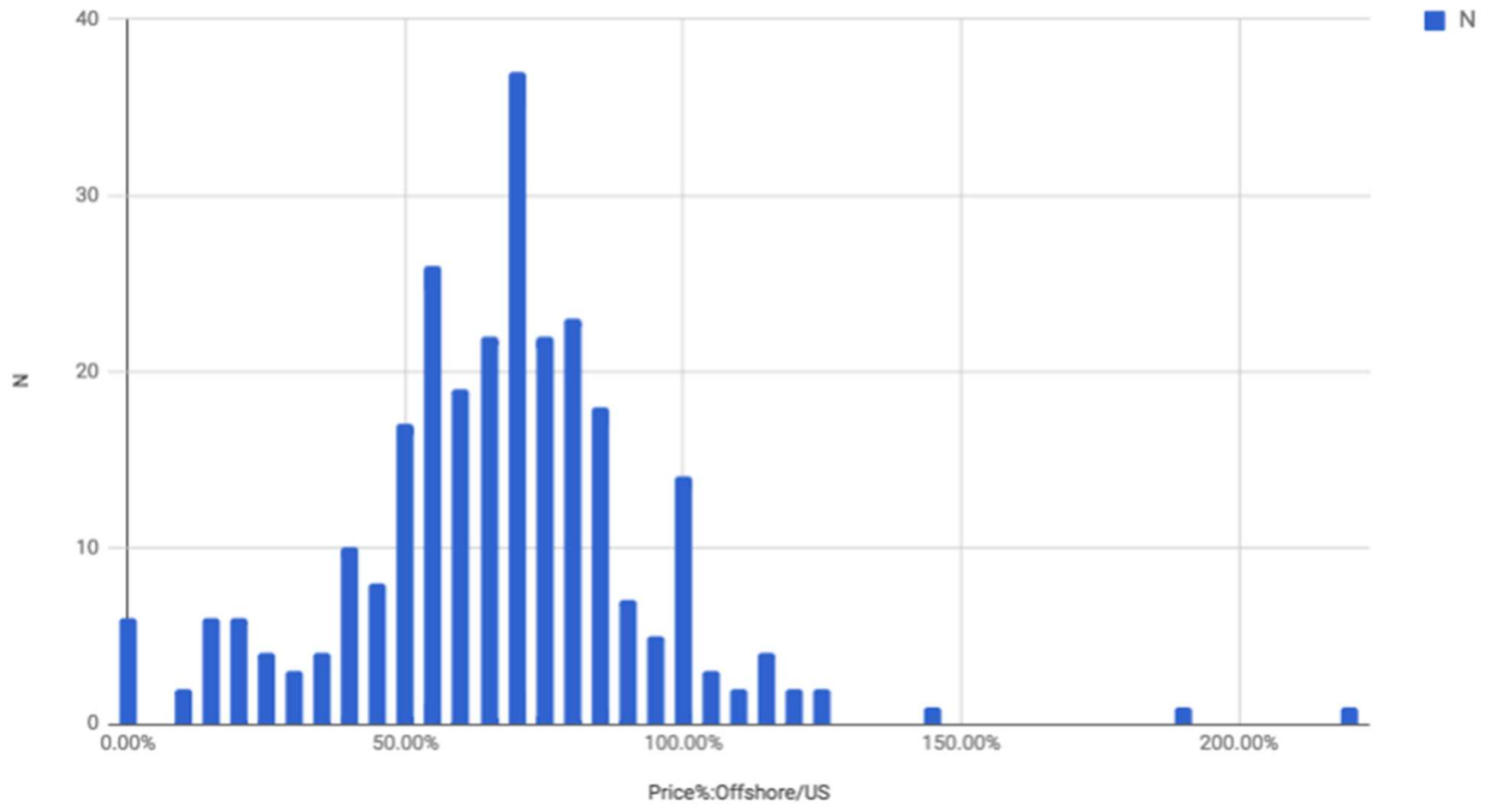
Present and Forecast US and China Price and TCO (US\$)





