



## SME Chapter 5

# Agenda

- TCO for Sourcing & Sales 25 min
- TCO Estimator 10
- Check List 5
- Illinois Reshoring Initiative 10
- Q&A 10
- Total 60 min



## SME Chapter 5

# Reshoring

SME Chapter 5 Webinar 2/10/11

**Customers: Why to Source Local.**

**Suppliers: How to sell Local Sourcing.**

**All: Why to support the Illinois Initiative.**

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# Definitions

- Reshoring: Bringing work back to the U.S.
- Antonym: Offshoring
- Synonyms: Backshoring and Onshoring
- Nearshoring: Includes U.S., Canada & Mexico
- Outsourcing: Work done by another company, wherever located
- In-house: work done in the company's facilities, wherever located

# Reshoring Initiative's Objectives

- **Change the Sourcing Mindset:**
  - From: “Offshored is Cheaper.”
  - To: “Local Reduces the Total Cost of Ownership.”
- **Train:**
  - OEMs: Why to source local.
  - Suppliers (and unions): How to “sell” local sourcing.
- **Do the best we can on the unlevel field now!**

# The Industry-Led Initiative Provides

- Free Total Cost of Ownership (TCO) Software for OEMs and unions/suppliers
- Online Library of 98 reshoring articles
- Media coverage of the trend: WSJ, USATODAY, IW, CBS, CNBC, etc.
- Regional Initiatives

# Logical Foundation

60% of manufacturers:

- Apply “rudimentary” total cost models
- Ignore 20% or more of the total cost of offshored products\*

51% of companies found no financial benefit in offshoring\*\*

Sources:

\* Archstone Consulting survey, American Machinist Mag., 7/16/09

\*\* Supply Chain Solutions, Grant Thornton, Jan. 2010 survey.



# Example Assumptions: a Part

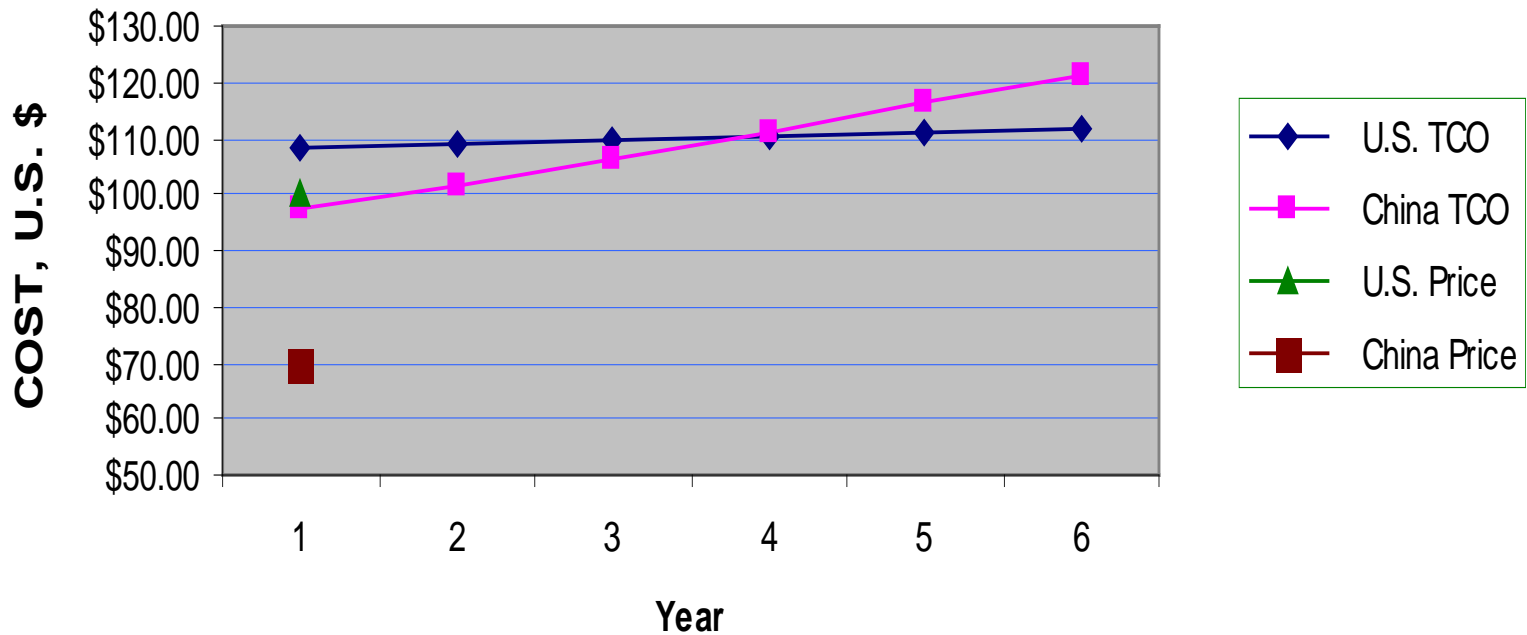
Chinese unit price	\$70
U.S. unit price	\$100
# units/year	12,000
unit weight, lbs	2
Shipments/year	6
product life, yrs	5
Packaging*	1%
Payment on shipment	Yes
Quality*	2%

