



Has Local Sourcing Become Low Cost?

by Adam Thor and Jeoff Burris

Advanced Purchasing Dynamics, Inc. 734-927-0836

Manufacturing in the United States has demonstrated the ability to change and restructure according to the challenges it faces. In July 2009, we explored how US automotive suppliers were responding to historically low industry volumes by reducing both fixed and variable costs ([The Silver Lining to Industry Transformation, July 2009](#)). Bottom line on the paper: manufacturers, responding to the volume downturn, significantly improved their cost structure.

A couple of weeks ago a colleague passed along a paper from the Boston Consulting Group (BCG), *Made in the USA, Again: Manufacturing Is Expected to Return to America as China's Rising Labor Costs Erase Most Savings from Offshoring*. [Here is the link to the press release for the paper.](#)

BCG looks at the inflation, exchange rates and labor productivity, without looking at the positive impacts of US cost restructuring, and comes to the conclusion that: "Executives who are planning a new factory in China to make exports for sale in the U.S. should take a hard look at the total costs."

So, has local sourcing become low-cost, and will we thus see a return to local sourcing?

The answer to the first question (Has local sourcing become low-cost?) depends upon the cost structure of the commodities being considered, AND the supply market realities of the commodities being considered.

As an example consider a component machined from ductile iron with relatively low labor content and high transportation cost. The low labor/high transportation cost structure would indicate that there could be savings opportunities in local sourcing. However, during 2008-2010 multiple US foundries were not only closed but they were dismantled, scrapped or shipped overseas. There is a shortage of capacity that might only get worse when the economy improves and demand strengthens. The result: the buyer who resources to save a dollar today may pay more tomorrow.

What should purchasing organizations do to assess the competitiveness and supply market realities of local sourcing? Here are our suggestions:

- Understand the cost to manufacture the products in their current location and in the United States.
- Understand manufacturing capacity through the extended supply chain for the commodities in both locations. Is demand likely to exceed capacity, creating shortages and predatory pricing? Will demand be lower than capacity, ensuring that demand can be met and pricing will be more aligned with costs?
- Prioritize commodities for further local sourcing opportunities based upon the results from the above.
- Develop strategies for evaluating and executing local sourcing on a commodity by commodity basis.

Will we see a return to local sourcing? We believe that, based upon the changed economics, we will. Companies that take an analytic and strategic approach to evaluate and execute the opportunities will achieve the best results.