

Reshoring: When jobs come back home



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Sometime during the past decade, when most everyone was focused on inflating the housing bubble, I was called into a senior manager's office.

My employer was planning to move an assembly line to Mexico and thought I would be a great manager for the project. As the executive discussed the importance of the move, my thoughts wandered to Thanksgiving.

Although a city boy, I grew up with tractors. I played with scale models as a child, spent weekends on my grandfather's farm and drove tractors long before I could legally drive a car.

My grandfather, dad and uncles farmed, built or repaired tractors. I loved to listen at family gatherings as they debated their politics — not of red and blue states but red and green tractors.

So when I graduated from engineering school, it was only natural for me to choose a supplier to the tractor industry. How I enjoyed contributing to those conversations.

"What are you working on now Rick?"

I would explain the latest technical advances, being careful not to violate customer confidentiality agreements. This would spark spirited conversation on the usefulness (or lack thereof) of the new features to farmers and the challenges to servicing the new features to mechanics.

Now, as the boss rambled, I could only envision the ensuing conversation:

"What are you working on now Rick?"

"Well, I'm managing the move of a major product line to Mexico."

(Silence, followed by more silence)

"I believe the turkey is a little dry this year."

I quickly told the boss that I wasn't interested in spearheading the move.

So I've been more than a little pleased and interested as I follow the trend of manufacturing work moving back to the U.S. Known as reshoring, the development is so new that my word processing software doesn't recognize the term.

While my motivation was primarily patriotic, that's not industry's driver. It's simply making good business sense. Some of the primary reasons include:

- Shorter and predictable supply chains — the price

on the invoice doesn't matter when the product has to be air freighted due to changing customer demands or is stuck in a port due to a dock workers' strike.

- Lessons learned regarding the criticalness for manufacturing and engineering to communicate when the product is more complex than a coat hanger.

- More lessons learned regarding the complexity of communicating, instilling quality systems and even ensuring protection of intellectual property when multiple tiers of suppliers are involved, with each subsequent layer becoming less sophisticated.

- Multiple years of double-digit wage increases in China, supported by government's hopes of growing the middle class, narrowed the cost gap.

As a Lean advocate and former engineering manager, I foresaw the first three reasons. The fourth caught me completely off-guard. I reasoned that the sheer population of China would absorb wealth for generations before it materially impacted competitiveness. But the majority of the country lacks the basic infrastructure to take advantage of that population.

There's one more important driver for reshoring. U.S. productivity continues to grow. We're 20 percent more productive than we were 10 years ago, despite the fact the time span has been largely defined by tepid demand growth. Productivity always looks best in periods of high demand.

Therein lies the caveat with reshoring efforts. The work that is returning is not especially labor intensive, or at least not low-skills labor. The returning work values the top three reasons stated above — speed and agility, technical communication, and quality and protection of intellectual property.

The good news is that the jobs created by reshoring efforts, although not equal in number to those that originally left with it, are decent jobs. They rely on folks using their nogginns more than their backs.

Oh, the rest of story regarding my personal outsourcing "opportunity?" The housing bubble burst, the Great Recession ensued and today that assembly line productively resides in central Iowa. And I can still attend and enjoy family reunions.

RICK SAYS ...

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