



# How to Choose a Reshoring Partner with a Social Impact

Advantages and Required Capabilities for  
Successful Reshoring and the Added Benefits  
of Working with a Social Enterprise

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## Introduction

For more than five decades, American companies have pursued overseas outsourcing arrangements to take advantage of reduced labor costs, better tax regimes, and the ability to produce 24 hours a day, seven days a week. Though these benefits are significant, recent developments in host countries—fluctuating exchange rates, increased shipping-container costs, delivery delays from Asia to the U.S., and rising labor costs, for example—have seen these advantages weaken. Additionally, shifts in both domestic consumer preferences and host-country government policies have seen foreign-produced goods lose their edge over locally manufactured products. These changes, exacerbated by COVID-19 supply chain disruptions (some of which appear to be permanent), have caused a growing number of American companies to consider reshoring some or all their production back to the U.S. Moreover, some companies take the opportunity to reshore with a social enterprise partner for both the ability to improve ROI and to accomplish their company's ESG and social impact goals.



# Why Reshore?

Factors that enticed these companies to move production abroad include the low cost of raw materials, the proximity to material sources, and the abundance of energy sources. While some of these benefits are still present, most of them are no longer viable due to several factors, including an increase in both labor and freight costs (Hobson). More significantly, today offshoring is susceptible to a host of complicating factors, and these issues can no longer be overlooked.

## SUPPLY CHAIN DISRUPTIONS

Unforeseeable disruptions to the supply chain are increasingly plaguing industries that have grown to rely on outsourcing. For many of the products that American consumers are used to having readily available, supply chain bottlenecks have caused an increase in consumer and wholesale prices. For instance, according to CNBC, the prices of everyday products such as imported cheese, coffee, bacon, lumber, and furniture have increased over the past two years. The supply chain for petroleum products has also experienced significant disruptions, contributing to the rise in prices for products such as gas, which increased by almost 50 percent in 2021 after a drop in 2020 (Bureau of Labor Statistics). Higher consumer prices erode the benefits of foreign production, and supply bottlenecks can make offshoring untenable.

While the pandemic has been the primary driver of supply chain disruptions since 2019, other causes are also accelerating them. These include rising labor costs worldwide, growing political instability in the most common host countries, and trade wars leading to unpredictable tariff increases. Added to this is the very real threat of intellectual property (IP) theft for U.S. manufacturers in China. Although IP theft is not perpetrated exclusively in China, manufacturing in China—rather than in the U.S.—increases this risk. According to the U.S. Patent and Trademark Office (USPTO), “U.S. companies doing business in China face a range of challenges in protecting and enforcing their intellectual property (IP).” (Ben-Achor) These factors and others have induced even outsourcing cheerleaders like Walmart to pursue the reshoring of certain products.

## SHIFTS IN COSTS AND IMPROVED ROI

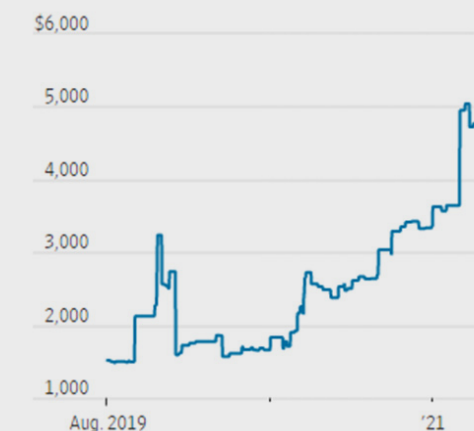
As countries around the globe, particularly in Asia and Latin America, continue to grow, labor and transportation costs are also increasing. Wages in China have been on the rise since 2005 and have been outpacing U.S. growth in wages for the last few years (China Average). The costs of moving goods by road and rail are up by 23% from 2020, and according to Freightos, the digital booking platform for international shipping, international shipping costs for containers are eight times higher than the pre-pandemic norm (Smith, Berger, and O’Neal). These growing labor and transportation costs have progressively reduced the cost difference between producing locally and outsourcing.

Combined with other advantages, these factors make reshoring a reliable and cost-effective solution. It was this combination of factors, for example, that compelled Bystronic Inc., a global supplier of press brakes, to reshore its assembly operations, enabling the company to reduce installation time and eliminate import costs (PR Newswire).

Reshoring also allows for lower shipping costs, tight quality control, and the ability to manage returns and refurbish products domestically—making the ROI of reshoring very attractive.

