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## From offshoring to reshoring

### Bringing manufacturing back to North America and the impact on supply chain strategies

Over the past several decades, offshoring has become a very popular supply chain strategy. The low costs of production in many Asian countries, combined with enhanced ocean shipping and improved North American intermodal services, have made this sourcing option very attractive to many manufacturers and retailers. The offshoring movement accelerated as companies in a variety of industries followed their competitors abroad and moved manufacturing jobs to other countries. The Great Recession was a further tipping point in the reduction of North American manufacturing jobs. Recent economic data suggest that manufacturing is slumping in the US and Canada, pulled down by drops in new orders and shipments.

The Asia outsourcing curve may be about to reach an inflection point, however. Labour costs in China have been doubling every three years. Changes in currency levels and energy prices have also altered the equation. If one factors in labour costs, freight costs and the Total Cost of Ownership (TCO) in bringing goods from China to North America, as compared to manufacturing them here, the TCO's are expected to converge in 2015, according to Harry Moser, Initiative Founder at the Reshoring Initiative ([www.reshorenw.org](http://www.reshorenw.org)), a non-profit organization based in Chicago, Ill.

Moser argues that about 60% of cost studies are flawed. They do not reflect the full set of variables and the full range of costs involved in offshoring.

The Reshoring Institute offers a free software tool (TCO Estimator) and a manual to perform detailed calculations and allow users to make informed decisions. The cost model includes 29 cost factors. Using a set of pull-down menus, freight costs from 17 countries, duty costs and various risk elements, the TCO tool allows companies to make accurate comparisons. Moser indicated that the model is based on moving goods from China to Chicago and the calculations use US dollars. Upon questioning, he indicated that Canadian companies should be able to use the model and make the appropriate adjustments for moving freight to a major Canadian city (e.g. Toronto, Montreal).

Results from a recent survey indicate that 61% of larger companies are considering bringing manufacturing back to American soil. He listed a number of major corporations that are reshoring at least some of their

manufacturing back to the US, including Caterpillar, General Electric, Ford, NCR and Master Lock.

Each company that manufactures some of its goods offshore has a range of strategic options that are available. They include:

1. Shift some offshoring back to North America
2. Maintain a domestic sourcing option
3. Shift some offshoring to nearshoring (e.g. Mexico, Central America, South America)
4. Move some offshoring in incremental steps to North America
5. Shut down offshore operation (as a last priority)

In Canada, the "Take Back Manufacturing" initiative was started by the Society of Manufacturing Engineers (SME) in Toronto, but is now supported by many other management associations, technical societies and trade organizations in Ontario. Nigel Southway, chair of the SME, has been leading the charge in Canada. Like Harry, Nigel spent a great deal of his business career either in the manufacturing industry as a technical operating manager or as a practitioner of productivity and continuous improvement. He has been an architect of change for many major manufacturing companies and is the author of a textbook on productivity improvement.

The Canadian initiative takes a broader perspective on reshoring than its American counterpart. It looks beyond the costing methodology at government programs, education and training. It takes the view that we need a balanced economy in Canada that has strong resource industries, strong service industries and strong manufacturing. In a recent interview, Southway highlighted that reshoring is particularly important in Ontario since this is the province that has suffered the largest loss of manufacturing jobs.

Certainly, the Canadian government has been very focused on supporting the development of the Western Canada oil and gas industries. Southway argues that government policies and incentives that support local manufacturing, coupled with education programs and apprenticeship training programs to help people perform trades jobs in the manufacturing sector would take the reshoring movement to a whole new level and contribute to increased prosperity and higher employment levels.

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