Companies move operations back to US

By Katherine Poythress 6 a.m. June 3, 2013

Many companies in the past couple of decades found it best to move operations overseas, but now many are moving back.

The San Diego region lost more than 33,000 manufacturing jobs between the years 2000 and 2010, thanks in part to offshoring, according to a 2012 survey by the South County Economic Development Council.

But businesses like Vista-based Solatube International, Inc are bringing some of those jobs back because they found it was either more expensive or more difficult to maintain quality control in their overseas operations.

Other boomerangers include San Diego-based Liquid Shades and El Cajon-based Taylor Guitars. Both returned in order to preserve their quality standards, among other reasons.

Susan Rillie, Vice President of Operations for Solatube, shared her company's story recently at a CONNECT workshop promoting nearsourcing, which is the practice of using local supplies, labor and expertise rather than going out of the country for them.

Her corporation, which is in more than 50 countries, manufactures and distributes its products in Vista now after a brief venture into China. The company had overestimated its potential savings and underestimated the expense of operating overseas.

It's fairly common for businesses expanding into other countries to encounter unexpected costs for utilities, labor, transportation and quality control oversight, said Steve Buchwald of California Manufacturing Technology Consulting, a not-for-profit organization dedicated to protecting the manufacturing base in the United States.

"Most companies are underestimating the cost of going overseas," he said.

Many think only about their acquisition costs, and maybe their labor costs when considering a foreign expansion, Buchwald explained. Those can be cheaper than in the United States. It's when you consider the entire supply chain that the bills start piling up.

Say a company finds some mistakes in its first few shipments. It will have to scrap some of the product and rework it, maybe send someone to the manufacturing site to oversee the foreign operation and ensure the managers are doing what they were hired to do. Then there are the transportation costs, from vendor to port, from port to manufacturing plant and back to the port again.

"Your export and duty fees, inflation and exchange rates that you have to account for," Buchwald said. "All of that."

Those risks can be especially scary for a business just starting up, pointed out Patrick Giblin, founder and CEO of **451 Degrees**, a social media marketing services agency.

It still makes good business sense for some companies to operate in foreign countries, Buchwald said, but for others like these, it might make sense to come home.

For Solatube, the lesson started about nine years ago, when the company began sourcing some of its materials and other components in China. Eventually, decisionmakers decided they could save money by doing some of the tooling over there. And with tooling came the need for engineers, sourcing specialists and administrative support for all these activities, and human resources specialists.

So Solatube opened a manufacturing operation and office in China, then a bigger facility and then a joint venture with a state-owned company that promoted domestic sales.

"We've done everything you could probably possibly imagine in China, Rillie said. "Buildings, export and import, and delving into sales."

Solatube corporation finished reshoring in 2012 and now only 7 percent of its operations remain in China. The lesson Solatube took away from the experience was that, contrary to popular belief, it doesn't always make financial sense to do business overseas.

Solatube, in its enthusiasm to begin operations in China, ended up in a high-end research park that guaranteed electricity, an otherwise unreliable utility in that country. But the security came at a price: Higher utility rates and higher salary demands from skilled laborers.

"The people who worked for us had to be relocated or brought in from other areas and were able to negotiate some incredible salaries and rates," Rillie said.

Because of Solatube's high-profile location, the government had its own higher expectations when it came to labor laws and wage increases.

"The way they treat foreign companies may be a little different than local companies," Rillie said.

There are a number of organizations, including Buchwald's, that provide tools for companies to calculate what it would cost them to relocate overseas. The California Manufacturing Technology Consulting tool has 72 data points within nine different classifications. The Department of Commerce launched this year its **Assess Costs Everywhere** resource, which guides businesses through a number of similar cost factors.

Any company considering a move to foreign shores, or bringing operations back home, needs to consider all of the possible expenses, Buchwald said.

Many companies jumped on the bandwagon to manufacture overseas, he said, and it won't solve anything to jump on the bandwagon for reshoring before making sure it's the right decision for your company.

Those looking to bring operations back home can check out the East County Economic Development Council's **Connectory**, a resource to help businesses find suppliers, manufacturers or companies at any level of the supply chain. The Connectory has more than 22,000 companies in its database, 5,000 of them from San Diego.