



By Eric Pardee

# RESHORING WITH WALMART

## Steps, Benefits, and Case Studies

### ABSTRACT

This paper details how changing markets and economies are making American manufacturing more attractive, what Walmart is offering to businesses looking to move operations back to the US or to those who are currently producing here, and case studies of corporations which have successfully reshored and sell through Walmart.



# THE WALMART INITIATIVE

Beginning in January 2013, and scheduled to continue over the next 10 years, Walmart has committed an additional \$250 billion to buying American-made products for sale in its US locations. That is an additional \$25 billion a year, for the next 10 years.<sup>1</sup> Walmart is pursuing this initiative because it believes it is important to jumpstart the American manufacturing industry, and that requires a national effort by companies, industry leaders, and lawmakers. Walmart is dedicated to spearheading that effort. They have estimated that when completed, their effort will create one million new US jobs, including direct manufacturing job growth of approximately 250,000, and indirect job growth of 750,000 in the support and service sectors.<sup>2</sup>

## WHY NOW?

According to research conducted by the Boston Consulting Group the tide is moving away from Chinese manufacturing and beginning to favor some American industries with locally produced products. Some of the key factors influencing this movement include:

- **Rising wages overseas.** Wage and benefit increases of 15 to 20 percent a year at the average Chinese factory have cut China's labor-cost advantage over low-cost States from 55 percent to 39 percent when factoring in productivity. Because labor accounts for a small portion of a product's manufacturing costs in many industries, the savings gained from outsourcing to China will soon drop to single digits for many producers. Also, rising labor costs in China will shift production to other Asian countries such as Indonesia and Vietnam. While this shift may keep labor costs relatively low, it will undoubtedly cause unforeseen production risks due to inadequate infrastructure, lack of skilled workers, scale, and domestic supply networks, as well as additional political and intellectual property risks.<sup>1</sup>
- **High total cost and risk.** Transportation costs, customs duties, supply chain risks such as interruption and lag time, industrial real estate costs, IP risk, and lower quality products are all potential risks and costs which must be considered when sourcing from overseas manufacturers, and result in minimal costs savings when the total cost of ownership is compared with U.S. production costs.
- **Made in the U.S.A.** Consumers have begun to demand higher quality, locally produced products with the Made in America label. This designation comes second only to price. 85% of mothers surveyed said it is important for a retailer to sell "Made in the USA" products. According to Cindi Marsiglio, Vice President of U.S. Manufacturing at Walmart, consumers are willing to pay a small percentage more to support the local economy and to receive a higher quality products.<sup>3</sup>
- **Low energy costs at home.** The shale revolution has significantly lowered energy costs here in the United States, encouraging the viability of energy-intensive industries relocating closer to home.

<sup>1</sup>[https://www.bcgperspectives.com/content/articles/manufacturing\\_supply\\_chain\\_management\\_made\\_in\\_america\\_again/](https://www.bcgperspectives.com/content/articles/manufacturing_supply_chain_management_made_in_america_again/)

<sup>2</sup><http://engage.walmart-jump.com/>

<sup>3</sup><http://www.cnn.com/2014/12/19/made-in-the-usa-an-iconic-holiday-toy-comes-home.html>

# WHAT PRODUCTS IS WALMART LOOKING FOR?

- Walmart is looking to buy *all* types of locally produced products. There are currently over 500 active initiatives in over 1,300 different product categories including light bulbs, tires, bicycles, home textiles, toys, pet items, cookware and many more.
- While any product may meet Walmart's initial criteria, the unifying characteristics of U.S.- made products Walmart selects are:
  - **Local, accessible raw materials.** The production facility must be located close to accessible raw materials necessary for the production of the product. Part of the initiative involves not only assembling the final product in America, but sourcing as much of the raw materials from local operations as possible. This proximity to raw materials also aids in lowering transportation costs and supply chain risks, thus lowering the final cost of the product.
  - **Highly automated production.** Advances in industrial machinery have increased production rates, lowered the need for manual labor, improved product quality and consistency. These things lower the cost of the final product, a necessity for competing with lower-cost labor overseas.
  - **Inefficient Shipping.** Items with a low value-to-weight ratio such as large plastic toys, or merchandises that spoils, incur high transportation costs as a percentage of the value of an item, which can potentially be reduced when produced locally.
  - **Energy Intensive.** The US has a reliable supply of low-cost energy due to the proliferation of natural gas.
  - **Need for adaptability.** Products that are impacted by seasonal trends or require fast, technical innovation need to be more adaptable to consumer demands. A product that is produced closer to the end consumer can adapt much more rapidly.