### Raising Rates

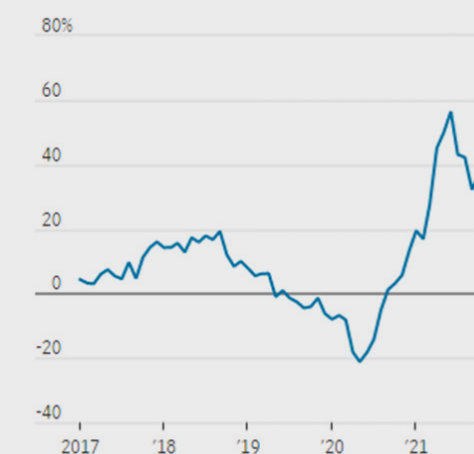
Average price for shipping a 40-foot ocean container from Shanghai to Los Angeles under long-term contracts, 2019-2021



Source: Xeneta

### Freight Spending

Year-over-year change in domestic U.S. freight expenditures



Source: Cass Information Systems Inc.





## THE NEED FOR SPEED IN A TREND-DRIVEN ECONOMY

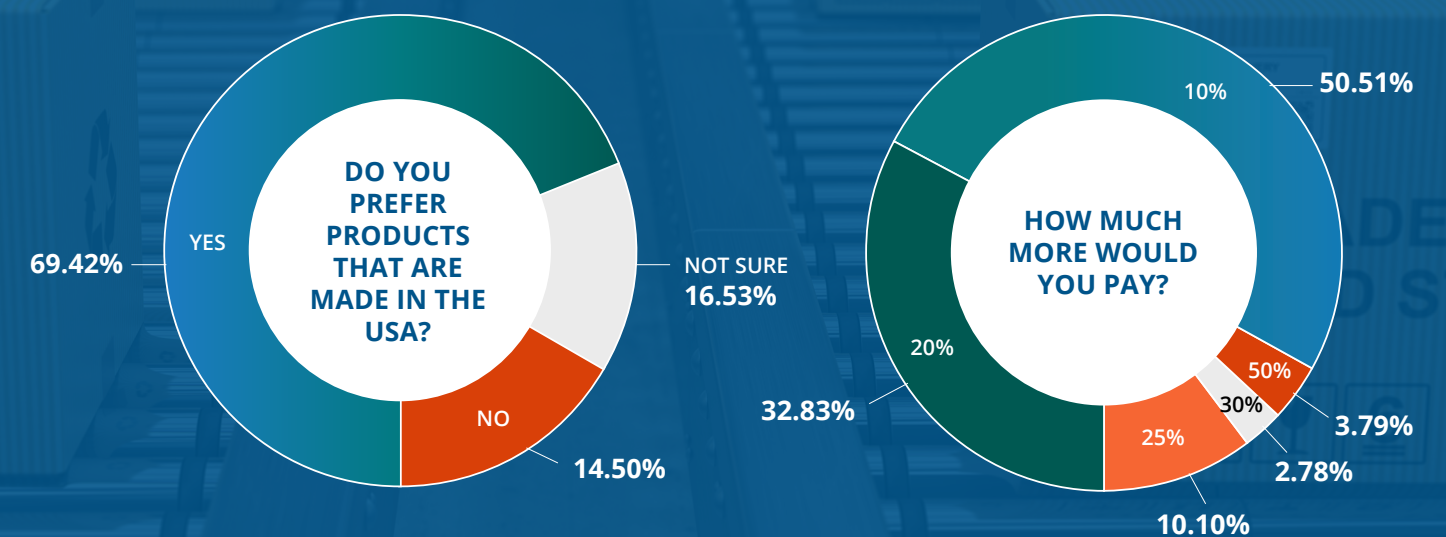
Most Americans' buying decisions are influenced by market trends (Danzinger). These trends can be short-term, intermediate, or long-term. Short-term market trends can last for a few hours to several days. Intermediate market trends last from two to eight weeks. This means that for a company to take advantage of any new trend, it must respond swiftly to market shifts. Companies that anchor production in foreign countries lack the ability to get to market quickly and often sacrifice a first-mover advantage. Reshoring gives business organizations the flexibility to adapt to shifting customer needs in real-time. Reshoring also allows organizations to run leaner and doesn't require extra capital tied up in large inventories to cover demand spikes and international manufacturing and/or shipping delays.

## MITIGATING RISKS TO NATIONAL SECURITY

Costs and ROI aren't the only factors to consider when reshoring. For the defense sector, having a global supply chain can create many risks and challenges in terms of the acquisition of military assets, safeguarding technology, and logistics. The past few years have proven that distributed global supply chains for key components can prolong or limit the ability to manufacture at scale during a crisis. Entrusting foreign countries with proprietary technology can come with certain risks and, in some cases, potential Trojan horse scenarios. In terms of logistics and National Security, a longer supply chain can weaken the ability of the U.S. to respond quickly to new demands for military assets (BreakingDefense.com). Reshoring solves these potential issues.

