

-- Speaker 0 00:00:04 Make It Right. The manufacturing podcast.

Speaker 1 00:00:10 Do you recall those early days of COVID-19 in North America when there was this mad scramble for household items and the stockpiling of non-perishable food items with supplies coming to our shores from all over the world, there was this real fear of lack that cleaned off store shelves. There were just some things that we didn't make here anymore and adjustments needed to be made really quickly. COVID-19 has taught us a lot and our guests has proved that offshoring is not the answer. Welcome to the, make it ride podcast. I'm Janet Eastman. And this week on the show, I'm really pleased after Harry Moser, the founder and president of the reshoring initiative at the association for manufacturing excellence as our guest, Harry, welcome to the show.

Speaker 2 00:00:56 Uh, I'm I'm delighted to be here. Uh, we're showing initiative is not a part of the AMA we, we work, we cooperate with them. Oh, perfect. Okay. Thanks for clarification. Yeah,

Speaker 1 00:01:09 That's good. Thank you very much. I had misunderstood that Harry, I'd like to introduce you to my colleague, Kevin Snook. He is a manufacturing leadership advisor. He's based in Thailand and he joins us today too.

Speaker 2 00:01:20 I Kevin and Janet.

Speaker 1 00:01:23 So Harry, I want to go right to at what has COVID-19 show in us about the impact of offshoring in North America and the manufacturing industry.

Speaker 2 00:01:32 Let me take the longer-term trend and then come down to the present. Okay. So longer-term trend, um, huge mounts of increase in imports to the United States. Trade deficit grew to 800 billion per year, uh, over a 40, 50 year old year, time period. And then around 2010, things started to get a little better re reassuring us companies, bring things back. FDI foreign companies bring work to the United States got going. And so in the year, 2010, about 6,000 jobs were announced to come back and in the year 2017, about 190,000 were announced to come back. So quite quite an improvement, more than 30 times that driven in 2017 by Trump's tax cuts, regulatory cuts, and then it fell off in 2018, 2019, primarily because of Trump's trade war that the company said, I don't know what's going to happen. I don't know what the rules are going to be a month from now.

Speaker 2 00:02:34 We'll just wait and see what happens. So we had this, this surge up fall off star, starting to pick up in 2020 and significantly in 2020, because of COVID so significant amounts of PPE, the medical things have come back. The things that were traditionally made in China or elsewhere, uh, but also other products the companies said, I, uh, I can't afford to be dependent on that. And so the, um, it looks like 2020 will be up to essentially from 2019 and, and the companies are starting to understand that it's too risky to have these hundreds of supply chains scattered all over the world and be so dependent. And so at risk of all kinds of things that that can happen, uh, but it was driven by COVID COVID COVID, you know, the recent, the last year or two driven by people seeing on the television hour after hour, the shortages and understanding that we are not self-sufficient

Speaker 1 00:03:36 Right. So how hard is it for us to us being North America to bring all that back here or to bring some of it back here? How hard is that?

Speaker 2 00:03:49 It's, I'd say most difficult for the us, moderately difficult for Canada and REL relatively easy for Mexico. Uh, reason being that the, the driving force of offshoring is price. The fact that companies can buy things in, let's say Europe for 20% less than the us and China for 30 or 40% less than the us. And that's what drives them. And that's significantly because wage rates are so much higher in the, in the U S and Canada, Mexico is about like China. So, so as long as that wage rate difference stays so high, unless we can overcome it by, uh, tax differences by better skilled workforce, by more automation, by maybe adding a value added tax or a border adjustment tax or something like other countries out, unless we do something to offset that manufacturing cost differential. It is hard to bring most of it back, but it's possible to bring, and we demonstrate consistently that it's very possible, very feasible to bring back 20 or 30% of it.

Speaker 1 00:05:05 Okay. So given what you've --

-- e just said there, how do we get, how does the U S get reassuring right then?

Speaker 2 00:05:14 Yeah, th th the real key, the long-term key is macro. The longterm cake is to get the dollar down by 20 or 30%, uh, to have a, a skilled workforce, the equivalent of Germany or Switzerland, where 60% of the high school students go into apprentice programs where we're really smart high school students become toolmakers and welders and precision machinists and chemical technicians and things like that. Kids here that would obviously go on to university and, and in many countries, a much higher percentage of the university students study engineering than in the U S here, everybody. And I, I imagine Canada is the same. Everybody wants to study art and music and philosophy and anthropology and all this stuff. And then, and then go out and find a job working at Starbucks somewhere. And, and so, uh, so anyway, currency, uh, skilled workforce taxes, um, automation, automation is absolutely Kate.