- Walmart also expects to buy more products in the specific categories of sporting goods, apparel basics, storage products, games, and paper products, and sees opportunity in additional categories including patio furniture, bikes, furniture, electronics, floor care and vacuums.<sup>4</sup>
- Walmart is currently *not* interested in proposals from component parts suppliers, however they may place a product into the ecosystem to network with other suppliers.<sup>5</sup>

# WHAT EXACTLY IS WALMART OFFERING TO BUSINESSES?

- **Facilitate.** Walmart will assist in making introductions, setting up review options for financing and making sure suppliers who want to explore U.S. manufacturing have that option.
- **Coordinate.** Walmart is also working with manufacturers, and is prepared to give long-range demand forecasts, make longer-term product commitments to purchases of basic goods, and help connect manufacturers with the best resources so they can make the most informed decisions about capital investments.
- **Accelerate.** Walmart will buy more from existing domestic suppliers, do business with new domestic suppliers, and help current suppliers reshore their overseas production. Walmart has instructed its buyers to be more flexible with current supplier capabilities. Phase-distribution system rollouts have been implemented based on production capabilities. For businesses that are reshoring, Walmart understands that it takes a large amount of capital to begin this process. Walmart has created multi-year agreements with such businesses to give them the certainty they need to attract and invest capital.
  - **Innovate.** Walmart has developed an innovation fund to support research, design, and development in the manufacturing industry in the amount of \$10 million over five years.<sup>6</sup>

<sup>4</sup> <http://corporate.walmart.com/global-responsibility/us-manufacturing>

<sup>5</sup> [http://engage.walmart-jump.com/app/knowledge/detail/a\\_id/106](http://engage.walmart-jump.com/app/knowledge/detail/a_id/106)

<sup>6</sup> <http://corporate.walmart.com/global-responsibility/us-manufacturing>

# WINNERS OF WALMART U.S. MANUFACTURING INNOVATION FUND

IUPUI – Indiana University-Purdue University, August 14<sup>th</sup>, 2014

Grant awarded: **\$291,202**

- Additive manufacturing
  - The proposed research aims at reducing the cost and increasing the performance and versatility of U.S.-manufactured plastic injection tooling (3D printing) through experimentally supported structural design optimization methods and metal additive manufacturing.<sup>7</sup>

Oregon State University, August 14<sup>th</sup>, 2014

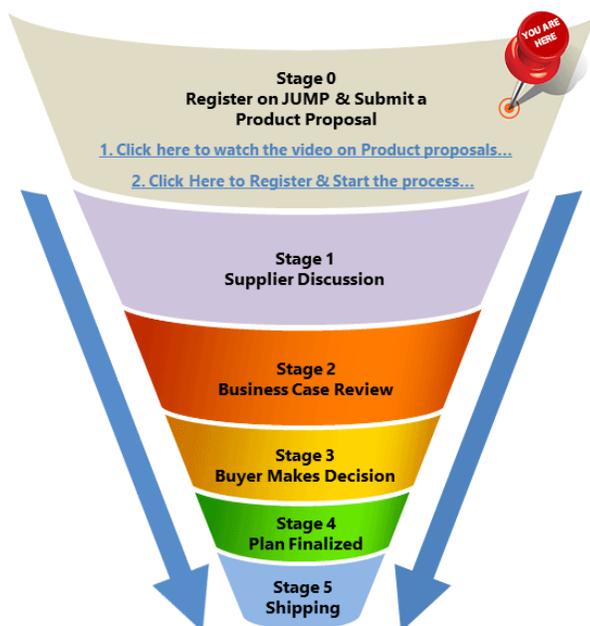
Grant awarded: **\$590,000**

- Plastics injection molding
  - Current practices for fabricating the metallic molds for plastic injection molding are labor-intensive and costly, and much of the material is wasted as metal chips. The project aims to reduce costs of this process by 40 to 50 percent.