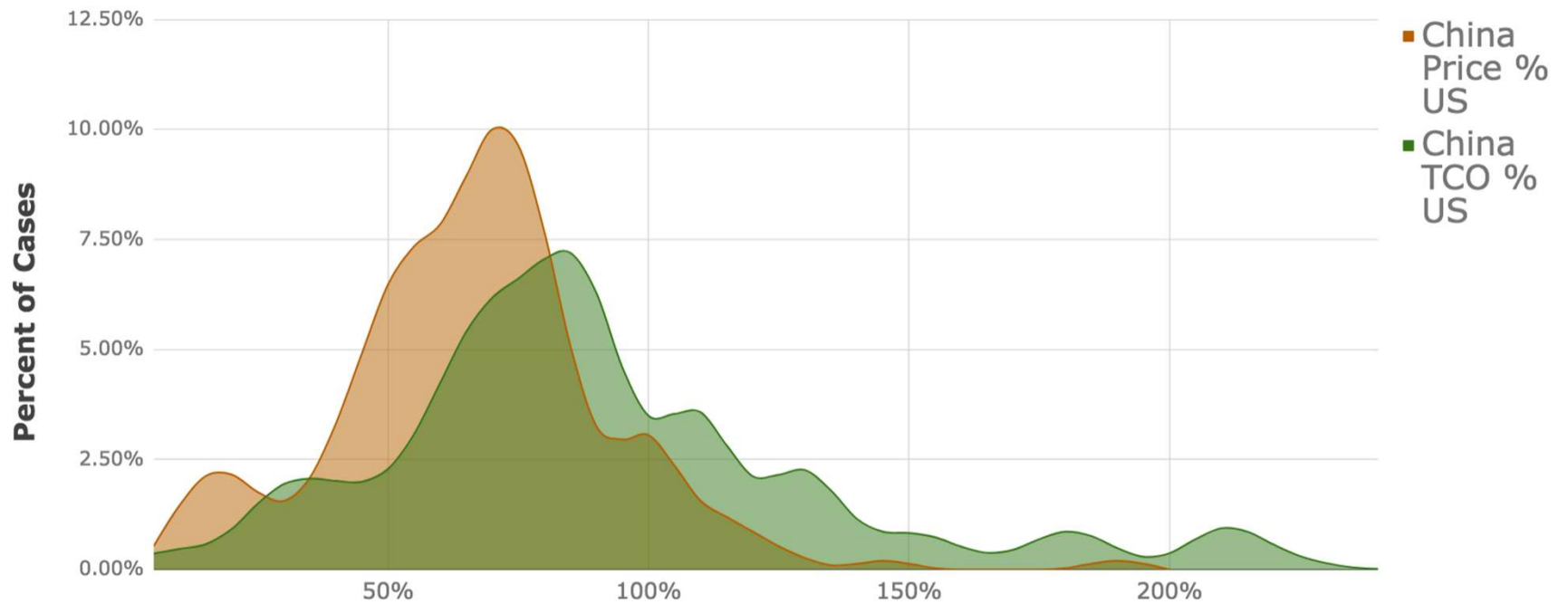
Chinese ex-Works Price, % of U.S.

N vs. Price%:Offshore/US



Chinese Price and TCO, % of U.S.

