IS ONSHORING COMING BACK IN STYLE?

ON SHORING VS OFF SHORING

BY STEVE BERGSMAN | SPONSORED BY SIOR FOUNDATION

Offshore, like onshore, is really a two-way street. American companies establish corporate outposts overseas, but foreign firms do the same in America. When economic factors change, sometimes it's best to bring those outposts back home.

At first glance the numbers are staggering and maybe a little depressing.

According to one economic report, outsourcing jobs to foreign locations cost American manufacturing 6 million jobs over the 1980s and 1990s, while another report cited in the business press claims, between 2001 and 2013, the number of jobs lost to China alone cost this country 3.2 million jobs.

However, this is not a one-way street to faraway lands. The United States is still the largest economy in the world, and foreign companies that need to reach this market have been opening up manufacturing plants at a prodigious rate over the past three decades. This includes everything from car manufacturers to tech companies.

Don Moss, SIOR, partner, Charlotte Region Colliers International, works a fairly large territory stretching from South Carolina through North Carolina to Western Virginia, and just looking at three industries – textiles, tire manufacturing and furniture – thought to be near dead in the country, shows how things have changed.

Moss and his partner, Grant Miller, SIOR, helped Gildan Activewear Inc., a Montreal-based company, open three spinning mills in the Southeast through the years 2015 and 2016. In addition, a Chinese company, Keer American Corporation, opened a textile mill in Fort Mill, S.C., in 2015.

"We had seen at least 50 percent of U.S. cotton exported and spun overseas," says Moss. "Some of that is coming back to the United States."

In the case of the textile industry, it is all about efficiency, Moss continues, "and 25 percent of a bale of cotton is waste, so you are shipping a lot of waste. In addition, utility costs in the United States are very low right now because of increased oil production, an abundance of natural gas and lower electricity rates. The textile industry uses a lot of electricity and natural gas."

Although labor is cheaper overseas, by being in the United States, a company can make up much of the difference through lower freight and power costs, while turnaround time is narrowed.

The same situation holds for the tire industry, Moss says. "In the case of tires, you are shipping a lot of air and tires are heavy, so if you can make them in the United States and be closer to the source, that cost saving is important."

That's why three foreign companies which manufacture or refurbish tires have opened up plants in the Southeast. Says Moss, "we have seen GiTi Tire, a Chinese company, open a manufacturing facility in Richburg, S.C.; in December 2017 another Chinese firm, Triangle Tyre Co. Ltd., announced a $58 million plant to be built in Rocky Mount, N.C.; and Dunlop Aircraft Tyres, a British company, moved to Mocksville, N.C., to refurbish aircraft tires.

Moss adds, "The other thing we are seeing is the re-shoring of furniture. We did another deal in Mocksville for a furniture upholstery company. Sofas, which are bulky and heavy, are costly to ship, so it is cheaper if you can make them here. Case goods are a little different because you can knock them down at source, ship and then re-assemble here."

Foreign car manufacturers are now scattered all over the South, from Tennessee to South Carolina, and that brought ancillary supplier companies to America. In 2014, Japan-based Kowa, which specializes in metalworking and treatments, announced plans to open a plant in Corbin, Ky., and this year, another Japanese firm, DENSO, an automotive supplier, announced plans to invest $190 million for an expansion of its manufacturing facility in Athens, Tenn.

There is another reason why foreign companies are coming to the United States – security and safety.

Due to the political turmoil in Latin American countries such as Venezuela, a wave of companies from there are establishing outposts in the Miami area, observes Danny Zelonker, SIOR, a broker-partner at Real Miami Commercial RE in Miami. "We are like the gateway to South America and a lot of companies are coming, including South American versions of WeWork, establishing warehouses and doing start-ups. Due to the logistics business focus, the offshore (foreign companies establishing facilities in the United States) for us is becoming a very big thing. A lot of people from different parts of the world are coming here to invest."