Product liability risk*	0.5%
IP risk*	1.9%
Innovation*	0.5%
Trips/yr	2
Prototype cost*	\$5,000
Country political instability risk*	0.4%
Wage inflation, annual*	8%
Currency appreciation, annual*	5%

\* Chinese differential vs. U.S.

# TCO Comparison Example: a Moderate Labor Content Part

PRESENT AND FORECAST U.S AND CHINA PRICE AND TCO: PARTS



# “As China’s Wages Rise, Export Prices Could Follow”

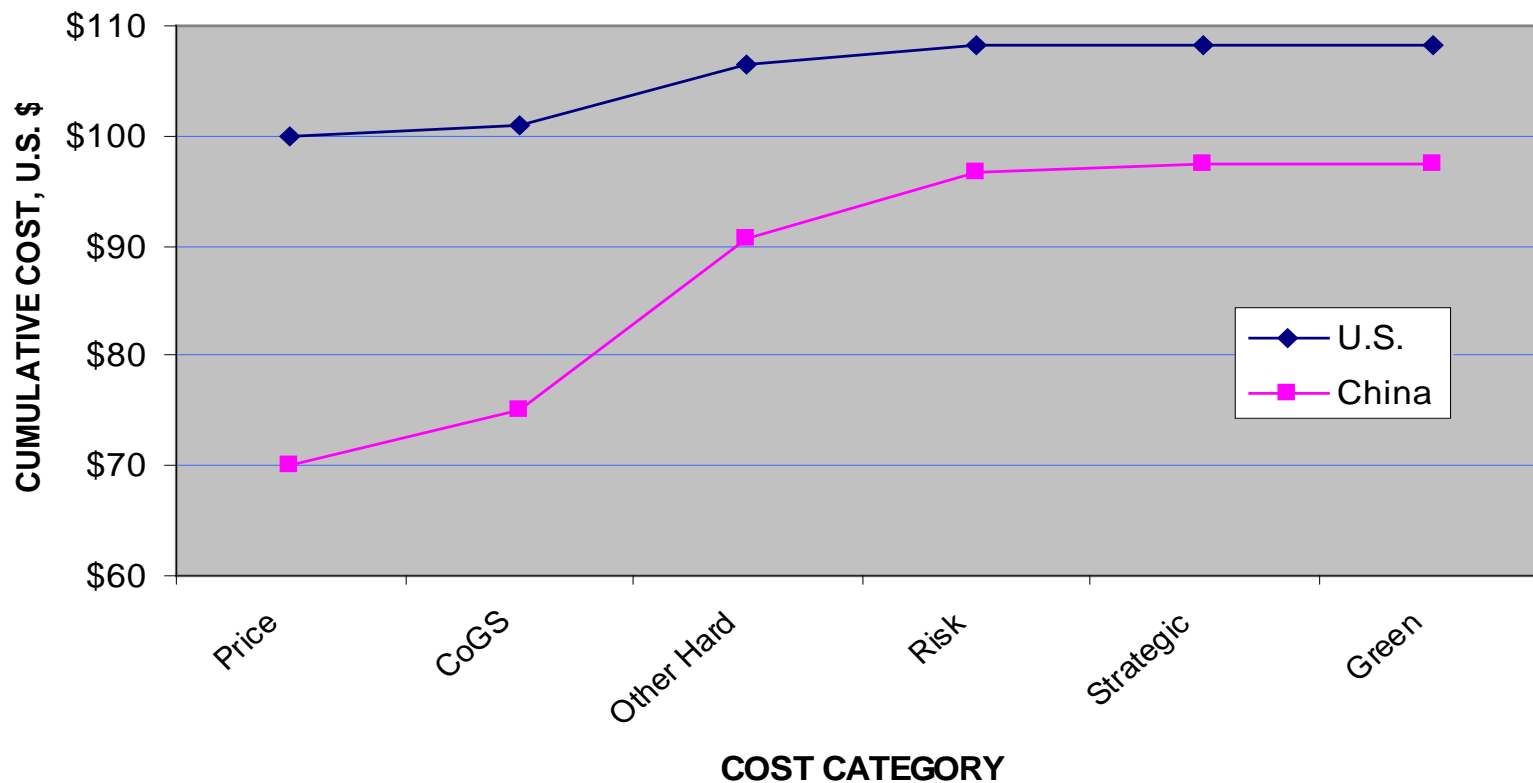
- 24% to 100% wage increases!



