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Made (Again) in the USA

After decades of outsourcing, **American manufacturing** is enjoying a comeback. But is it making an impact on the economy?

BY JODI HELMER + ILLUSTRATIONS BY CRAIG FRAZIER

During the economic downturn in 2009, toy manufacturer K'Nex considered downsizing. But before handing out pink slips, Michael Araten decided to experiment with an alternate solution.

"We thought that we could save our local jobs if we moved all of the manufacturing processes we outsourced back to the U.S.," says Araten, president and CEO of the Hatfield, Pa.-based company. "Labor rates and shipping rates were going up, fuel surcharges were higher—the savings from manufacturing in China were disappearing."

After analyzing the costs of developing a domestic supply chain for its namesake construction kits, K'Nex decided to move the manufacturing operations that its parent

company, Rodon Group, had outsourced to China starting in the 1950s. Now, 95 percent of component parts and 100 percent of finished goods, including packaging, are produced in American facilities.

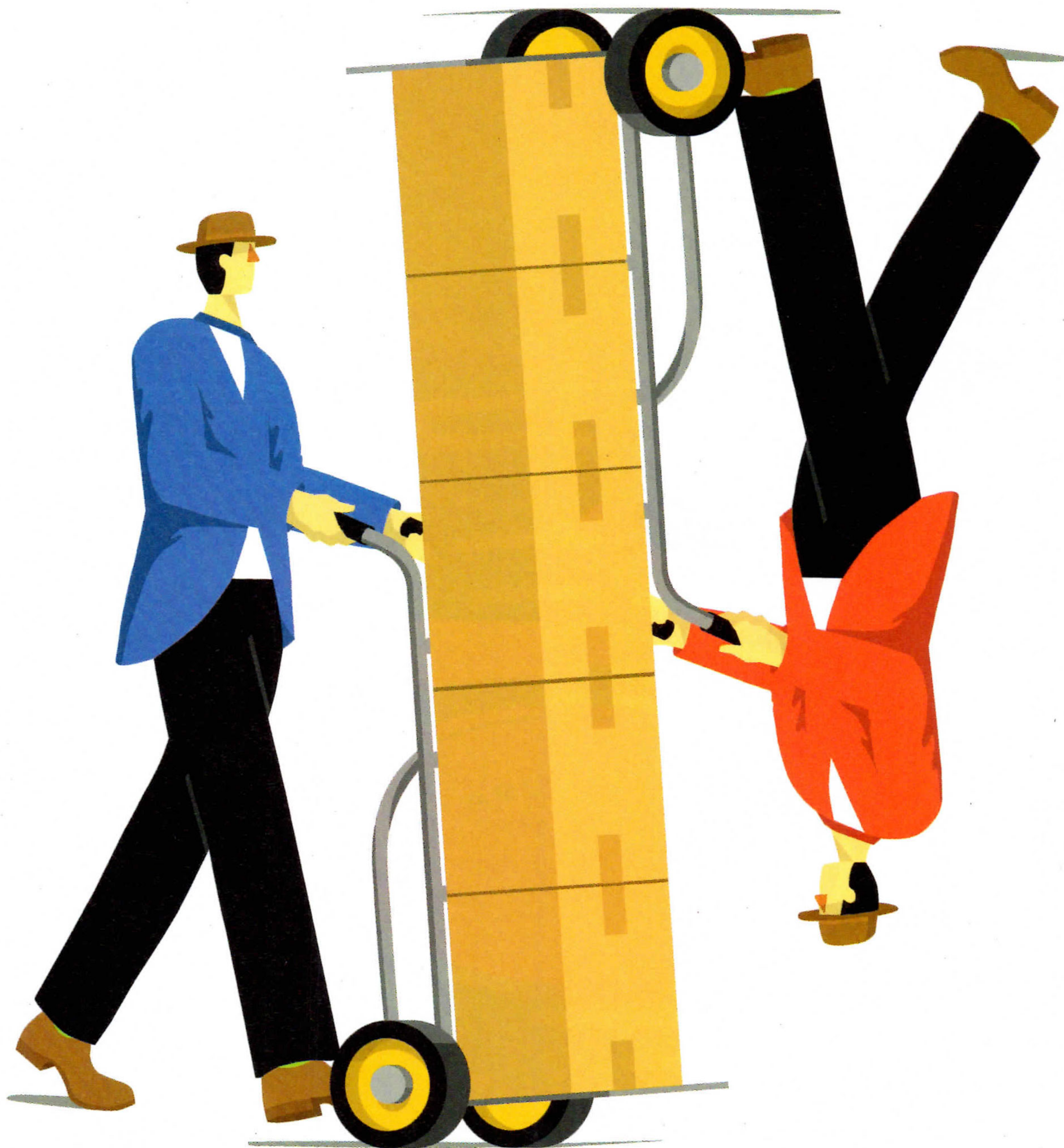
K'Nex is one of a growing number of companies moving its manufacturing back to the United States after decades of outsourcing production overseas. The process, known as reshoring, is gaining momentum.