% of Cases vs Relative Price or TCO



Relative Price or TCO: China % US

Source: TCO User Database, Reshoring Initiative

Slide 15

HM3

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

Local production dominates

Product Values

Price (p) ⓘ

Make-to-order cost (c_o) ⓘ

Residual value (rv) ⓘ

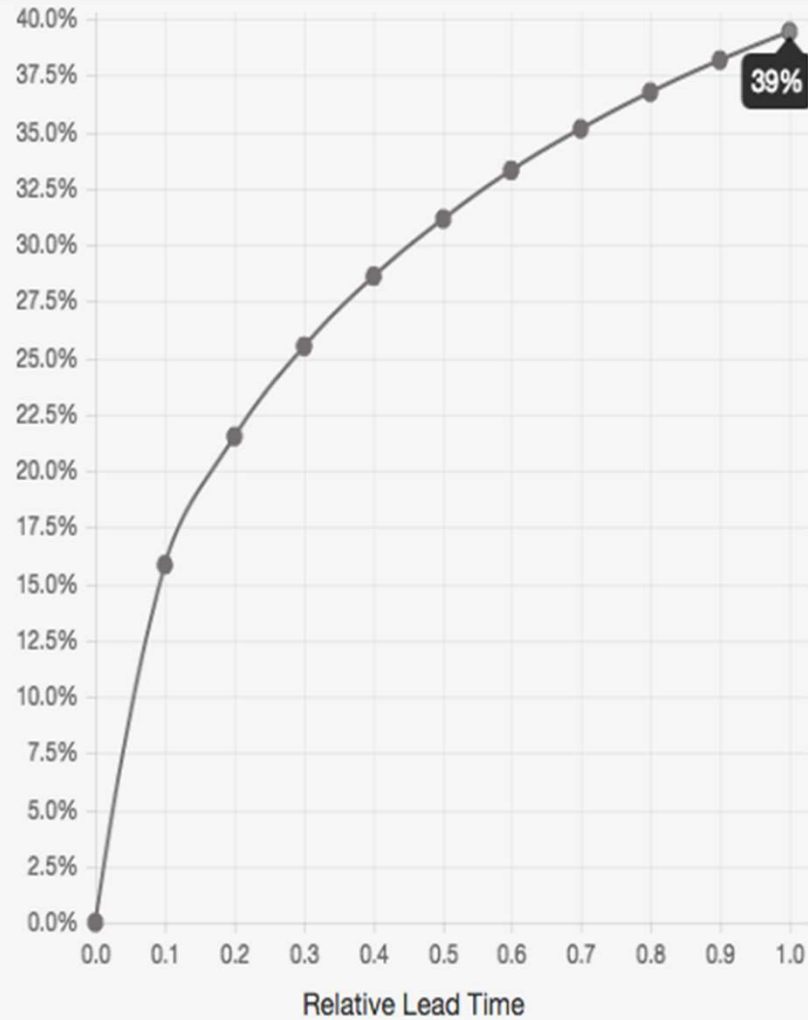
Critical fractile (cf_o) ⓘ

Minimum service level (msl) ⓘ

Fill rate (fr) ⓘ

Volatility parameter (v) ⓘ
(Calculator)

