

Near-shoring on the rise amid hunt for cheaper, better sourcing

Material Handling Industry of America

Costa Rica is known more as a vacation hot spot than a manufacturing mecca, but when General Microcircuits Inc. decided to build a new plant for electronic assemblies, the Central American country was the electronics manufacturer's top destination.

GMI's nearly 14,000 square-foot plant, which began production in May, is part of a growing trend among American companies to near-shore, or to source their production in nearby countries, after years of moving manufacturing to China and other Asian countries.

The \$2 million plant is located in a trade-free zone in Alajuela, just outside the capital city of San Jose and an easy four-hour flight from GMI's headquarters near Charlotte. The seven-day transit time for shipments by sea from Costa Rica to U.S. customers is also a far more attractive option than the 35- to 45-day transit time the company experienced with its Asian partners, says GMI Senior Vice President Dave Dalton.

Time is money, Dalton notes. "You basically cut potentially 28 days to 35 days of working capital" for inventory in transit, he says. That was one of the advantages GMI considered as it located the plant, which produces assemblies for LED lighting and Smart Grid products.

Industry experts say that Costa Rica, Mexico and other nearby countries are increasingly attracting U.S. manufacturers seeking low-cost labor options, shorter logistical lead times and better control over intellectual property.

U.S. business-advisory firm AlixPartners LLC found that 42 percent of senior executives it surveyed this spring have either already taken steps to near-shore manufacturing operations or plan to do so within the next three years.

Similarly, a University of Tennessee study earlier this year in conjunction with World Trade 100 magazine found that 52 percent of business executives surveyed expect near-shoring back to the U.S. to increase over the next two years.

Xylem Group of Atlanta, which makes bath furniture, has moved production for three of its product lines back to the U.S. from China and is exploring other possible sources in Central and South America, says owner Hal Weinstein.

Through the second quarter, the number of foreign direct investment projects in Latin America overall is on pace to top last year. Capital investments for such projects have already hit 70 percent of the figure for all of 2010, according to

Near-shoring on the rise amid hunt for cheaper, better sourcing

Published on Medical Design Technology (<http://www.mdtmag.com>)

research by fDi Intelligence, a Financial Times news service.

Mexico, especially, has attracted investments in manufacturing by U.S. automakers, including General Motors Co., and by suppliers to aerospace manufacturer Airbus. The U.S. is Mexico's largest trading partner, and the country's share of U.S. imports so far this year is 12.5 percent, ahead of 2010 and more than 2 percentage points ahead of its 2005 share, according to the U.S. Census Bureau's Foreign Trade Division.

Although reports of drug-related violence have curbed enthusiasm, Mexican economists have boosted their estimates of foreign direct investment in the country for this year, and the International Monetary Fund projects the country will experience 4.5 percent economic growth in 2011 and 4.1 percent in 2012. The U.S. economy grew at an annual rate of less than 1 percent in the first half of this year, and economists are trimming their forecasts.

Alan Amling, director of contract logistics marketing for UPS, says more companies are taking a hard look at near-shoring as factors such as wage rates, the price of oil, government regulations and customer demands continue to change.

Rising wages in China and other Pacific Rim countries in recent years have eroded the labor savings U.S. manufacturers anticipated, and many organizations have seen valuable intellectual property lost in environments of lax or no enforcement, says Frank Geric, director of marketing and communications for Agility Business Solutions, a Cleveland manufacturing and distribution consulting firm.

He tells of a U.S. client who visited an Asian plant where the company had outsourced manufacturing and found two identical production lines operating— one for his company's product and one for the manufacturing partner to sell on its own. "What we're finding is that companies that have really complex manufactured parts or highly engineered parts with really ... nuanced capabilities are moving stuff back" closer to the U.S., Geric says.

Experts also say U.S. companies are counting the costs of complexities associated with quality control and logistics tied to outsourcing in Asia. "There is a ton of outside pricing pressure that is making everyone get better and more competitive with the products they manufacture," says Chas Spence, a director with AlixPartners.

While ocean freight prices have stabilized from high levels in 2008, currencies in China and Vietnam have weakened at the same time Mexico has seen its currency strengthen, according to the firm. That has helped make Mexico the top low-cost country for manufacturing.

For many of the firm's clients, says Spence, "It's not 'Should we go to Mexico?' it's 'If we go to Mexico, where should we be?' "

Such shifts in U.S. companies' production undoubtedly mean increased opportunities for the material handling industry as manufacturers and their partners make adjustments up and down supply chains.

Near-shoring on the rise amid hunt for cheaper, better sourcing

Published on Medical Design Technology (<http://www.mdtmag.com>)

Phoenix-based Swift Transportation Corp. in August announced a new intermodal service into and out of Mexico and will add about 1,900 containers to its operation by early 2010 to handle the new business. Swift already has one of the largest cross-border truckload carriers between Mexico and the U.S. with its Trans-Mex subsidiary in Mexico.

“The reduction in the Mexico-China wage gap is driving a lot of businesses to Mexico,” says Mark Young, an executive vice president and head of Swift’s intermodal business. “It’s going to continue to be a growth country, and we want to be able to take advantage of that.”

AlixPartners’ Spence notes that a recent agreement between the U.S. and Mexico resolved a decades-old NAFTA-related dispute and finally allows Mexican trucks crossing the border to continue on U.S. roads to deliver their hauls. That should reduce costs even more.

Clearly, near-shoring still carries risks. Drug-related violence in Mexico has contributed to decisions by some U.S. firms, such as Whirlpool Corp., to choose U.S. locations over Mexico, according to a recent Wall Street Journal report. Other companies operating in Mexico use more stringent security measures than they do in the U.S. as a result of reported incidents such as the 2010 hijacking of a freight truck.

Maria Elena Rigoli, president of Collectron International Management, believes news reports have blown the issue out of proportion and says the safety environment in Mexico has improved in recent months. Collectron is a management and consulting firm that operates a shelter program in the state of Sonora, allowing foreign companies to establish operations in Mexico without incorporating there.

Still, Rigoli acknowledges the perception of violence and uncertainty tied to the U.S. and other foreign economies has recently slowed interest.

Meanwhile, companies reassessing sourcing are using the opportunity to place a renewed emphasis on principles of lean manufacturing, experts say. “The proverbial slow boat from China makes it difficult for businesses to maintain lean practices,” says Geric.

Near-shoring, for example, often puts manufacturers in a closer time zone with U.S. companies, allowing production crews and headquarters to communicate more easily.

General Microcircuits, the North Carolina electronics manufacturer, sees another benefit to its new location: Costa Rica is more convenient for customers and prospects. Indeed, Dalton expects that once the rainy season ends, his plant could get quite busy on Thursday afternoons as customers try to make a long weekend of a trip to the country known for its beautiful beaches.

“I have yet to have a customer or prospect that the first thing out of their mouth

Near-shoring on the rise amid hunt for cheaper, better sourcing

Published on Medical Design Technology (<http://www.mdtmag.com>)

wasn't 'When can I make a sourcing trip?'" he says.

Mary Ellen Biery is a freelance contributing writer for MHIA. Learn more about Mary Ellen at www.GoodWritingFast.com [1].

[SOURCE](#) [2]

Source URL (retrieved on 05/07/2015 - 5:43am):

<http://www.mdtmag.com/news/2012/04/near-shoring-rise-amid-hunt-cheaper-better-sourcing>

Links:

[1] <http://www.GoodWritingFast.com>

[2] <http://www.mhia.org/news/industry/11467/near-shoring-on-the-rise-amid-hunt-for-cheaper--better-sourcing>