How does this affect a local market? "Miami has 228 million square feet of warehouse space with just a 3 percent vacancy rate," says Zelonker. "All the REITs are building. Panattoni Development Company Inc. bought a lot of land in Opa Locka and it is now building 100,000 square feet with 36-foot-high clear that is divisible. I can get a 20,000-square-foot client into that kind of space."

Way back in 2004, Dell, the computer and technology company, raised a lot of eyebrows when it moved its product support business back from India to the United States. Since then, there has been sporadic but, nevertheless, a definable trend line of American companies bringing manufacturing and technology businesses back to this country.

Even big manufacturers such as GM, Otis Elevators and Whirlpool brought jobs back from overseas.

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The four main reasons for this are labor, freight, security and turnaround time. Jobs initially moved to foreign countries because labor was so much cheaper. That is still the case, although for some countries, such as China, worker salaries have dramatically improved and, although no one likes to talk about this, jobs that come back in the United States are at a lower salary level than similar posts and positions earned before the work moved overseas. So, the labor differential has changed.

Secondly, freight costs have been rising fairly quickly. In addition, when goods are shipped back to the United States, they sometimes are deposited with a 3PL, or third-party logistics company, which handles shipping and sometimes product completion here in the United States.

"Partially put-together products constructed in Asia are then shipped to a 3PL in Long Beach, Calif., or Elizabeth, N.J., where it installs batteries, circuitry and other components," says Paul Waters, SIOR, chief operating officer of Integra Realty Resources Inc. in New York. "Then it trucks to retail warehousing or directly to the stores. If you are shipping lumber, steel or plastic chairs you don't need a 3PL, but if you have an involved product that needs assemblage you do."

All this affects freight costs, because the manufacturer has to pay for another stop on the supply chain. It might be cheaper to build overseas, but if you add the expense of freight in the States, it reduces the cost-benefit of offshoring. The more touches of a product on the supply chain, the more it adds to the cost of freight. Sometimes, some of these products make four stops.

Another problem is protecting proprietary information and technology, which is often difficult overseas. For the textile industry, the United States is always a consideration, despite higher labor costs, because of this issue. As Moss notes, "there are proprietary designs in new sports apparel which wicks moisture away. This apparel is produced on knitting machines. As China has done a poor job of protecting U.S. patents many companies are producing this type fabric in the United States, which is a safe harbor to protect intellectual property."

With the rise of e-commerce, the consumer has become used to getting purchases as quickly as conceivably possible. Custom goods still have to be assembled, and if speed is a consideration, it makes little sense to have the product shipped across the Pacific Ocean from Asia.

There are other considerations as well. In the past, big retailers like Wal-Mart have been criticized for having so much of its product manufactured overseas, so it and other retailers have made a greater effort to have suppliers come in with U.S.-made goods.

Finally, companies come back because they have been unsuccessful establishing operations in foreign countries.

There are unforeseen cultural and technology issues involved with offshoring, explains Waters. "Going offshore sounds great and pencils well, but sourcing labor and managing labor can create a problem. Do you send over an American to manage the labor and maintain the standards that you expect in the States? Or, do you leverage local management and hope things don't go awry? Most companies send over one of its accomplished managers from the States, but it still can become a leadership debacle due to language, culture and executives not fitting in on a social level. Success depends on the culture of the company."

Then there is the technology issue. Do you need to convert your IT to a foreign language? If you are based in Seattle and you don't want to rebuild IT for your Dubai or India operations, you have to convert the language and, in some cases, currency and that can be an extremely expensive ordeal. "If you have to build a new platform that duplicates what you already have, that's another $100 million or a doubling of the amount of the expenses these companies thought they would have to invest to establish a foothold in a foreign country," says Waters.

"A lot of companies are still trying to make it work offshore," says Waters. "After a decade or more, firms that went overseas still don't have an answer to onshore versus offshore."

The onshore trend started back in the later 1970s but really took off in the late 1990s, says Waters, "but I still don't see a full-scale rush back to the United States. I do see companies coming back in dribs and drabs." ▽

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