The number of reshoring cases jumped from 16 in 2010 to 300 in 2014,

according to a report from global management consulting firm A.T. Kearney. The manufacturing industries with the highest rates of reshoring were electrical equipment, appliances and components, transportation equipment and apparel.

A 2014 report from the Boston Consulting Group noted a similar trend: 54 percent of senior manufacturing executives at companies with sales over \$1 billion were interested in reshoring.

Even some of the nation's largest corporations are making a commitment to domestic manufacturing: In 2013, Walmart announced that it would purchase an additional \$50 billion in American-made products over the next decade.



“The buzz about reshoring has created an atmosphere of optimism around manufacturing,” says Patrick Van den Bossche, global coordinator of operations practice for A.T. Kearney. “The ‘Made in the USA’ label is worth something; there is surging consumer demand for domestic products.”

MOVING MANUFACTURING BACK HOME

Cost was the major reason companies started outsourcing their manufacturing

operations, Van den Bossche says. With lower costs for wages and materials in countries like China, Vietnam, Thailand, Indonesia and the Philippines, American manufacturers could produce goods overseas for a fraction of the cost of domestic production.

“When we decided to move manufacturing overseas, we were following other industries’ lead and doing what we thought was the right thing to get us the pricing we needed to be competitive,” explains Araten, of K’Nex.

But in China, labor and transportation costs are increasing, causing the prices of manufactured goods to rise, too. Boston

Consulting Group notes that gas prices in China have increased 138 percent in the last decade, while base wages have risen 17 percent per year. Meanwhile, in the U.S., gas prices have dropped 21 percent since 2013, and hourly wages for manufacturing workers have risen just 2.3 percent since 2010. K’Nex executives realized there were also other costs involved in outsourced manufacturing. In addition to longer shipping times, overseas manufacturers required bigger production runs, making it difficult for K’Nex to maintain adequate inventory levels.

“Whatever sold above expectations, we didn’t have enough of—and (we)

couldn't get new stock fast enough to meet consumer demand. And whatever sold below expectations, we had too much of and were stuck with a backlog of product," says Araten.

The A.T. Kearney report cited improvements in delivery time and product quality as well as lower freight costs as the main drivers behind the decision to pursue domestic manufacturing.

"There are starting to be economic benefits that are keeping companies from offshoring," says Harry Moser, founder and president of the Reshoring Initiative, a Chicago-based nonprofit that works with companies to return manufacturing jobs to the U.S.

THE STRUGGLE TO STAY LOCAL

Reshoring is complicated. "The process isn't as simple as making the decision to bring manufacturing back to the U.S.," says Van den Bossche.

To start, reshoring requires a significant investment. Van den Bossche notes that while most companies reshore by returning to plants and equipment used before manufacturing operations were moved overseas, some manufacturers need new infrastructure. Others must develop partnerships with domestic manufacturers to make products.

"It's a Catch-22," Van den Bossche says. "Big companies rely on a lot of suppliers and need to rebuild their entire supply chain or convince their overseas suppliers to reshore with them."