## CHANGING CUSTOMER ATTITUDES

Since the early 2010s, there has been a growing consumer preference for domestically produced goods. While some have dismissed the impact of this movement, recent studies have shown that an increasing percentage of Americans consider the origin of a product when making their buying decisions. A survey by the Reshoring Institute found that nearly 70 percent of Americans prefer American-made products, and 83 percent are willing to pay up to 20 percent more for products made locally (Coates).





## ESG AND SOCIAL IMPACT

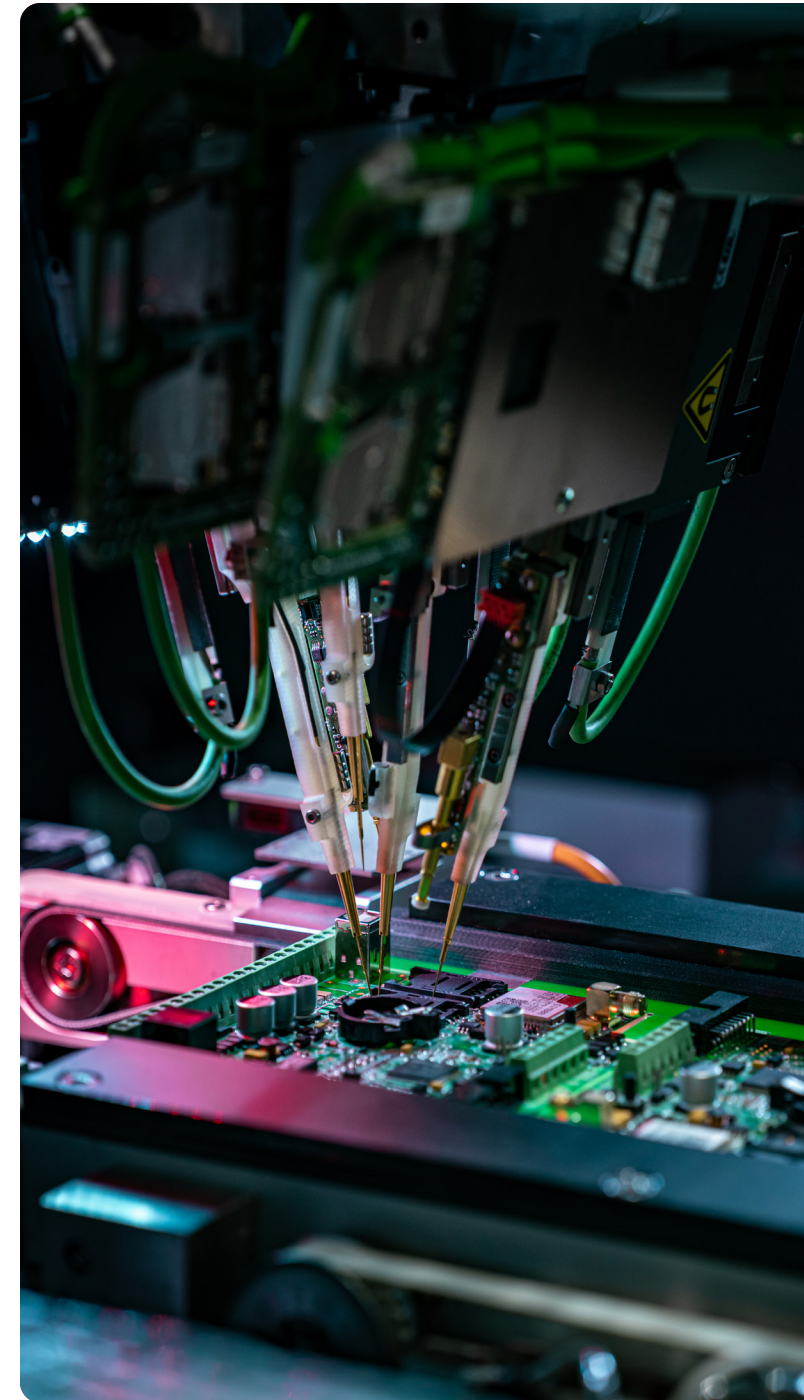
Now, more than ever, customers and investors care about a company's environmental, social, and governance (ESG) stance. Expectations are higher, and it is no longer enough for companies to make statements—consumers expect actions. In fact, a 2021 survey found that 83% of consumers want companies to be active in their ESG practices. And this group of consumers is willing to pay more for products from companies that are socially conscious and create a social impact (Beyond compliance). Reshoring and partnering with a company that holds these values—whose mission and model are delivering social impact—lets consumers know that your organization is serious about ESG.