Add Curve

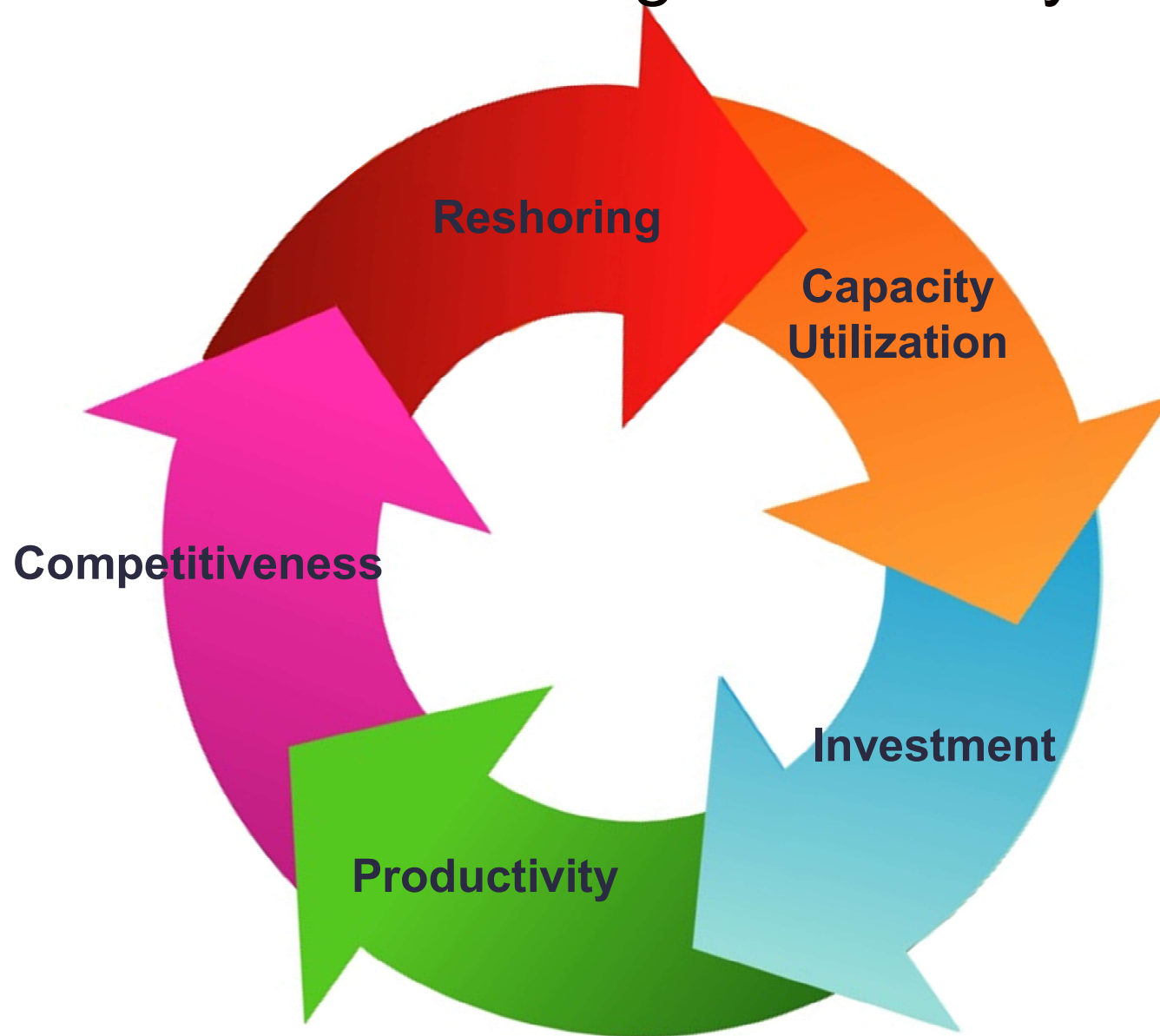




Balance the \$700 billion goods trade deficit

- 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 Reshorers





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:

Chuck Crumbo. *Columbia Business Report*. “TV Maker tunes into U.S. manufacturing resurgence.” August 28, 2013.

<http://columbiabusinessreport.com/news/48703-tv-maker-tunes-into-u-s-manufacturing-resurgence?rss=0>.

Consumer Goods Technology. “Wal-Mart, suppliers to revive U.S. manufacturing.” August 27, 2013.

<http://consumergoods.edgl.com/trends/Walmart,-Suppliers-to-Revive-U-S--Manufacturing88026>.

Karen Kane

- 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:

Stephanie Clifford. *The New York Times*. "U.S. Textile plants return, with floors largely empty of people." September 19, 2013.
http://www.nytimes.com/2013/09/20/business/us-textile-factories-return.html?pagewanted=all&_r=1&

- 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%)**

Source: Retail's \$1.1 Trillion Inventory Distortion Problem; Source: Supply & Demand Chain Executive, Apr. 2016, http://www.sdexec.com/news/12197749/the-state-of-the-retail-supply-chain-2016?utm_source=Headline+News&utm_medium=email&utm_campaign=ACSDCE160416003

Typical Markdowns by Retailer Category

FAST FASHION (ZARA)	TRADITIONAL U.S. APPAREL RETAILER	U.S. DEPARTMENT STORE
15% of items	50-60% of items	60-70% of items
15% markdown	40% markdown	40% markdown

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.**

Source: Apparel Magazine, Feb. 2016, Reshoring Success Stories: What's Branding Got to Do with It?

<http://apparel.edgl.com/news/Reshoring-Success-Stories--What-s-Branding-Got-to-Do-with-It-104291>; FASHION RESOURCE NETWORK: Aug 11, 2014 "Op-Ed: Alvanon CEO Rebuts Sourcing Journal Reshoring Article" UK apparel supply chain study by Kurt <https://sourcingjournalonline.com/op-ed-alvanon-ceo-rebuts-sourcing-journal-reshoring-article/>



