Reshoring Institute 2019 Survey of Global Manufacturing

The Changing Trends of Reshoring in the United States

EXECUTIVE SUMMARY

For more than three decades, moving production offshore was a relatively easy decision. With an almost endless supply of low-cost labor, the decreasing costs of transportation, low currency exchange rates, and significant foreign-government incentives, hundreds of thousands of jobs left the U.S. for lower cost nations like China. The once overwhelming cost advantages, however, are not what they once were. A growing number of businesses have rethought their global manufacturing strategies and made the decision to reshore at least some of their production to the United States. To gain a better understanding of the current trends in globalization strategy, The Reshoring Institute conducts an annual cross-industry survey of executives.

More than half of the executives surveyed reported that they were planning or considering reshoring activities in the next five years. Notably, 97% said that they would consider a domestic source for parts if the price and quality were competitive to foreign suppliers. In addition to the growing attractiveness of U.S. markets, the unpredictability of tariffs and trade regulations leave companies conducting international business wary of unexpected cost increases. The survey found that from 2017 to 2018, the number of companies operating in multiple global locations decreased by 10%. Due to rising foreign wages, rising tariffs on steel, aluminum, and electric components, and reconsiderations of total cost of ownership, The Reshoring Institute predicts that companies will increasingly be motivated to participate in reshoring efforts in the coming years.

Reshoring Institute

METHODOLOGY

The Reshoring Institute's online survey of manufacturing companies was designed to better understand the industry's economic health, key challenges, sourcing decisions, business objectives, and the use of automation to support key business processes. Participating companies met these criteria:

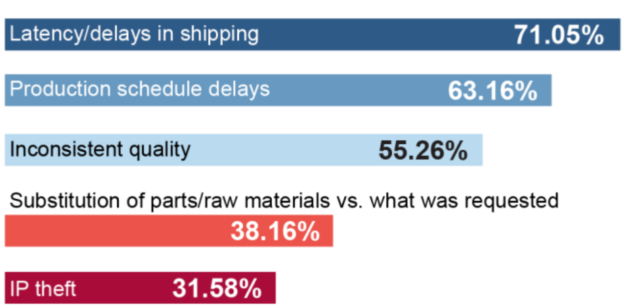
- North American companies
- Previously or currently engage in offshore production
- Larger enterprises with 100 or more employed

The survey was distributed and encompasses the 2017 and 2018 fiscal years. Respondents participated voluntarily and represented the following industries: automotive, consulting, consumer products, finance, industrial products, logistics 3PL, manufacturing, and technology. Nearly 87% of the companies surveyed are currently sourcing from multiple global suppliers. Additionally, 63% reported having global sales office, 55% have global contract manufacturers, and almost 53% shared having global manufacturing sites.

BUSINESS FOCUS ON COST REDUCTION

According to Kinkel et. all in the report, "Measuring Reshoring Trends in the EU and US," the main reason for enterprises to move functions abroad was to cut labor and other costs. Reshoring, they explain, takes place when the trade-offs between cost advantages, market and knowledge seeking, transaction costs and maintaining control are not advantageous for the firm anymore. Figure 1 breaks down the issues respondents who source inputs overseas (across the industries surveyed) experienced in 2017 and 2018.

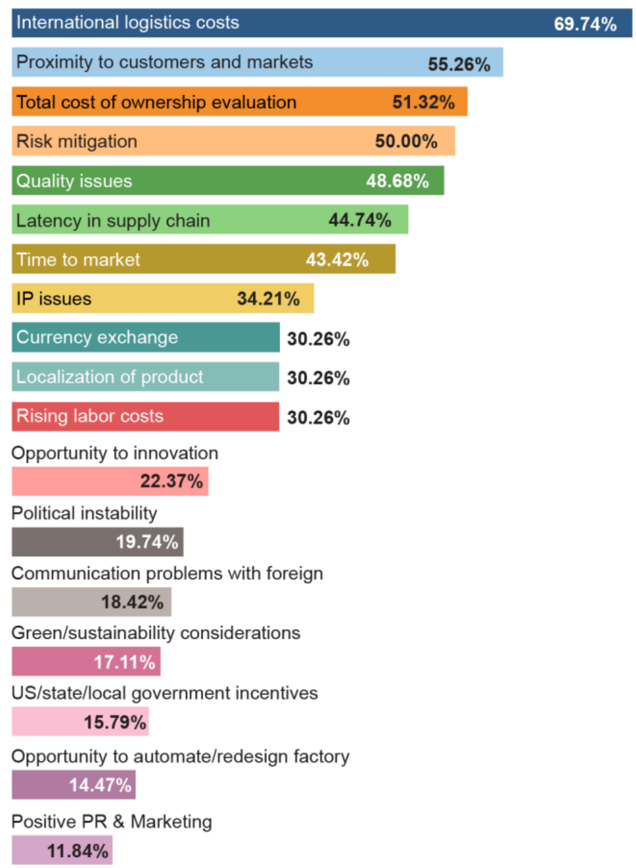
FIGURE 1:
Issues Experienced from Sourcing Overseas, 2017-2018



In the U.S., the 2017 the Tax Cuts and Jobs Act helped to fuel the increase in U.S. reshoring and manufacturing expansion. Reducing the tax burden on manufacturers has made America more competitive with industrial nations' tax rates around the world.

