To reshore or offshore? How to objectively decide.

Harry Moser
President
Reshoring Initiative

MS
Reshoring Summit
Agenda

- To Reshore or Offshore: How to Objectively Decide  60 minutes
- Break  15
- Total Cost of Ownership  45
- Q&A  anytime  30
Definitions

- Reshoring/Backshoring/Onshoring/Insourcing: Bringing back manufacture of products that will be sold or assembled here.
- Transplants/FDI: Similar logic
- Producing near the consumer!
- Localization
Geographic sourcing alternatives
The Concept also Works in other Countries

Reshoring: a Brazilian perspective

- Nearshoring
- Reshoring
- Offshoring
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

Source: Archstone Consulting survey, American Machinist Mag., 7/16/09
Indexed Unit Labor Costs in the Manufacturing Sector of Selected Countries

Unit labour costs in manufacturing in US$

Source: Oxford Economics/Haver Analytics
“Manufacturing Is Expected to Return to America”
“Renaissance in Manufacturing”

“We expect net labor costs for manufacturing in China and the U.S. to converge by around 2015”
“take a hard look at the total costs”
Source: Boston Consulting Group press release 5/11 & 4/12

Chinese no longer “just thankful not to go hungry.”

Source: Michelle D. Loyalka, 2/17/12 NYT
The Industry-Led Reshoring Initiative Provides

- Free Total Cost of Ownership (TCO) software for:
  - Companies for sourcing
  - Suppliers of parts and equipment for selling
- Online Library of 1,500+ reshoring articles
- Statistics from TCO and Library databases
- Case Study template for posting cases.
- Solutions to major supply chain problems
- Motivation for skilled manufacturing careers
## TCO Example: a Part

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Notes</th>
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</thead>
<tbody>
<tr>
<td>Chinese unit price</td>
<td>$70</td>
<td></td>
</tr>
<tr>
<td>U.S. unit price</td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td># units/year</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>unit weight, lbs</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Shipments/year</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>product life, yrs</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Packaging*</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Payment on shipment</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Quality*</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Product liability risk*</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>IP risk*</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>Innovation*</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>Trips/yr</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Carrying cost, rate</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Emergency air freight %*</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Wage inflation, annual*</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Currency appreciation, annual*</td>
<td>5%</td>
<td></td>
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</table>

* Chinese differential vs. U.S.
Even Landed Cost Misses a lot of TCO
Reshoring More Effective than Exporting: U.S. is Much More Competitive at Home!

<table>
<thead>
<tr>
<th>Where Made</th>
<th>Where Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>$100</td>
</tr>
<tr>
<td>China</td>
<td>$100</td>
</tr>
<tr>
<td>Difference</td>
<td></td>
</tr>
</tbody>
</table>

Based on TCO being 15% higher for exports
A Counter-Argument

- Skilled labor shortage
- Experienced management shortage
- Currency manipulation
- Insufficient ecosystem
- Cost of transition
- Lack of scale
- Lack of political commitment

Source: *Is re-shoring electronics manufacturing all hype?*  
Steven Linahan, Venture Outsource
Water Heaters

Bringing Production back from China:
- Water-heaters, fridges, and washing machines
- Unionized facility in Louisville, KY
- 1300 jobs, renovated facility, $800 million invested

Reasons:
- Tax incentives
- High-tech new model
- Ease of design collaboration with workers: retail price -20%
- 2 tier contract
- Chinese cost: -30% becomes +6% considering inventory and delivery problems

Will move a “significant piece” of appliance production back
LED Lighting
(Transplant)

● Netherlands to Tupelo, MS
● 50 new jobs
● $2 million investment
● Reasons:
  ● Government incentives
  ● “A public-private partnership that works”

Sources: “Philips Lighting expanding in MS.” Manufacturing.net. August 8, 2014.
Image from Memphis Business Journal/Courtesy Philips Lighting.
Leather Tanning (Transplant)

- Germany to Vicksburg, MS
- 366 jobs
- $10.1 million investment
- Reasons:
  - Lead time/time to market
  - Quality
  - Proximity to North and South American markets
  - Government incentives

Truck & Bus Tires
(Transplant)

● Japan to West Point, MS
● 500 jobs initially
● $300 million capital investment
● Reasons:
  ● Lead time
● Future investment could total $700 million and bring another 1500 jobs

Automotive Electric Switches and Magnetic Systems

- Pelahatchie, MS
- Won Chrysler contracts over Mexican, Korean suppliers
- Reasons:
  - Quality: “zero defects record”
  - “Trust”
  - Price

Wood Pellets
(Kept from Offshoring)

- Port of Pascagoula, MS
- 140 jobs
- $115 million investment
- Reasons:
  - Government incentives
  - Raw materials
  - Infrastructure

Recliners (Kept from Offshoring)

- Potontoc, MS instead of China
- Reasons:
  - Image/brand

Toyota Corolla
(Transplant)

- Japan to Mississippi
- “Exporting Mississippi-built Toyotas directly supports 2,000 Toyota jobs”

Battery-Powered Cars (Kept from Offshoring)

- Horn Lake, MS
- 426 manufacturing jobs
- Reasons:
  - Government incentives
  - Image/brand
  - Quality

Automotive Parts for Nissan (Transplant)

- France to Madison, MS
- 180,000 sq. ft.