Made in USA Brand Value

- 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

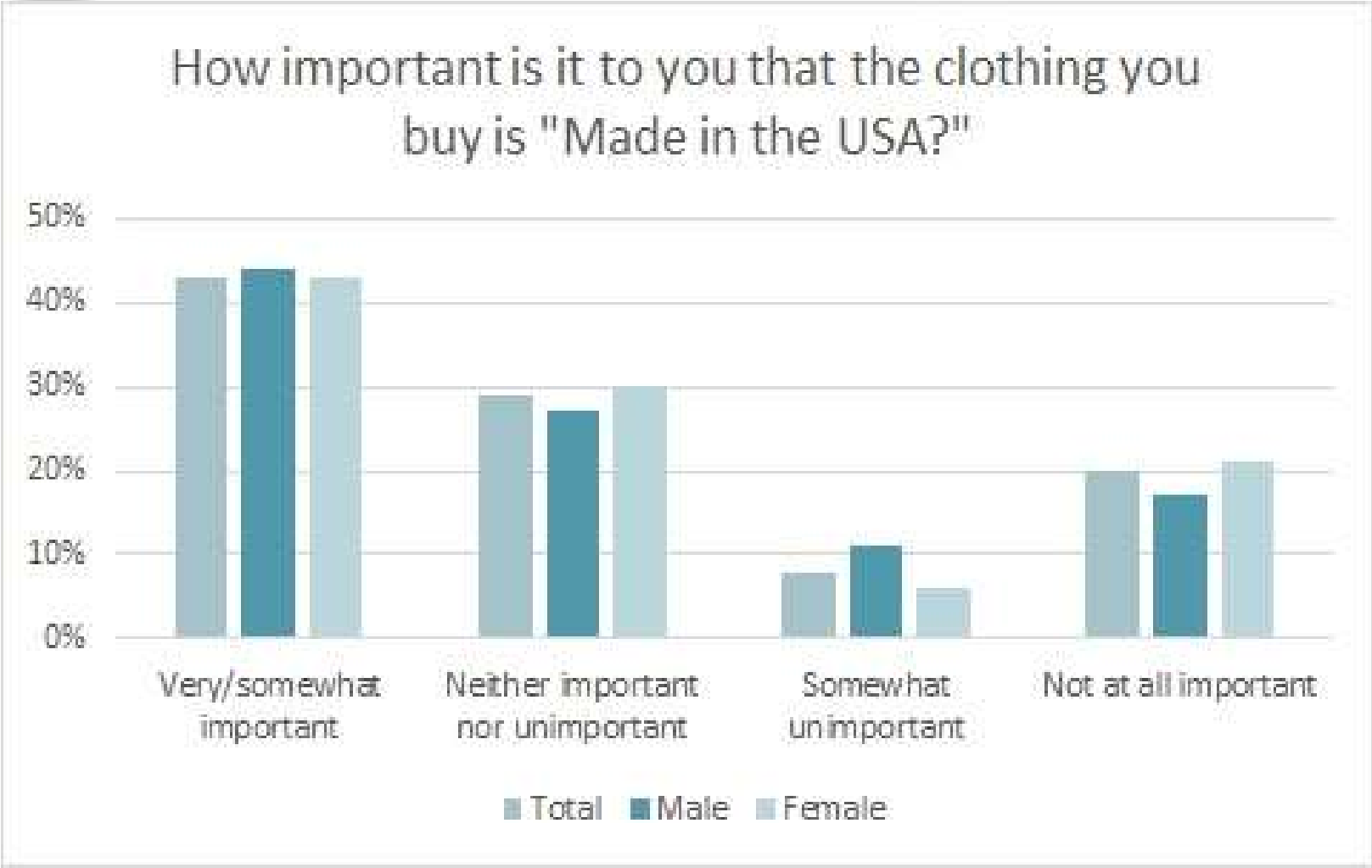
Source: Apparel Magazine, Feb. 2016, Reshoring Success Stories:

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

SOURCE: Consumer stakeholder responses to reshoring strategies <http://link.springer.com/article/10.1007%2Fs11747-015-0432-y#/page-1>

- 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%)

Source: Sourcing Journal, Sept. 2016, US-Made Products a Focus This Labor Day <https://sourcingjournalonline.com/us-made-products-focus-labor-day/>; Cotton Incorporated *Lifestyle Monitor* Survey, June 2016, **LET'S HEAR IT FOR THE HOME TEAM - MADE IN AMERICA** <http://lifestylemonitor.cottoninc.com/lets-hear-it-for-the-home-team/>



Source: Sourcing Journal, Sept. 2016, US-Made Products a Focus This Labor Day <https://sourcingjournalonline.com/us-made-products-focus-labor-day/>; Cotton Incorporated *Lifestyle Monitor* Survey, June 2016, **LET'S HEAR IT FOR THE HOME TEAM - MADE IN AMERICA** <http://lifestylemonitor.cottoninc.com/lets-hear-it-for-the-home-team/>



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.

Search Engine Land, “Strategies for capturing ‘made in the USA’ searches”, Apr 10, 2017; <http://searchengineland.com/strategies-capturing-made-usa-searches-272416>



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
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Negative Issues Offshore: Top 10

Rank	Negative Reasons Offshore	# of times cited
1	Quality/rework/warranty	292
2	Freight cost	196
3	Total cost	147
4	Delivery	100
5	Inventory	91
6	Rising wages	88
7	Supply chain interruption risk/Natural disaster risk/Political instability	78
8	Intellectual property risk	64
9	Communications	61
10	Green Considerations	53



Positive Reasons to Reshore: Top 10 (Technology, Talent, Strategy)

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



Objective:

Policy Tide that Uniformly Lifts all Industries

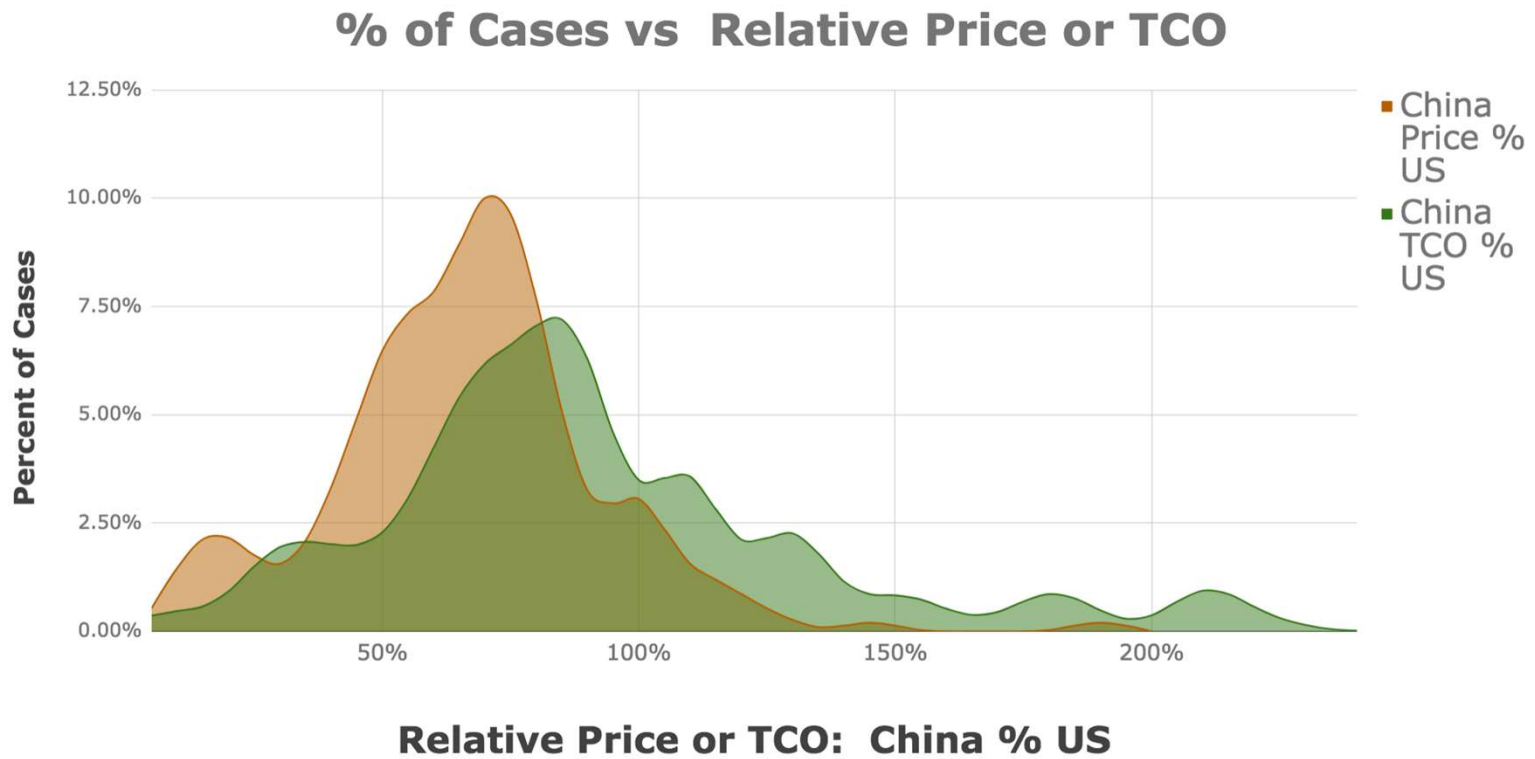




Competitiveness Toolkit

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

Chinese Price and TCO, % of U.S.



Source: TCO User Database, Reshoring Initiative

Slide 39

HM3

Based on price, Chin has a 28% average advantage. Based on TCO, about a 5% advantage.

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1% Price Reduction → ≈ 170,000 Mfg. Jobs

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.



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



Gold



Silver





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Bronze



American Welding Society®

Steel



Iron





Do the Math. Compete with Imports!

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Useful links:

[ACETool](#)

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[Total Cost of Ownership Estimator™](#)

[Skilled Workforce](#)

[Economic Development](#)