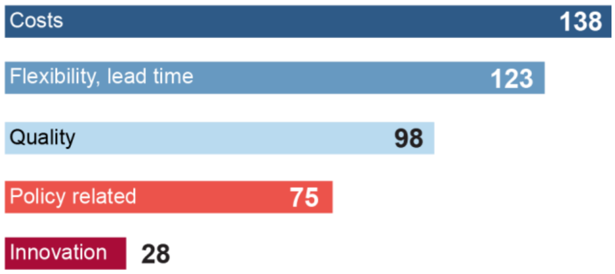
Delays in shipping were reported by 71.05% of respondents, 63.16% said had schedule delays, 55.26% experienced inconsistent quality, 38.16% had issues with substitution of parts and a staggering 31.58% reported IP theft. These issues experienced from sourcing overseas coupled with the below factors have led to 10% of companies surveyed to the decision to participate in reshoring activities from 2017 to 2018.

FIGURE 2:
Reasons for US Companies to Reshore, 2017-2018



As shown by Figure 2 above, the top five reasons for reshoring include international logistics costs (69.74%), proximity to customers and markets (55.26%), total cost of ownership evaluation (51.32%), risk mitigation (50.00%), and quality issues (48.68%).

FIGURE 3:
Reshoring Justifications by Category, 2017-2018



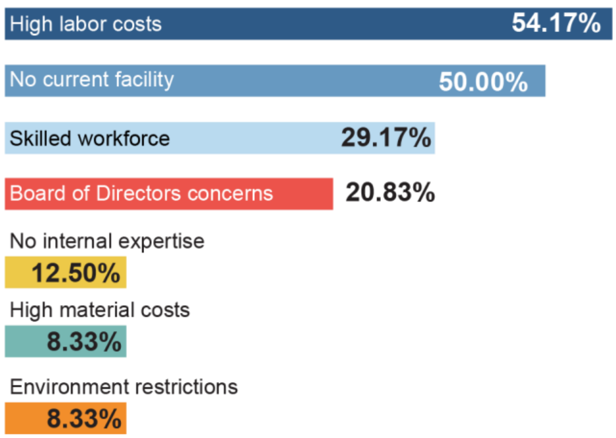
The eighteen survey options incentivizing reshoring activities can be grouped into the following five categories: costs, flexibility and lead time, quality, policy related issues, and innovation. From Figure 3, we can see that costs were the largest motivator for US companies to consider reshoring activities. This reflects a contradiction to the claim that offshoring is beneficial to reduce total costs. Michael Zinser, a senior partner at the Boston Consulting Group, says, "Given the big differences in wage growth and productivity – and the greater attention companies are paying to total cost – there is good reason to believe that the cost-competitiveness of the U.S. compared with China and many other major export economies will continue to improve in the near term."[1] The decreasing costs and improved capabilities of advanced technologies also makes manufacturing in the US more attractive than in economies whose chief advantage is cheap labor, says the Boston Consulting Group. In addition to reassessing total costs of ownership, The Reshoring Institute's survey found that over 80% of respondents are also looking into new software systems and 70% are considering investing in robotics to improve production efficiencies.

1. https://www.bcg.com/en-us/publications/2015/reshoring-of-manufacturing-to-the-us-gains-momentum.aspx

THE CHALLENGE OF UNCERTAINTY

While the majority of companies reported interest in reshoring, some remain hesitant. Respondents were asked, "If you are considering reshoring and have not yet started, what if anything, is delaying you in doing so?" The findings are shown in Figure 4 below. The largest factor in delaying companies from reshoring, comprising of 54.17% share of responses was concerns of high labor costs. Other factors include not having a facility in the U.S. (50%) as well as finding a workforce with the skills needed for production (29.17%). Executives were also concerned by resistance from the Board of Directors (20.83%), lack of internal expertise (12.50%), high material costs (8.33%), and environmental regulations in the U.S. (8.33%).

FIGURE 4:
Reasons to Withhold from Reshoring Activities, 2017-2018



Uncertainty also arises from taxes and tariff regulations. When asked if the current administration has an impact on the respondent's reshoring considerations, 34% said yes. This is due to the impact tariffs have on the costs of importing and exporting goods when conducting international business.

CONCLUSION

The Reshoring Institute's annual survey capturing data from executives across various industries in 2017-2018 had these key findings:

- Companies are reevaluating reshoring decisions based on total cost of ownership, rather than purely on tax incentives or low-cost labor
- 97% of respondents would consider a domestic source for parts if the price and quality were competitive to foreign suppliers
- Reducing logistics costs, proximity to consumers, and total cost of ownership evaluation are three most referenced reasons for participating in reshoring activities
- Investments in automation, skilled workforces, preferences for quality, and tariffs are key factors for many companies to reshore to the United States

THIS YEAR'S TEAM INCLUDES:

Our Survey of Global Manufacturing is managed by a team at the Reshoring Institute.

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ABOUT THE RESHORING INSTITUTE

Our Mission
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.

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