Call Center for Office Supply Company

China, Canada to Booneville, MS
$1.6 million investment in call center
162 call center jobs
Previous investments: $55 million and 300 jobs at distribution center

Source: “Acco Brands investing $1.6 million, adding 162 workers.” April 23, 2014. AP.
Welded Assemblies for Aerospace and Energy

- From Hungary and China to Torrance, CA
- Added 80 jobs in the US and looking to hire more

Reasons
- Quality control issues overseas
- Customers willing to pay more for high precision quality
Japan to Bogart, GA
1,400 production jobs

Reasons:
- Freight cost
- U.S. energy price

Walmart’s U.S. Manufacturing program

- Walmart’s increase in U.S. manufactured purchases:
  - $250 Billion over 10 years
  - $50 Billion in the 10th year
  - In the 10th year:
    - Approx. 300,000 manufacturing jobs*
    - Approx. 1 million total jobs**

- Walmart Actions:
  - “Increase what we already buy of U.S. manufactured goods
  - Source “new to Walmart” U.S. manufactured goods
  - Reshore the manufacturing of goods we currently buy by facilitating and accelerating efforts of our suppliers”

*Reshoring Initiative **Boston Consulting Group
● **1888 Mills** in Griffin, Georgia – Long term deal to make better quality towels. Capital investment required due to volume. “We made a commitment that was longer term than we would normally do.” Walmart

Some Contact Points

- U.S. Manufacturing Program
- Online Product Submission
- U.S. Mfg. Supplier Initial Questionnaire
- $10M U.S. Manufacturing Innovation Fund w/ U.S. Conf. of Mayors
Children’s Toys

- China to Hudson, OH
- 50 jobs
- $3 million investment
- Reasons:
  - Freight cost
  - Rising wages
  - Image/brand
  - U.S. price of natural gas, chemicals, electricity

Plastic Christmas Trees

- China to Brunswick, OH
- Reasons:
  - Rising wages
  - Raw materials cost

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%
Hydraulic Cylinders

- Had 100,000 ft² in Chennai, India
- Reshored to Westknoxville, TN
- 60,000 sq. ft.

Reasons:
- Fast delivery vs. 5 wks on the water
- Fewer supply chain problems
- If a quality problem, no more bad units en-route

Source: Knoxvillebiz.com Ed Marcum 8/7/10
Bleeding has stopped!

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing Jobs/Year</th>
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<tbody>
<tr>
<td></td>
<td>2003</td>
</tr>
<tr>
<td>New offshoring</td>
<td>~150,000*</td>
</tr>
<tr>
<td>New reshoring</td>
<td>2,000*</td>
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<tr>
<td>Net reshoring</td>
<td>-148,000</td>
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</table>

*Estimated  ** Calculated  ***Feasible
U.S. Manufacturing Competitiveness for Exports

1) The U.S. cost advantage represents the labor and logistics costs compared with those of Chinese manufacturers, for products consumed by people in China.