Speaker 2 00:06:16 Um, you, you mentioned AMA leave there. There's definitely a very strong role for four lane. Uh, Jim Womack, who is my neighbor up in Maine talks about lean Shoren, talks about bringing the work back, not into the old factory with the old equipment and the old flow, but bringing it back into, uh, with new equipment and with a lean flow, proper flow of the work, through the area with the employees, engaged with doing it significantly different than it was done before, because if you have the same cost disadvantages and you don't do something to improve your other factors, then, then you're, you're just going to lose it again. It's not going to stay.

Speaker 1 00:06:59 So we've had this, uh, skilling up the workforce challenge for years. I was working in business television back in the early two thousands. We were talking about this issue. How do we fix it, Harry? How do we get people in North America? Um, parents of, of kids to tell them that apprenticing and trades and things like that. These are good jobs. And they're interesting jobs. How do we sell that?

Speaker 2 00:07:26 I think the problem starts with the government, government and media in the U S um, you're, you're in Canada. I don't know if you see the same thing, but in the us, I'm sure somewhere, everyday I can find an article that says, university education still pays off with a million dollars, more lifetime income than a high school degree. Okay. And so, uh, w which is statistically true, but very misleading because it doesn't discuss the, that there's something else in there such as an apprenticeship, which is a valid alternative. So about, about eight years ago, the U S department of labor called me down to Washington to tell them how to get the workforce ready for reassuring for the surgeon jobs that, that was coming back and has come back. And so we're in the secretary of labor's conference room in Washington. And I said, I stood up and said, well, first we have to get the department of labor to stop being part of the problem and become part of the solution.

Speaker 2 00:08:23 Unfortunately, they didn't kick me out. And they said, okay, what do you have? And I say, well, I called up one of their websites. And it said, education pays off with more income, something like that. And I said, huh, I thought you were the department of labor responsible for training responsible for having new workforce that we need. Why does it this say education and training payoff and down here, where you've got these bars that show in income by degree level high school, uh, community college college, w w why doesn't it say apprenticeship and show that the apprenticeship income is just as good as the university income and show that there's an alternative and then get that out to the media. And they folded like this, and they changed it. And I ran into, uh, like a, a sec assistant secretary that hadn't been there. Uh, two weeks later at some other event, he said, Harry, I heard all about you being there really made an impact.

Speaker 2 00:09:22 And so I've, I'm on, uh, a committee, the investment advisory committee of the department of commerce I've volunteered. And we may do what two to go through all, all the government websites and look for misleading information like that. And not that their information is wrong, but that it only tells half the story. And if you only tell half the story, then the half that you need to get out --

-- t to people doesn't get out there because media and politicians go to those sites and think that's the total truth. So things like that get to get the full picture out there. I did a, I did a study. I had data on income by D by degree type and age, and for apprentice people who passed an apprenticeship. And I did a calculation, showed that a 49 year old apprentice should have a million dollars higher net worth than a 49 year old English major in the United States.

Speaker 2 00:10:18 Nobody passes that or not. I gave it to them, nobody Pepsi, no, because the, the university, uh, establishment is so strong and obtaining students because they need them to fill the universities. Another thing that relates to reassuring one reason, uh, people, uh, young, good smart youth do not come into manufacturing is that they've been told for the last 20, 30 years, all the work's going to China to India, to Mexico, to somewhere else. So why would you want to take a four-year apprenticeship, if at the end of that, there aren't gonna be any jobs for that category, especially compared to going to university and drinking, and party and having a good time. Yeah. So, so, uh, so we believe that the smart thing say for, uh, uh, Ontario, you know, or, or, or a state in the us to do would be to collect all their cases of reassuring report them every week or every month on the TV, radio newspaper about all the jobs coming back so that the students, the high school, the guidance counselors. So, wow. Once again, manufacturing, careers are great. Susie become a welder. Great idea. That's wonderful. All right. So there's, there's, there's things like that that can be done, but it takes communication because the barrier is recruitment. The barrier is getting smart kids to say, yeah, that's a good career. I want to do that.

