Made in the USA Gains Momentum

by Gail Dutton

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American-based companies are finding plenty of reasons to look in their own backyard for manufacturing opportunities.

When NCR brought its ATM manufacturing facilities back to the U.S. 2009, it chose a spot on the Georgia/Alabama border to call home. Likewise, when BMT-Northwest LLC decided to leave its cramped facilities in Olympia, Washington, it found a good location about an hour away in an under-utilized community. NCR and BMT are on the vanguard of companies that are finding low-cost domestic alternatives to more traditional locations. In the process, they are reaping the benefits of offshoring without the downsides.

Cost was only one factor in NCR's decision, however. As Peter Dorsman, senior vice president of global operations at NCR, explains, "The speed of innovation is increasing. We looked at our particular manufacturing strategy to determine how to deliver more innovative products to the market faster." One of those strategies was to collaborate with suppliers in a more innovative way to drive the pace of innovation. That required manufacturing close to home.

To find the right site, NCR seriously considered 15 states, all in the south. Key criteria were access to talent, infrastructure, willingness of the university system to work with the company, the availability of public and private cooperation, and proximity to customers.

Columbus, Georgia, on the border with Alabama, met those criteria and had the added advantage of being close to related industries and key suppliers. NCR leveraged that proximity with its innovations conference, which attracted 260 NCR suppliers to Georgia Tech last October. "We don't pretend to have all the answers," Dorsman says, so "it was fantastic to see the level of interest and innovation" at this conference. That wouldn't have occurred if operations had remained distributed throughout China, Hungary, India, and Brazil.

BMT-Northwest LLC, formerly located in Olympia, Washington, looked along Washington's I-5 corridor for a location that provided room to grow and proximity to transportation. The company fabricates large steel tanks that constitute oversized loads on highways, so "We wanted to stay close to the water," Rollie Irwin, vice president of manufacturing, says. The site he eventually found was at the Satsop Development Park, in a farming community about 35 miles from the I-5.

The actual site is a repurposed nuclear power facility that was 76 percent completed before the project was canceled. Therefore, the roads leading to it and the development park’s docks on the Chehalis River were built to handle oversized, heavy loads. Raw materials, therefore, may arrive on trucks and the finished tanks can be barged downstream to the Port of Grays Harbor.

Now called the Satsop Development Park, this nuclear plant turned industrial park boasts hardened facilities, its own electricity plant, and triple-redundant fiber-optic communications with virtually unlimited bandwidth. BMT is housed in the former turbine building, where the floors can withstand 400 to 1,800 pounds per square foot. The building includes two 250-ton cranes that were installed for the nuclear plant’s steam turbines. They travel the building’s entire 600-foot length. The building has two floors and a mezzanine, along with drive-through access. That, and the building’s great strength, allows BMT to move tanks weighing one million pounds. As far as Irwin was concerned, this was the perfect facility.

Back in the USA

Such low-cost domestic alternatives are starting to gain traction, according to Dalip Raheja, president and CEO, Mpower. “The cost arbitrage advantage isn’t offshore.” The lure of low wages that initially pulled companies offshore is being replaced with experience and analyses that include the total cost of doing business. Manufacturers have learned that the offshore savings are not as dramatic as expected. Wages are rising, transportation costs have increased, patent protection is questionable, the U.S. dollar has dropped, and other factors—like customs issues, logistics costs, time differences and cultural norms—create additional expenses. For companies with predominately American markets, returning operations to the U.S. helps companies react to market trends faster and shorten the supply chain.

“This is a trend. Companies are coming back to the U.S.,” confirms George Haley, Ph.D., director of the Center for International Industry Competitiveness at the University of New Haven. How strong this trend becomes, he says, depends upon the importance in certain industries of having Americans responding to calls to service centers, and the quality and logistics concerns of manufacturers.

For example, Dr. Haley continues, “When tax accounting service centers were based in India, the Indian representatives didn’t understand the relationship Americans have with taxes and it caused problems.” Likewise, hospitals that sent MRIs, X-rays, and other images to India for overnight interpretation found their patients were less comfortable with those interpretations, he says.

"For manufactured goods, two key elements are causing problems," Dr. Haley says. First, goods manufactured in China, in particular, are hard to trace in the supply chain. The tracking systems that U.S. firms are accustomed to accessing generally are not available, so "companies can't find out where their goods are in the supply chain." Then, to make matters worse, "On-time delivery is probably the worst element of China-based supply chains," Dr. Haley emphasizes. Goods are notoriously late in arriving, causing U.S. firms to warehouse more stock, often degrading quality.

Sourcing strategy

Raheja advises organizations to consider locations as part of their overall strategy rather than developing strategies for each location. "You need to take a longer view," he said, because conditions change. Specifically, there must be more than an economic reason to choose a location.

The decision processes and models need to be the same for committing operations to a location as for rethinking that decision, Raheja insisted. That means using the same metrics, including access to labor, transportation, and infrastructure. "A lot of companies miss the boat by not developing a comprehensive cost analysis."

Dr. Haley points out that, "Most companies grossly underestimate their overall costs." That underestimation and failure to consider the total cost of manufacturing, combined with fuel costs that skyrocketed a few years ago, destroyed any semblance of economic return. Therefore, manufacturing near the intended market is a viable cost-reduction strategy and a competitive advantage.

