UNited We Stand Why We're Made In The USA

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American MANUFACTURERS ARE having their day in the sun at the moment, especially in our industry. How were these suppliers able to resist the rush a few years back to move production overseas? In most cases, the ability to continue manufacturing in the United States came down to trade-offs in three areas: a cost/benefit evaluation, comparing the known American costs and the anticipated costs overseas; assessments of product quality levels; and service issues.

In the cost area, overseas sources can offer compelling economic benefits on the front end, compared to domestic costs, particularly in product categories where manufacturing is labor-intensive.

But by moving production abroad, the supplier loses control of a whole host of other cost risks that formerly either did not exist, or were predictable and manageable. Currency risk, for example; export subsidy risk, for another; and wage and materials cost inflation risk, for a third, are new exposures to which the importer has, knowingly or not, subjected his business. Overseas manufacturing provides far less ability to anticipate and manage costs than domestic production, hence such new phenomena as the mid-year price increases that came into play last spring and summer. This recent and disruptive element in the traditional supplier/distributor relationship was driven by unanticipated cost increases passed along from overseas manufacturers to industry importers, and, for the most part, domestic producers did not participate in that exercise.

Product-quality issues also had to be considered when evaluating moving from the “known” (domestic) to the “unknown” (overseas).

No one in our industry foresaw the product safety concerns that surfaced over the past two years. Initial product quality discussions were far more mundane, and centered around things like agreed quality levels and lot-to-lot consistency.

In many cases, the issues on the table looked much like those one would raise for discussion with another American factory in a traditional make-or-buy negotiation. What we have learned since is that manufacturing standards In China are not managed or regulated as strictly as they are in the United States. Who would have thought that melamine would find its way into milk powder? Or that the quality standards agreed upon by the contracting party would not be adhered to by the sub-contractor’s sub-contractor?

On the matter of product safety, domestic manufacturers actually have the ability to know what is in their products. Their materials suppliers, if they also are domestic producers, generally have to provide material safety data sheets and other documentation describing their raw goods. If an American raw materials supplier changes its ingredients formulation or its bill of materials without advising its customers, that failure to inform could constitute civil fraud, with all its attendant legal remedies. Thus, if an American manufacturer has a testing laboratory evaluate its products for compliance with Proposition 65 or the new Consumer Product Safety Improvement Act of 2008 (HR 4040), and the testing laboratory states that the materials used meet acceptable limits, the domestic supplier can certify, based on those tests, that its products meet the standards. Ask yourself the following questions: If you import items from overseas, how can you know what is in those products? How can you prove to your customers that each lot will meet product safety standards? And why would an end-buyer risk its brand equity on a promotional item that may or may not meet product safety standards?

As an aside, distributors and end-buyers concerned with product safety can take some comfort from the statement, "Made in USA" or its equivalent. The Federal Trade Commission's standard for that claim reads, "all or virtually all" of the product must be of U.S. origin.

Feel free to ask for confirmation from your supplier that "all or virtually all" of the product in question is of American origin; at least then, you have improved the odds that the supplier knows, or can find out, what is in the item.

Service is the key in our industry, as any veteran player will attest.

Being an American manufacturer gives that supplier a series of "unfair advantages" over almost any importer. If you make the product, how likely are you to run out of stock? Not very likely. Ask the same question of an importer, and you may get a different answer.

If the end-buyer wants something done fast, how can an importer compete with an already tooled domestic supplier? We invented the concept of just-in-time manufacturing, and American manufacturers are very used to competing on service.

And we haven't mentioned such things as intellectual property protection, credit availability and terms of trade, and transoceanic shipping matters.

The suppliers in our industry are not yet ready to return to their roots as American manufacturers, but the perceived trade-offs in cost, quality and service are beginning to work to the benefit of domestic production.

To this American manufacturer, it feels good to be back in the sunshine.

Mel Ellis and his wife Bitsy acquired HumphreyLine in 1991, following a 10-year career in venture capital in Boston and New York City. Earlier, he was CFO of a restaurant company, and was a loan officer at Bank of Boston. Ellis served four years as a Navy Supply Corps Officer during the Vietnam period, and is a graduate of Stanford and Harvard Business School.