Speaker 1 00:11:46 Well, and it doesn't, it doesn't start in late high school either. Does it, Harry, it starts in public school, starts with the parents talking to their kids and saying, you do things with your hands. If that's what you want to do, it's not a bad career. Right. I mean,

Speaker 3 00:12:02 It's a wonderful career. Yep. Yeah.

Speaker 1 00:12:04 Like tell kids really an early, early age that you don't have to sit there and scramble through books for the rest of your life. You might be actually doing something creative with your hands, and that's where the creative skill comes in. Right?

Speaker 3 00:12:18 Yeah. I actually, over in Switzerland, I've taken four different tours of apprentices or shop owners to Switzerland to see the apprenticeship system there. And we'd go to shop after shop where they have very smart apprentices kids. If you, in your United States, you would have said for sure, they were university students, except for the fact that they spoke three languages in the us. And they talked to the management and ownership of the company. And these are a hundred man, 500 man companies. And typically that senior management or ex apprentices who worked their way up, maybe went out and got a university degree, but they know the product, they know the process, they know the customer, they know the employees, they're perfectly attuned to run the company, whereas as opposed to an MBA parachuting, and that knows nothing about anything, except for some things that they learned in school and applying, and I'm an MBA, you know, there there's value there. I'm not saying it's bad, but it isn't the whole solution. Whereas starting at the bottom, working your way up to getting maybe an MBA, that's a perfect solution.

Speaker 1 00:13:26 It sounds like you, Kevin Snoop.

Speaker 3 00:13:29 It does. And the other thing that's interesting is I'm on the other side of the world, right? So I'm basically in Asia and I've been here through that rise of factory Asia. So I came over here in 96 when China was just starting to really ramp up. And since then it's been China and Southeast Asia and India, and then things have all been on that upward curve. And a lot of that was offshoring from places like the U S and Europe. And so I've seen it from the other side as well. And what I love about what you're saying, Harry, is that, um, in order to bring things back, you can't bring them back into the situation that it was before. That's just fundamentally wrong. Um, people look at, uh, China and Southeast Asia and India as being low cost manufacturing because it's low wage rates. But, --

-- you know, from, from my perspective, having seen what's happened here over the last 25 years is incredibly high technology manufacturing with incredibly smart people. And so in order to be able to move that back, um, we're going to have to have incredibly smart people with great automation. And, and like you said, hiring the best graduates or the best people from school, whatever it is, and attracting them back into manufacturing. And so it's a different solution, not just about pulling

Speaker 2 00:14:52 Things back, like you said, into the old factory. So I'm, I'm fully aligned with you there. And the part that I've always been frustrated with in manufacturing is that is kind of, is denigrated. In some, some ways people talk about manufacturing as being kind of this dirty, noisy sort of smelly industry. And that's not the way manufacturing is anymore. You know, my 30 years in manufacturing has been fantastic in, in wonderful factories that are producing really high quality goods with very high quality people. And I'd love to see that message get out there more. Now, I've got an interesting story on one of the tours that I took to Switzerland went to one of the big international machine tool companies headquartered there. We were getting demonstrations and the manager there said that when they, uh, develop, uh, the making of a new part, they do the programming for some complex part and they do it for the United States.

Speaker 2 00:15:50 They break it down into two steps, put it on two different machines because the programming is too complicated for the typical us technician. Whereas when they do it for Switzerland or Germany, they do it in one step because the technicians are able to handle it. Therefore, the cost is lower in Germany and Switzerland because it's done without the touch and that set up and everything else. So, so the, you know, we need smarter kids, we need better training. And if we do that, we have a chance, but if we don't do that, for example, the Chinese are improving their productivity rate by about 6% per year. For the last 12 years, the us has average 0.4% per year. Now, fortunately the Chinese wages have gone up at 15% per year. So their labor cost per unit of output is going up faster than ours house. But in the long run, uh, you can't win if they're improving at 6% and you're improving it's 0.4%. So we need, need to automate much more, which means our factories have too busy to justify it. And then we need kids, students, workers who are smart enough and trained well enough to make it happen.

Speaker 1 00:17:01 So, Harry, I have to ask you and Kevin all asked you this too. I'll put it out to both of you, but it was really off shoring. Was it ever a good idea?