1) The U.S. cost advantage represents the labor and logistics costs compared with those of Chinese manufacturers, for products consumed by people in the United States.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Jobs</th>
<th>Companies</th>
<th>% of Companies Reporting Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation Equipment</td>
<td>19046</td>
<td>30</td>
<td>43%</td>
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<tr>
<td>Electrical Equipment, Appliances, Components</td>
<td>12120</td>
<td>47</td>
<td>62%</td>
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<tr>
<td>Computer/Electronic Products</td>
<td>6783</td>
<td>24</td>
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<tr>
<td>Food</td>
<td>2938</td>
<td>9</td>
<td>56%</td>
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<tr>
<td>Machinery</td>
<td>2795</td>
<td>16</td>
<td>56%</td>
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<tr>
<td>Apparel/Textiles</td>
<td>1954</td>
<td>37</td>
<td>41%</td>
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<tr>
<td>Fabricated Metal Products</td>
<td>1749</td>
<td>25</td>
<td>40%</td>
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<tr>
<td>Wood Products</td>
<td>1028</td>
<td>17</td>
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<tr>
<td>Office</td>
<td>810</td>
<td>3</td>
<td>67%</td>
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<tr>
<td>Medical Equipment</td>
<td>628</td>
<td>13</td>
<td>38%</td>
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<tr>
<td>Hobbies</td>
<td>581</td>
<td>22</td>
<td>32%</td>
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<tr>
<td>Construction</td>
<td>577</td>
<td>4</td>
<td>100%</td>
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<tr>
<td>Chemicals</td>
<td>300</td>
<td>2</td>
<td>50%</td>
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<tr>
<td>Plastic/Rubber Products</td>
<td>298</td>
<td>11</td>
<td>36%</td>
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<tr>
<td>Home and Kitchen</td>
<td>204</td>
<td>14</td>
<td>29%</td>
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<tr>
<td>Castings</td>
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<td>3</td>
<td>0</td>
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<tr>
<td>Primary Metal Products</td>
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<td>0</td>
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<tr>
<td>Research and Services</td>
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<td>Energy</td>
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<td>Agriculture</td>
<td>0</td>
<td>1</td>
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<tr>
<td>Environmental</td>
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<td>1</td>
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<tr>
<td>Tools</td>
<td>0</td>
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</table>

Sources: Reshoring Initiative Library, August 31, 2014.

Cases 2007 through 8/31/14.
# Negative Issues Offshore

<table>
<thead>
<tr>
<th>Negative Issues</th>
<th># Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead time</td>
<td>111</td>
</tr>
<tr>
<td>Quality/rework/warranty</td>
<td>109</td>
</tr>
<tr>
<td>Rising wages and Currency Variation</td>
<td>88</td>
</tr>
<tr>
<td>Freight cost</td>
<td>82</td>
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<tr>
<td>Total cost</td>
<td>49</td>
</tr>
<tr>
<td>Inventory</td>
<td>37</td>
</tr>
<tr>
<td>IP risk/Supply chain interruption risk</td>
<td>29 each</td>
</tr>
<tr>
<td>Delivery</td>
<td>28</td>
</tr>
<tr>
<td>Communications</td>
<td>18</td>
</tr>
<tr>
<td>Green considerations/Loss of control</td>
<td>15 each</td>
</tr>
<tr>
<td>Travel cost/time</td>
<td>14</td>
</tr>
<tr>
<td>Price</td>
<td>5</td>
</tr>
<tr>
<td>Difficulty of innovation/product differentiation/Regulatory compliance</td>
<td>4 each</td>
</tr>
<tr>
<td>Burden on Staff, Emergency air freight, Political instability</td>
<td>2 each</td>
</tr>
<tr>
<td>Employee turnover, Strained offshore relationships, Natural disaster risk</td>
<td>1 each</td>
</tr>
</tbody>
</table>

### Positive Reasons to Reshore

<table>
<thead>
<tr>
<th>Positive Reasons to Reshore</th>
<th># Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled workforce</td>
<td>87</td>
</tr>
<tr>
<td>Image/brand</td>
<td>80</td>
</tr>
<tr>
<td>Government incentives</td>
<td>79</td>
</tr>
<tr>
<td>Automation/Technology/3D printing</td>
<td>57</td>
</tr>
<tr>
<td>U.S. energy prices</td>
<td>49</td>
</tr>
<tr>
<td>Re-design</td>
<td>41</td>
</tr>
<tr>
<td>Higher productivity</td>
<td>36</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>35</td>
</tr>
<tr>
<td>Lean</td>
<td>27</td>
</tr>
<tr>
<td>Eco-system synergies</td>
<td>22</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>20</td>
</tr>
<tr>
<td>Customer responsiveness</td>
<td>14</td>
</tr>
<tr>
<td>Lower real-estate/construction</td>
<td>8</td>
</tr>
<tr>
<td>Labor concessions</td>
<td>7</td>
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</table>

## Countries From Which Reshored

<table>
<thead>
<tr>
<th>Country</th>
<th>Reshored Cases</th>
<th>Global Regions</th>
<th>Reshored Cases</th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>135</td>
<td>Asia</td>
<td>165</td>
</tr>
<tr>
<td>Mexico</td>
<td>20</td>
<td>North America</td>
<td>26</td>
</tr>
<tr>
<td>India</td>
<td>11</td>
<td>Western Europe</td>
<td>6</td>
</tr>
<tr>
<td>Canada</td>
<td>6</td>
<td>Eastern Europe</td>
<td>2</td>
</tr>
<tr>
<td>Japan</td>
<td>5</td>
<td>South America</td>
<td>1</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5</td>
<td>Africa</td>
<td>1</td>
</tr>
<tr>
<td>Korea</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany, France, Brazil, Spain, Netherlands, Italy, Egypt, Indonesia, UK, Singapore, Malaysia, Sri Lanka, Australia</td>
<td>1 each</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Jobs Reshored by State

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>SC</td>
<td>7780</td>
<td>7</td>
<td>1111</td>
<td>AZ</td>
<td>700</td>
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<td>350</td>
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<tr>
<td>MI</td>
<td>6721</td>
<td>13</td>
<td>517</td>
<td>FL</td>
<td>611</td>
<td>12</td>
<td>51</td>
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<tr>
<td>CA</td>
<td>6014</td>
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<tr>
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<td>VT</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Reshoring Initiative Library, August 31, 2014.