Source: New York Times, June 7, 2010

# Cumulative Cost by Category

**CUMULATIVE COST BY CATEGORY, YEAR 0: PARTS**

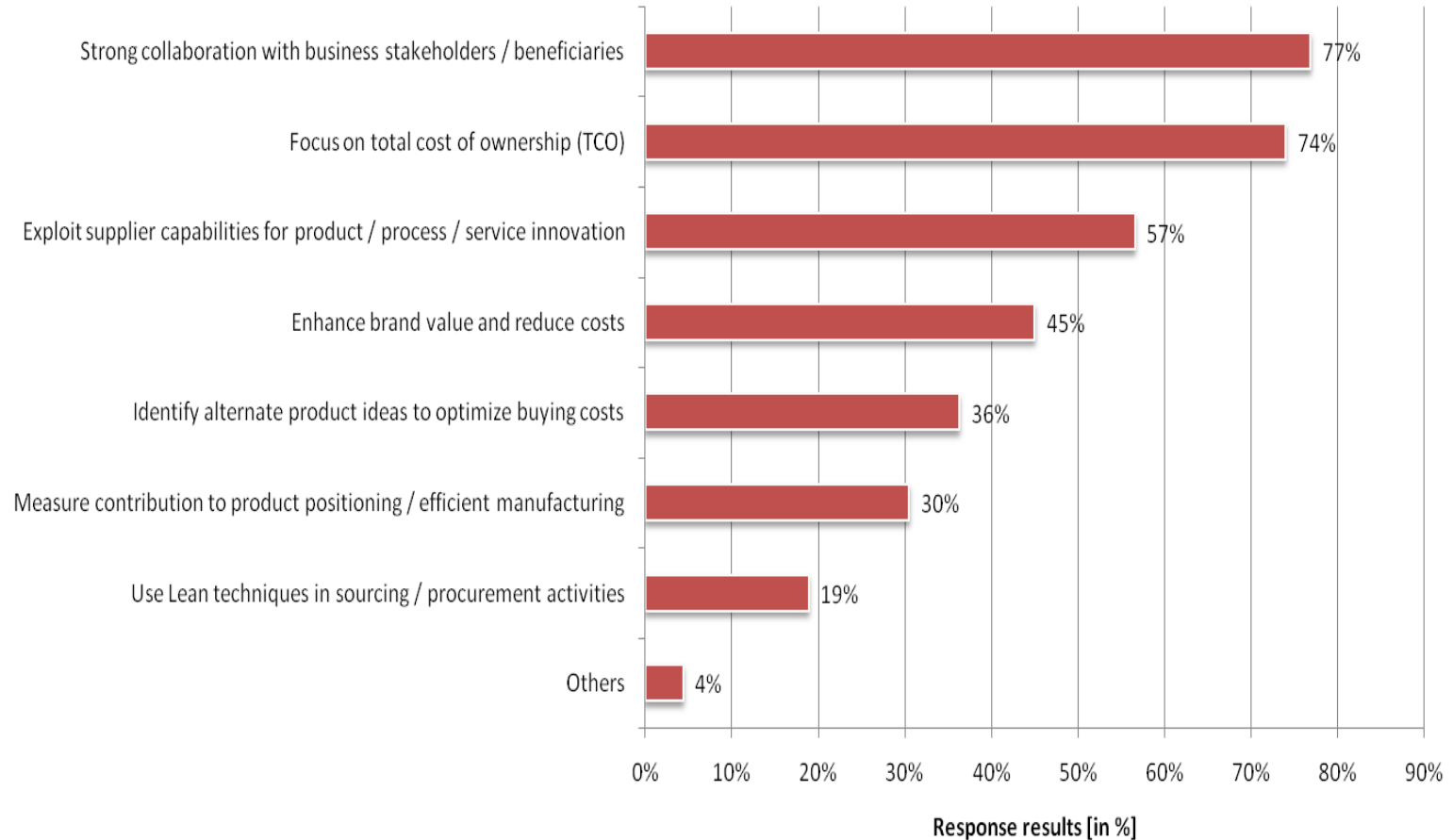


# Using Estimator for the in-house case

Estimator written for comparing outsourced: offshore vs. U.S., so for in-house:

- Offshore: Use the transfer price from offshore instead of the “price.” Confirm that the transfer price produces the targeted ROI offshore.
- U.S.: Use the Company’s standard domestic cost: fully burdened, variable or ?

# The Supply Chain is Focused on TCO



Source: Capgemini Global CPO Survey 2010

# Top 10 Supply Chain Predictions 2011

**# 5. “In the context of taking a broader view of **total cost**, supply chain organizations will gain a new appreciation for shortening lead times through profitable proximity sourcing strategies.”**

## **Reasons:**

- Improve overall service levels
- Retain key customers
- Focus on the “costs” of long lead times
- More balanced approach to global sourcing

Source: *Simon Ellis, Supply Chain Strategies, with [IDC Manufacturing Insights](#) 2/2/11*

# Sourcing Moving Home Slowly

- 20% of companies brought sourcing closer in 2009
- Of which 59% reshored

Source: Supply Chain Solutions, Grant Thornton, Jan. 2010 survey. 312 responses.