Perhaps the greatest obstacle is a lack of skilled labor.

"The whole ecosystem that develops around a major manufacturing plant disappeared when manufacturing jobs went overseas, and it takes time to rebuild," says Van den Bossche.

To meet the demand for apparel with the "Made in the USA" label, All American Clothing Co. outsources manufacturing to several companies. The hats, shirts and jeans sold through the company's website and retail showroom in Arcanum, Ohio, are made from cotton grown in Texas and stitched into apparel in Texas, Tennessee and Kentucky.

"Our biggest challenge is finding skilled workers," says President B.J. Nickol. "If demand for our products increased substantially, it would take time to find a skilled, trained workforce to get our production up."

Even though the demand for American-made apparel continues to rise, domestic production comes at a price.

Nickol notes that the average pair of jeans costs \$10 to manufacture overseas, while All American Clothing Co. spends up to three times that amount for domestic manufacturing. As a result, the company's markup is lower while its retail prices are higher: an average of \$52, Nickol says, compared with \$45 for jeans made in countries like Bangladesh or Vietnam.

Focusing on direct-to-consumer sales through its website has allowed the company to thrive on lower margins.

"Spending a few extra dollars and keeping our margins low helps keep jobs here," Nickol says.

RESHORING'S RIPPLE EFFECT

While some companies create in-house jobs through reshoring (K'Nex has added 60 jobs since returning to domestic production), others outsource production to other American manufacturers.

Offshoring was never part of the business plan at AccuRounds, a contract manufacturer of machine components for the medical, defense, aerospace and semiconductor industries. But that doesn't mean the manufacturer, based in Avon,

In Pennsylvania, K'Nex opted to focus on manufacturing its construction toys in-house while outsourcing tasks like printing and packaging. Working with domestic manufacturers has increased the speed of its supply chain while providing additional jobs outside of its plant.

"As bigger companies reshore, it allows their vendors, who might be small- and medium-sized companies, to draft off of their success," Araten says.

A BOOM ... OR NOT?

As domestic manufacturing gains attention in the press, critics question whether the buzz is warranted.

A.T. Kearney data on reshoring, for example, show fewer than 700 cases of companies bringing manufacturing back to the U.S. between 2010 and 2014. Moser says the Reshoring Initiative research shows that the U.S. gained 170,000 manufacturing jobs over the past five years, a figure equal to the number of manufacturing jobs lost to offshoring in 2003.

"It's not the tsunami that everyone has been talking about," Van den Bossche says. "The companies that have reshored have only been back in the U.S. for a few years, and it's hard to say whether it's a success."

Araten can't speak for the nationwide

"MANUFACTURING IS HOT RIGHT NOW. WE'VE BEEN ABLE TO WIN SOME WORK FROM COMPANIES THAT BROUGHT WORK BACK FROM OVERSEAS."

—ACCUROUNDS PRESIDENT AND CEO MICHAEL TAMASI

Mass., hasn't benefited from reshoring.

"Manufacturing is hot right now," says President and CEO Michael Tamasi. "We've been able to win some work from companies that brought work back from overseas."

As other companies recommit to domestic manufacturing, AccuRounds has expanded to meet demand. The manufacturer invested \$6 million in a new building and equipment, doubling the number of employees and tripling revenue over the last decade, Tamasi says.

"Our customers are looking at the total cost of offshore production," Tamasi says. "We can turn things around in two days, not two weeks or two months. You're not going to get a \$10 part shipped from China overnight."

impact of reshoring, but he believes bringing manufacturing back to the U.S. has been a success for K'Nex.

In addition to manufacturing K'Nex kits domestically, the company has more recently returned production of its most iconic products, Tinkertoys and Lincoln Logs, to the U.S. The transition required an investment of \$15 million and the willingness to rethink products, packaging and processes, but Araten believes it's been a worthwhile undertaking.

"We have the advantage of being an entrepreneurial family business that is small enough to be nimble and big enough to make an investment," he says. "We're not going to give up. Until we make 100 percent of our products in the U.S., our work isn't done." 🐼