Cases 2007 through 8/31/14.
Reshoring’s Potential Impact

- Balance the $500 billion trade deficit:
  - 3 million manufacturing jobs
  - Cut U.S. budget deficit by about 50%
  - Reduce unemployment about 4 percentage points
  - 25% increase in manufacturing
  - If spread over 20 years: 25% extra annual capital equipment investment
Gaining support in Washington, DC

- **Commerce Dept:**
  - 2012 budget specifies TCO.
  - Links:
    - [http://nist.gov/mep/reshoring.cfm](http://nist.gov/mep/reshoring.cfm)
    - [http://business.usa.gov/program/reshoring-initiative](http://business.usa.gov/program/reshoring-initiative)
    - [http://www.manufacturing.gov/other_orgs.html](http://www.manufacturing.gov/other_orgs.html)
  - **Major new site:** [http://acetool.commerce.gov/](http://acetool.commerce.gov/)
  - 6 rounds of free MEP webinars
  - Testified at Congressional hearing on 3/28/12
  - Working actively with SelectUSA

- **Calls from:**
  - United States-China Economic and Security Review Commission
  - White House National Economic Council
Education pays...

Education pays in higher earnings and lower unemployment rates.

**Education Pays**

<table>
<thead>
<tr>
<th>Unemployment rate in 2011 (in %)</th>
<th>Median weekly earnings in 2011 (in $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctoral degree</td>
<td>2.5</td>
</tr>
<tr>
<td>Professional degree</td>
<td>2.4</td>
</tr>
<tr>
<td>Master's degree</td>
<td>3.6</td>
</tr>
<tr>
<td>Bachelor's degree</td>
<td>4.9</td>
</tr>
<tr>
<td>Associate degree</td>
<td>6.8</td>
</tr>
<tr>
<td>Some college, no degree</td>
<td>8.7</td>
</tr>
<tr>
<td>High school diploma</td>
<td>9.4</td>
</tr>
<tr>
<td>Less than high school diploma</td>
<td>14.1</td>
</tr>
</tbody>
</table>

Average: 7.6%


Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.


BLS has some data on the employment status of the civilian noninstitutional population 25 years and over by educational attainment, sex, race, and Hispanic origin online.

The Census Bureau also has some data on educational attainment online.
## Local Skilled Workforce Recruitment

<table>
<thead>
<tr>
<th>Issue</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Trades” and “vocations” image</td>
<td>Call them “Professions”</td>
</tr>
<tr>
<td>Manufacturing career image due to offshoring</td>
<td>Industry collect and media report the local reshoring case of the month. Use our Case Studies feature.</td>
</tr>
</tbody>
</table>
## Economic Development Program
Starting in PA, MS, Central NY

<table>
<thead>
<tr>
<th>Action</th>
<th>Source/Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify local imports by U.S. or foreign companies</td>
<td>Datamyne</td>
</tr>
<tr>
<td>Suggest to companies they source locally</td>
<td>EDO/MEP/ etc.</td>
</tr>
<tr>
<td>Train companies on TCO to overcome issue of higher local price</td>
<td>Reshoring Initiative</td>
</tr>
<tr>
<td>Needed further cost reductions</td>
<td>MEP/ Comm. College/ Technology Suppliers/EDO</td>
</tr>
</tbody>
</table>
- Focus on profit impact, risk management, strategic benefits
- Overcome mandates
- Many Supply Chain Managers believe
- Work with natural allies:
  - Lean, Green, compliance, quality, line management
- Maximize the advantages of proximity
- Match “Chinese” price or ......?
Investment

- By understanding:
  - the advantage of producing near the consumer, and
  - the small TCO gap instead of the large price gap

- U.S. companies can:
  - justify domestic investment, process improvement, automation, training, etc.

- And do not have to sacrifice quality, delivery, time-to-market, or employees to be competitive and profitable.
Useful Tools

- ACETool
- TCO Estimator
- Using the TCO Estimator: A How-To Guide
- Library
- Submit a Case Study
- Economic Development Program
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