Where to locate

Raheja considers locations within 100 miles of a major highway as potential candidates for companies looking outside the usual areas. By choosing such relatively remote locations, "Companies may qualify for a number of fiscal policy advantages that may include local, state, and now federal incentives to promote job growth in rural areas." Other programs may be available for hiring and training the labor force. "Distance learning is not what it used to be," he emphasizes, noting that excellent online programs are available.

Rural areas offer some notable benefits for manufacturing, but many of those benefits accrue to entire regions, Dr. Haley points out. "The South has tremendous advantages," he says. Unions are weaker in the South, and the individual states tend to have pro-business economic policies. They also have good transportation hubs.

The Southwest is another good region. "San Antonio is the seventh largest city in the U. S., and 25 percent of all Latin American imports go through there. It has a huge transportation network," Dr. Haley points out. Texas also has weak unions, low taxes and no state income tax. "Arizona is another good state (for manufacturing)" he continues. In fact, much of the U.S./Mexican border offers significant labor cost savings and the potential for easy access to maquiladoras in Mexico. California is a notable exception, he says, mentioning higher taxes and fees, more regulations and laws governing operations, and a strong longshoremen's union, all of which are shifting business away from that state.

Some other considerations

There are some downsides to locating in largely overlooked areas, however. Lisa Anderson, president of LMA Consulting Group Inc., advises companies to investigate the infrastructure carefully. In some areas, overnight mail actually takes two days, and deliveries that would be made easily in a city incur extra charges when made in some rural areas. She recommends actively working to optimize transportation resources by coordinating transportation with other local businesses and customers to facilitate backhauls, milk runs, or multiple stops. Likewise, high speed Internet is not available in all areas, so investigate communication options at individual sites.

A region's power generation capability is another often overlooked consideration. As Dr. Haley explains, "Areas with small populations are not likely to generate much power locally." Therefore, ensure that the transmission lines have the capacity to bring in what is needed and that the local utility has the resources to supply to ensure access to adequate power."

Consider power rates, also, because they vary considerably throughout the U.S. For example, Oklahoma City and the area around Satsop, Washington both boast electricity rates of about six cents per kilowatt hour.

Availability of housing is another concern when locating a new facility in a remote location. An adequate supply of housing needs to be available immediately upon startup, and the local construction industry may need to be available to build new housing.

Low-cost real estate can be a big advantage, particularly for budget-strapped companies. In Oklahoma City, for example, office space with spectacular views ranges from $15 to $21 per square foot, compared to $40 to $60 per square foot in Connecticut. Wet labs, necessary for life sciences, are about one-fifth the cost of the same labs on either coast.

But seemingly good deals can sour when bureaucrats get involved. Minimize that risk by talking with the local planning department and environmental agencies before site selection is finalized, particularly when retrofitting existing facilities.

The transportation options available near cities aren't necessarily as plentiful in more remote areas. Nonetheless, aim for some degree of redundancy. Access to competing rail lines or terminal operators, for example, helps manufacturers negotiate better transportation prices and also gives them added capacity for surges. And, in the case of natural disaster, having multiple routes out of the area promotes business continuity. Depending upon the industry, it may also be important to ensure that the roads, ports, and railways have the ability to handle specialized transportation equipment for cool or heated containers, for bulk cargo, and oversized or heavy loads, for instance.

The role of Economic Development Councils

"Economic development councils can play a significant role in coordinating the efforts of regional agencies, including incentives," Raheja says.

Indiana, for example, has coordinated its county economic development council to develop pre-permitted industrial areas with infrastructure in place. It also has capped corporate tax at 8.5 percent, offers permanent tax exemptions for enterprise IT equipment, and provides a venture capital tax credit for emerging companies, among other incentives. Indiana recently made major investments in broadband and fiber optics communications statewide and has begun a massive infrastructure investment program called Major Moves.

Georgia, forty years ago, established the Quick Start agency to help companies become operational as quickly as possible. Focusing on training, it works with local colleges and universities to identify best practices and integrate them into a company's own training. According to Dorsman, this free service also helped screen NCR applicants. As he recounts, Quick Start agreed to film operations in NCR's ATM manufacturing plant in Budapest as a training aid for the new plant in Columbus, Georgia. The agreement to locate in Columbus was signed on a Friday and the Quick Start film crew left for Budapest the following Monday, Dorsman recalls. That kind of collaboration and cooperation let NCR go from identifying and renovating a facility to being operational within nine months.

Don't forget the talent pool

The potential pool of talent generally is smaller than in regions traditionally associated with a specific industry. Biotech, for example, has more potential employees in San Diego than in Oklahoma City. However, that doesn’t mean Oklahoma’s biotech talent is non-existent or inferior.

Locations with industries similar to yours will have established at least some rudimentary infrastructure that the new arrival can tap for talent. Affinia Products Corporation, a Michigan manufacturer of automotive suspension components, piggy-backed off a well-trained Oklahoma City labor pool developed to serve Tinker Air Force base as its Oklahoma operations evolved. Tinker had a long-established talent pool of skilled metalworkers in the community. Affinia, therefore, had potential employees in the community, and employees had multiple job options.

Oklahoma’s young biotech industry also centered itself around Oklahoma City because it had a small cluster of life sciences companies, as well as proximity to major hospitals and the University of Oklahoma Health Science Center. Proximity to the community colleges and universities provides the entry-level talent these companies need, as well as access to cutting edge researchers and to a largely undiscovered life sciences patent base as a source for innovation. wt

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Sidebar: BIG Red Sets Up Shop in Michigan

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