

The Case for Backshoring

An excerpt from an article written by [William J. Holstein](#)

For years, the NCR Corporation simply followed the pack. Like many other large U.S. manufacturing companies, in the past couple of decades the maker of automated teller machines (ATMs) relied heavily on offshoring and outsourcing to trim factory costs. By making much of its equipment in cheaper offshore locations in the Asia/Pacific region, and by hiring Singapore's Flextronics International Ltd. to make other equipment, NCR could slash hundreds of millions of dollars in plant expenses and be reasonably certain that its ATMs met quality standards.

But recently, NCR has rejected this strategy — at least to a degree. In 2009, the company decided to move its most sophisticated lines of ATMs from its plants in China and India, and from a Flextronics facility in South Carolina, and instead manufacture the machines in Columbus, Ga., not far from the NCR innovation center, where its new technology is on display. The reason: The company was concerned that outsourcing distanced its designers, engineers, IT experts, and customers from the manufacturing of the equipment, creating a set of silos that potentially hindered the company's ability to turn out new models with new features fast enough to satisfy its client banks. "I think you'll see more of this occurring," says Peter Dorsman, NCR's senior vice president in charge of global operations,

Backshoring is primarily an American phenomenon, because U.S. manufacturers have been much more aggressive about outsourcing than their Asian or European counterparts. Japanese companies experimented with outsourcing high-end items to factories in Southeast Asia and China, but quickly changed course after growing concerned about the loss of intellectual property and about disrupting the link between research and manufacturing. As a result, Japanese companies generally farm out only the manufacturing of commodity products.

But the logic behind backshoring is compelling enough that it cannot be easily dismissed as a mere short-term aberration. Higher transportation costs as well as rising wages and raw materials prices in China, inevitable by-products of the huge gains that the developing country's GDP has made despite the global recession, have frightened some U.S. companies away from Asia. An apt illustration: Wright Engineered Plastics Inc., a Santa Rosa, Calif.-based maker of injection molds, has expanded its West Coast plants and decreased its use of Asian facilities because many of its key customers have shifted their own manufacturing operations back to the U.S. in light of prohibitive increases in the prices for raw plastic in China.

Moreover, some companies are amplifying materials and logistics savings from backshoring by modernizing their U.S. plants to outpace Chinese facilities. Such is the case with Diagnostic Devices Inc., a maker of blood glucose monitoring systems. By automating its U.S. factory with robots and other high-tech hardware and software, and by taking advantage of lower shipping fees for a mostly local customer base, Diagnostic Devices reduced its production budget by 40 percent. "We will also have far more control over and protection of our intellectual property, which you don't have in China."

But what may be at stake in the schism between offshoring and backshoring is a company's long-term ability to innovate. The making of commoditized staples like shoes, clothing, and consumer electronics will mostly remain in Asia. Backshoring will be more prevalent at the high end of the technology spectrum,

"Unless you try to do something beyond what you have already mastered, you will never grow."

Ronald. E. Osborn

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CREATING CONTINUOUS FLOW ~ by: Mike Rother & John Shook

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THE GOLDMINE ~ by Freddy Ballé and Michael Ballé

Another solid performer from LEI, there has been renewed interest in this book as a result of the hot new sequel – *Lean Manager*. *The Goldmine* is a novel of Lean transformation, and sheds light on how Lean managers can address the many challenges to rolling out systematic change.

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