# Deming on Total Cost

- “End the practice of awarding business on the basis of price tag. Instead, minimize total cost.”

Source: 4<sup>th</sup> key principle for management, “Out of the Crisis”, W. Edwards Deming

# Offshoring contributes to Waste

<u>Toyota Wastes</u>	<u>Offshoring Contributes</u>
Overproduction	Large batch shipments
Waiting	Uncertain delivery/Inconsistent quality, port, customs
Transport	12,000 mi. inbound, 6,000 return (boat ½ full)
Overprocessing	More packing and unpacking
Inventory	In transit, cycle, safety stock, uncertain delivery and quality
Motion	Large batches require a warehouse. Travel, e.g. 2-3 weeks, 2-3X/yr
Defects	Much higher than local sources, extra inspection of materials and tolerances

# Offshoring contributes to Instability

- Weather
- Port strikes
- Loss from mishandling
- Language problems
- Pirates

# Impact on Product Strategy

- Impact of batch size and distance:
  - Offshoring → commoditization
  - Reshoring → differentiation/mass customization

# Selling using TCO

- Focus on profit impact, risk management, strategic benefits, Lean, Green
- Overcome mandates
- Many Supply Chain Managers believe
- Work with natural allies
- Maximize the advantages of proximity
- Match “Chinese” price or TCO?