When possible, look for a manufacturing partner with a social impact benefit—one that promotes your company's ESG goals and provides social impact co-marketing opportunities. Do you have supplier diversity goals, for example? You may be able to achieve those through your reshoring suppliers. Likewise, look for a manufacturing supplier that is experienced in sustainable manufacturing, so that you can meet your recycling and conservation goals. If you can find a supplier that directly supports your ESG goals, be sure to promote the partnership on your website, in your marketing collateral, and on your product packaging.



## Reshoring— Not Just a Trend

As systemic supply disruptions persist, many businesses are now realizing how risky offshoring arrangements have become. Even as the U.S. economy continues to revive steadily, many domestic small and medium-sized firms are facing an existential threat—an inability to source raw materials and intermediate products. According to “Global chip shortage gives U.S. manufacturing a boost” by Stephen Shankland at CNET, bigger enterprises are also facing massive hurdles, which analysts predict may last until 2024. For example, Apple, which relies on imported microchips, saw its revenue drop by \$6 billion in the third quarter due to limited supply and the increasing cost of microchips (Why US Companies). The transportation link of the supply chain has also seen a surge in both costs and disruptions. Toy company Hasbro, for example, has seen its cost of operations rise substantially due to a surge in freight costs. The COVID-19 crisis has exposed the inherent vulnerabilities of the offshoring model.





# Roadblocks to Reshoring and How to Overcome Them

Reshoring is an investment, especially if your business plans to build its own manufacturing facilities. For instance, GE Aviation invested \$800 million to move its water heater and refrigerator manufacturing plants from China to the U.S. The company also spent \$194 million to transfer their freezer-bottom refrigerator plant from Mexico to the U.S. (Engine Components). These high startup costs are one reason why some companies choose to partner with established manufacturers to bring production home. By engaging the services of a reputable U.S. manufacturing and logistics supplier, you can reduce the upfront cost of reshoring and leverage your supplier’s material sourcing and product distribution networks. This makes reshoring production both faster and less expensive, and can even give your company the opportunity to “test” the idea of reshoring before making a large capital investment.

Another obstacle to reshoring is the purported lack of skilled labor. Yet, as Reshoring Initiative’s founder Harry Moser has pointed out, this issue can be mitigated through company training programs. Other experts advise broadening the labor pool to include those who traditionally struggle to find employment. People with disabilities, for example, constitute a large, untapped source of labor. One in five Americans has a disability, and 70% of working-age Americans with disabilities are unemployed (Bureau of Labor Statistics). While these employees do sometimes require accommodations, a 2020 survey by the Job Accommodation Network found that these accommodations average only \$500 per employee per year—a cost that is likely balanced by the above-average retention rates and lower absenteeism associated with this particular labor group (Benefits and Costs). If your company lacks the expertise to hire and train employees with disabilities, you can partner with a manufacturing and logistics partner with experience in this area (Dern).

Table A. Employment status of the civilian noninstitutional population by disability status and age, 2020 and 2021 annual averages  
[Numbers in thousands]

Characteristic	2020			2021		
	Total, 16 years and over	16 to 64 years	65 years and over	Total, 16 years and over	16 to 64 years	65 years and over
<b>PERSONS WITH A DISABILITY</b>						
Civilian noninstitutional population.....	29,918	14,826	15,092	31,084	15,586	15,498
Civilian labor force.....	6,123	4,979	1,144	6,619	5,477	1,142
Participation rate.....	20.5	33.6	7.6	21.3	35.1	7.4
Employed.....	5,354	4,310	1,043	5,950	4,886	1,063
Employment-population ratio.....	17.9	29.1	6.9	19.1	31.4	6.9
Unemployed.....	769	669	101	669	591	78
Unemployment rate.....	12.6	13.4	8.8	10.1	10.8	6.8
Not in labor force.....	23,796	9,847	13,948	24,465	10,108	14,357
<b>PERSONS WITH NO DISABILITY</b>						
Civilian noninstitutional population.....	230,411	190,895	39,515	230,361	189,669	40,692
Civilian labor force.....	154,620	145,151	9,469	154,585	145,127	9,458
Participation rate.....	67.1	76.0	24.0	67.1	76.5	23.2
Employed.....	142,441	133,667	8,774	146,631	137,567	9,064
Employment-population ratio.....	61.8	70.0	22.2	63.7	72.5	22.3
Unemployed.....	12,178	11,484	694	7,954	7,560	394
Unemployment rate.....	7.9	7.9	7.3	5.1	5.2	4.2
Not in labor force.....	75,791	45,744	30,047	75,776	44,542	31,234

NOTE: Updated population controls are introduced annually with the release of January data.  
Source: www.BLS.gov





# Six Requirements for Reshoring Success

As indicated above, the biggest obstacles to reshoring can be mitigated by choosing a reliable reshoring partner. When looking for a domestic manufacturing and logistics partner, keep the following requirements in mind:



The ideal manufacturing partner will help you optimize your product's final design for cost-efficient production and a faster time to market. To achieve these twin goals, look for a supplier with strong design for manufacturability (DFM) and design for test (DFT) expertise.