Speaker 2 00:17:11 Well, uh, from a company viewpoint back when the Chinese wages were like pennies an hour, 25 cents an hour, 50 cents an hour, instead of \$4 an hour now, um, it was clearly a huge savings for them. Especially short term savings, especially measured unit costs, manufacturing costs, cost of goods, sold savings. Um, and it probably was it's probably, if I'd been there, then I'd have done it because you had to do it because everybody did it. You going out of business, if you didn't. Um, so in some categories that was right, other categories were just wrong. Uh, I, I work with, uh, uh, professor John Gray at the Ohio state university. And he has found for Midwestern or for Western and Midwestern companies that had offshored and then reassured, and he interviewed them, went to their factories. Why did, why did you walk short wages were so low, uh, fob price was so low couldn't afford not to. Why did you, why did your reshore? We found that there were so many logistical costs, risks, delays, quality issues, et cetera, that those things offset those savings. So we went over four in the first place. So, so companies probably made the right decision at first, but as the cost differential has shrunk that it may now make sense for a significant portion to come back.

Speaker 3 00:18:40 Yeah. From my perspective, Johnny, it's all situational. You have to look at that particular situation at the time. And, um, I think it it's all about the consumer and if the consumer benefits and am, it's a competitive world that it's good that we have open trade channels across, and the way that we're looking at what's the best solution for the, for the consumer or the customer. And, um, and there's times --

-- when that will be off shoring. And, and even now, I think there's times when, uh, offshoring solution give a benefit to the American consumer or to the European consumer. I think there's other times when it's that absolute mistake. And whenever people are following the crowd, because they think it's the thing to do, it's normally the wrong thing to be doing. And so having the right cost models, the right, and not, not looking at the short-term cost of a piece, but the long-term cost of doing business overseas, um, that's completely different.

Speaker 3 00:19:34 And when you think about, uh, I w I was talking to, uh, a CEO of a company or a CEO of a company in, uh, in England the other day, who's been reassuring, um, a lot of, uh, of their toy manufacturing production. They, uh, they been moving it back because over that longer period of time, the cost of sending a quality controllers and company directors and purchasing managers and everything like that over that it's just become prohibitive. And then all of a sudden, as Harry alluded to before COVID hits you, can't send your directors over there anymore. Uh, you know, that whole dynamic changes again. So I would say it's very much situational, but you've got to look at it on a much, um, so much wider perspective than the cost of aqueous.

Speaker 2 00:20:20 One thing I'd add to that, Kevin, the I've run into companies here that 10 or 20 years ago sent the work off to say China to be made. And, and since then the product has changed. The material has changed the process to make it. Then maybe the design changed a little bit. And now they're thinking about bringing it back and they don't know how to make it. They don't have the process plan. They don't have the prints. So if they it back, they have to bring it back. Re-enter reverse engineer, their own product to find out how to make it. So they are, they can have some out outsider, make it for them here in the United States. That's a very dangerous position to have your intellectual property owned by somebody used by somebody else controlled by somebody else who anytime they want to could decide to become your competitor.

Speaker 1 00:21:09 I thought it was interesting, Kevin, that you said you have to think right down to the consumer and what is going to be best for the consumer. And I all throw this out to you, Harry, but did one of the problems become that companies were not so much focused on the consumer, but the shareholder and delivering to the shareholder, what they needed.

Speaker 2 00:21:32 I I'd say a combination. Certainly they, the consumer demanded the lowest price, for example, Walmart, and, and to, to get that lowest price they want off shore. And maybe they want more, little more than they should have for this state, the shareholder. But I'd say the consumer was the original driver. The, I think the interesting development in the last year in August of 2019, the business round table announced a new statement of the purpose of a corporation. So the business round table has the top CEOs in the country and 180. One of them led by Jamie diamond. So big, big time signed a statement that said no longer is the, is the stakeholder, just the shareholder, but also community suppliers and employees. Yeah. And so we have on our website, we have that list of all those companies and the headline says, okay, walk the talk. So if you really believe what you said, if you signed it. And so what, when companies are selling and they go to divisions of those companies, I suggest to them, show them what the CEO signed and say, well, the best way to implement what the CEO sign, Mr. Reshore, some of that production and bring it back and give me an order.

Speaker 1 00:22:56 That's Harry Moser, he's the founder and president of the reshoring initiative in the us next week. I'll make it right. Harry manufacturing, leadership advisor, Kevin Snook. And I will continue our conversation discussing how reassuring near shoring and lean shoring all work together, as well as the impact of reassuring on the United States, Mexico and Canada agreement, and how reassuring around the world will affect manufacturing globally. I hope you'll join us then I'm Janet Eastman. Thanks very much for listening to the, Make It Right podcast.

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