## CASE STUDIES:

Corporations Who Have Reshored With Walmart, Or Have Been Aided By The Initiative

Company: Kent International, Inc



Industry

### Bicycle manufacturing

Kent opened a new production facility in Manning, S.C.

Kent presently outsources all of its bicycle production overseas (approximately 3 million bikes last year) due to the lower costs of production. They currently have no plans to cut back on this production or importation. Instead, the plan is to fuel growth through bicycles that will be assembled and produced in South Carolina. The plan is to source as much as 60-70% of the components parts in the USA by 2018. At the present time, virtually all of the component parts are being imported from Taiwan and China. Kent's new line produced in South Carolina will be called "BCA" – Bicycle Corporation of America" and this will be the first mass production of bicycles sold in the USA in more than 15 years.

<sup>7</sup> <http://engage.walmart-jump.com/ci/fattach/get/1876/1415398144/redirect/1/filename/IUPUI%20Release.pdf>

# CASE STUDIES:



## Why

- Walmart contracted to buy bicycles from the Manning plant for the first six months, greatly reducing the company's risk.
- According to Arnold Kamler, chairman and CEO of Kent International, "We are seeing the economics of domestic sourcing changing due to increased energy and transportation costs overseas,"<sup>8</sup>
- Kent bicycles were also offered a number of **State Incentives:**
  - South Carolina is a business friendly, right-to-work state
  - The governor of South Carolina, Nikki Haley, promised to assist in connecting a pipeline of natural gas from a nearby former assembly plant to the new Manning site, a \$1,000,000 project.

## Results

- New 200,000 square foot facility opened in South Carolina
- According to Kent International, when at full capacity in 2016, it will have added at least *200 jobs* and will be assembling *1 million* bikes from inside the U.S. annually.

<sup>8</sup> <http://www.kent.bike/news>

<sup>9</sup> <http://engage.walmart-jump.com/ci/fattach/get/1898/1415740396/redirect/1/filename/Hanna's%20Candle%20Company%20Success%20Stories%20For%20Submit.pdf>



## Hanna's Candles

### Industry

#### Candle Manufacturing

- Hanna's Candles is located in Fayetteville, Arkansas and has been in business since 1988. Burt Hannah and his wife began producing potpourri in his basement until customers began suggesting that they expand into candle production. Demand skyrocketed and sales rose from \$4,000 in 1988 to \$800,000 in 1989. By 2000, Hanna's Candles was bringing in more than \$60 million in revenue.
- When the recession hit in 2008, demand for discretionary items such as candles fell, and sales for Hanna's candles dropped to \$10 million. Hanna was forced to sell the 300,000 sq. ft. factory, but was able to hold on and continue to make his loan payments.

### Why

- Despite the competitive nature of the candle business, and the potential of lower costs if he outsources his production overseas, Burt Hanna believes that, "...it's our responsibility as manufacturers to try to keep the jobs here in America, and to figure out a way to do it."
- Producing his product at home decreases lead time by a *minimum of four to six weeks*, allowing the company to respond quickly to consumer buying habits

### Results

- In January of 2013, Hanna's Candles was accepted as a supplier for Walmart's Made in America campaign and a three year contract was established
  - \$10 million increase in sales from January, 2013 to November, 2014
  - Anticipated sales of \$45 million by 2017
  - 60 new jobs created
  - 400% growth for Hanna's<sup>9</sup>

# ABOUT THE AUTHOR

**Eric Pardee** is a Student Researcher for the Reshoring Institute. He is currently a full-time student at the University of San Diego. He is pursuing a MBA with a focus in finance and managerial leadership and has an expected graduation date of May 2016.



# ABOUT THE RESHORING INSTITUTE

## Our Mission

In collaboration with the University of San Diego Supply Chain Management Institute, we provide information, research and support for companies trying to Reshore manufacturing. This includes topics such as site selection, tax incentives, science and math education, marketing, public relations, cost comparison development and case studies.

[www.ReshoringInstitute.org](http://www.ReshoringInstitute.org)