Certifications matter, both for compliance issues and your own peace of mind. Even simple consumer products can benefit from expert reviews by certified process engineers, for example. Bear in mind that the most expert manufacturing partners have both ISO 9000 and ISO 13485 certifications. Even if your product doesn't require the expertise of an ISO 13485-certified manufacturer, working with a partner with such a high level of certification ensures they have the expertise for your project. And if you pursue government contracts, you'll want a manufacturing partner that is ITAR-registered.



One of the advantages of reshoring is the ability to exercise greater control over quality. Look for a partner that not only employs the latest in automated optical inspection (AOI) and 3D X-ray technology but also has stringent quality control protocols. A true partner will also be happy to walk you onto the manufacturing floor so you can review production directly.



Look for a partner with expertise in procurement management so that they can quickly shift to new suppliers when a bottleneck occurs or when your product parameters change. And to quickly implement changes in a product's configuration or shipping logistics, you'll want a manufacturing and distribution partner that offers an Electronic Data Interchange (EDI) and web-based interfaces.



Dividing manufacturing and logistics among different suppliers can add transportation and other costs. On the other hand, turnkey solutions that include manufacturing, warehousing, and distribution will allow you to achieve economies of scale. To fully leverage the benefits of reshoring, look for a supplier who can provide an A-to-Z solution that takes your product from the manufacturing plant to the final point of sale.



To keep warehousing and distribution costs low—and ensure timely delivery—look for a partner with forecasting and demand planning expertise. The ideal logistics ally can accurately gauge buffer stock even for products with fluctuating demand. Your distribution partner should also be able to track your products through distribution to the point of sale so that, at any moment, you can check the location of any part of any lot.

## A-Z

*To fully leverage the benefits of reshoring, look for a supplier who can provide an A-to-Z solution that takes your product from the manufacturing plant to the final point of sale.*



# Conclusion

The reshoring of American manufacturing has become a popular trend in the past few years. This trend will be reinforced by supply chain disruptions that accelerated during the COVID-19 crisis, including changing geopolitics, an increase in production costs in developing countries, international shipping delays, container cost increases, and evolving consumer preferences.

In 2020, domestic investments outpaced foreign direct investment (FDI) for the first time since 2013 and created a record 109,000 jobs that year. In a recent survey, 83 percent of 383 manufacturers interviewed stated that they are either likely or highly likely to bring jobs back to the U.S. in

2021 and beyond—up from 54 percent in 2020 (2021 State of Manufacturing Report).

Clearly, there are valid economic reasons to reshore. But, to ensure a successful transition, companies must move cautiously and plan carefully. For companies wishing to offshore only a portion of their production, or for those who wish to avoid a high capital outlay, partnering with a domestic manufacturer can reduce both risk and upfront expense. Reshoring partner organizations like PRIDE Industries, a social enterprise that creates employment for people with disabilities, can help you reshore successfully while realizing social impact benefits.

## CUSTOMER TESTIMONIAL

*“When you order from Asia... it’s not as easy as one might think. It takes a lot of extra time. PRIDE...they are within 10% of the Asian companies, which is offset by the shipping costs, the quality control, and the amount of time to delivery. We’re just thrilled to work with a company that’s headquartered near us, that supports our community, and that can make a quality product.”*

— Sal Edwards

CEO AND FOUNDER OF HEART ZONES  
A HEART RATE TRAINING AND TECHNOLOGY COMPANY

## ABOUT PRIDE INDUSTRIES

PRIDE Industries offers end-to-end electronics manufacturing services (EMS), including design engineering support, manufacturing, supply chain management, fulfillment, and end-of-life support. Because the company has in-house SMTA-Certified SMT Process Engineers and state-of-the-art manufacturing facilities, it meets a wide range of manufacturing needs and delivers products built to the highest quality standards. The company has a robust supply chain, logistics, and fulfillment infrastructure that ensures products consistently reach end-users in a timely fashion. As a social enterprise with a mission to create employment for people with disabilities, PRIDE Industries also offers its customers certain ESG and social impact marketing benefits.

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