# Work with your natural allies!

- Supply Chain Managers
- Quality Managers
- Lean and Green Champions
- Regulatory Compliance Managers
- Division or Factory Managers

## Suppliers: Maximize the value of proximity: Beat the LLC competitors

- Early Involvement. Partner. DFMA
- Max. face-time w/customer
- Get customer to your facility  
Show technology, lean, NTMA 6S Program
- Respond to phone calls timely
- Get customer to buy FOB destination
- Provide great customer support
- Lean

# Suppliers: Maximize the value of proximity: Beat the LLCC competitors

- Guarantee delivery
- Help solve assembly issues
- Guarantee the integrity of supply base
- Focus on IP parts
- Automate



# Recent developments, 1/13 & 14 in DC

- Council on Competitiveness:
  - Working on Reshoring
  - Will cooperate
- AFL-CIO:
  - National Reshoring webinar 1/13
  - Will help develop data on Green costs for TCO

# 1/13 & 14 in DC (continued)

- NIST MEP planning:
  - Webinar for MEPs
  - Presentation at Annual Conference
  - Webinar for MEPs and client companies
  - Will encourage NY state to duplicate IRI
- Cong. Wolf (R VA)
  - HR516
  - Chair of Commerce Appropriations subcommittee
  - Will encourage Commerce/MEPs re Reshoring
  - Will call me to testify at a House hearing

# Requests of OEMs

- Try the TCO Estimator
- Make sourcing decisions based on TCO, not just price
- Check our Library to see what your industry is doing
- Consider how a stronger home market benefits your sales
- Bring some offshored work to the Fairs
- Send in cases of reshoring

# Requests of Suppliers

- Talk TCO
- Use the Estimator to help customers compare costs
- Show customers Library articles
- Send in cases of reshoring

# Some Presentations: 2011

- 1/13 Council on Competitiveness & AFL-CIO, Washington, DC
- 1/14 NIST MEP
- 1/18 Illinois Reshoring Initiative
- 1/20 Mazak Career Days
- 1/31 Morey Corp
- 2/10 Chicago SME Chapter Webinar
- 2/23 Chicago Manufacturing Renaissance Council, Chicago
- 2/24 PMA Webinar
- 2/? MEP Webinar
- 3/10 SME Milwaukee Chapter
- 3/16 Illinois Reshoring Conference, Palatine, IL
- 3/15-18 Mazak Career Days and Open House, Schaumburg, IL
- 3/30 CAPM (ISM) Forum, New Haven, Conn.
- 4/12 SESCOI Open House, Chicago
- 4/12 RAEDC, Rockford, IL
- 4/13 Amerimold, Chicago
- 5/4 Assembly Magazine webinar
- 5/17 MEP Annual Conference, Orlando, FL
- 6/28 Lean Logistics Summit, Cincinnati
- 9/15&16 Lean Accounting Summit, Orlando, FL
- 9/22 Salute to Manufacturing, Greenville, SC
- 10/5&6 NE Shingo Conf., Springfield, MA
- 10/10 SESCOI Open House, Charlotte, NC
- 10/24-28 AME Annual Conv., Dallas

See [www.reshorenow.org](http://www.reshorenow.org) for links

For more information, to increase U.S. jobs and help slow the offshoring flood now!

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Initiative: [www.reshorenow.org](http://www.reshorenow.org)

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