Take Your
Next First Step™

Commercial Banking Services

First American Bank

Take First Forward™

The Benefits of Reshoring

The Benefits of Reshoring

In the second half of the 20th century, offshoring exploded. Major corporations led the charge, enticed by cost savings, access to new markets, tax incentives, and other perks. The movement flourished over several decades, in part due to politics—the emergence of permanent normal trading relations (PNTR) with China, most notably—and yielded a spate of short-term wins for U.S. manufacturers.

Recent years tell a different story. As proven by the pandemic, overseas manufacturing comes with high-stakes risks: Under China's zero-COVID policy, for example, a single infection could shutter a whole factory. The resulting sourcing disruptions—coupled with global intellectual property threats and a reduced corporate tax rate at home—have drawn a growing number of manufacturers back to the United States.

Today, reshoring continues to move the needle. What are its most compelling advantages, and how can companies make the most of them? In the quest to find out, First American Bank held a roundtable discussion with leaders in the sectors of manufacturing, higher education, small business administration, and foreign investment.

Here are the key takeaways to keep in mind as you evaluate reshoring.

Offshoring poses a handful of complex disadvantages.

Offshoring vs. reshoring: factors to consider

After moving operations abroad, many companies see an initial reduction in costs. Whether those savings persist, however, depends on a number of moving parts: labor availability, output quality, and supply chain considerations, just to name a few.

Beyond the most obvious risks, offshoring poses a handful of complex disadvantages. These include:

Lengthy lead times

Typically, longer supply chains translate into longer lead times. After all, managing middlemen is often time-consuming—as is transportation across borders and oceans. Along the way, costs can skyrocket, negating or even exceeding initial savings: greater distances require more fuel, while geopolitical risks can shut down facilities and ground transportation.

According to Brian Hagan, Florida Market President at First American Bank, geopolitical and macroeconomic intricacies only further complicate timing.

“Consider labor laws like the Uyghur Forced Labor Prevention Act,” he says. “They affect shipments in different ways. And it goes far beyond labor, too: interest rates are up, and things are really expensive now. Or there’ll be no water in the Panama Canal. All these things shape timing and costs.”

Offshoring's challenges can extend throughout the manufacturing process.

A lack of agility

In the face of ever-evolving demand, nimbleness makes all the difference. With manufacturing centers thousands of miles away, scaling up or down becomes particularly challenging—especially when consumer fluctuations outpace manufacturer adaptation. Excess inventory—which manufacturers tend to stockpile to compensate for long lead times—exacerbates the problem further, leading to higher inventory holding fees, wasted product, and reduced margins.

Poor compliance and quality control

When it comes to quality, there's a lot on the line: a single product recall can lead to reputational damage, legal ramifications, and long-term customer attrition. With overseas production, those stakes end up in distant hands—and manufacturers bear the brunt of the consequences.

Compliance, too, comes with its own risks. For Fred Morgenstern, CEO of Captiva Containers in Miami, it's a top-of-mind priority.

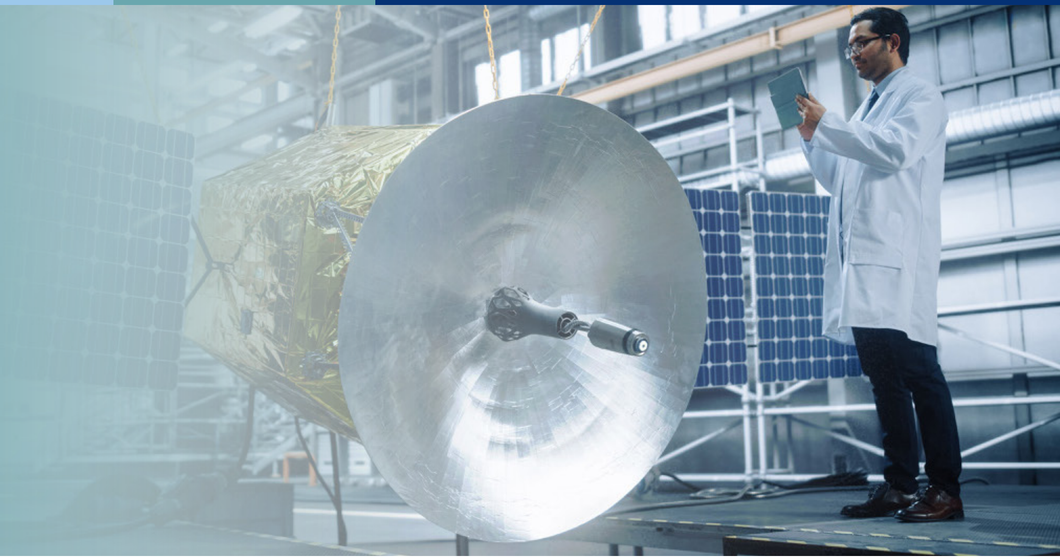
"We're FDA-certified, so the FDA inspects us every month with microbiological testing," he says. "I don't know that many overseas factories get that kind of oversight."

Minimal intellectual property (IP) protection

Armando Hernandez heads H&CO, a CPA and tax advisory firm. In the case of offshoring, he explains, intellectual property risks are especially pertinent—and he's seen the accompanying repercussions firsthand.

"When it comes to intellectual property, there's no other market that offers the security that you get in the U.S.," he says. "We have clients that lost their business after they sent [production] to China, because they lost their IP there. You can't protect your IP when you give it to other countries, whether it's China or somewhere else. When you manufacture here [in the U.S.], you're protecting your IP."

A record number of manufacturers have returned home.



The advantages of reshoring to the U.S.

A record number of manufacturers have returned home. According to the Reshoring Initiative, hundreds of thousands of jobs were reshored in 2023 alone—numbers that continue to trend upwards.

What's bringing so many companies back?

All-around efficiency and control

Shorter supply chains offer newfound speed, agility, and visibility. With vital partners nearby, manufacturers can quickly respond to new demands and market shifts, all while monitoring key activities and ensuring proper quality control.

Morgenstern believes that domestic supplier partnerships are uniquely valuable—and not just in terms of savings or sheer production quantities.

"When you're on the ground, you can respond much faster," he explains. "We had a customer who wanted to make a one-millimeter change to our product specs, and because we have a team on-site here, we were able to get that done right away."

Beyond quick pivots, reshoring enables faster rightsized manufacturing—and minimizes production overruns in the process.

Superior talent and resources

The U.S. has long nurtured the world's best talent. Within engineering, that's especially true—and it all begins in the nation's universities.

Gary Goldfarb leads strategy at Interport, a global logistics provider, and previously chaired the Miami-Dade Beacon Council, a public-private partnership dedicated to the city's economic development. Throughout his career, Goldfarb has worked closely with Florida International University (FIU) and other institutions.

Manufacturers see big benefits in reshoring to the U.S.

“[At Interport], I was talking to a Spanish manufacturer who was interested in FIU,” he says. “Why? Because FIU has all these engineers, all this talent. They’re still studying, but they’re able to work, and these manufacturers don’t need tons of people or real estate.”

Indeed, a growing number of manufacturers are looking to American universities for talent. Compared to 20 years ago, Goldfarb explains, today’s universities are far more open to partnering with industry. Still, there’s room to grow.

“We need to find a way to continue driving prosperity, and to keep the jobs we’ve created,” he continues. “In many ways, all of this comes down to talent. Without the right talent, our companies can’t go anywhere. There needs to be a clearer discussion between institutions of higher education and the business community about needs, shared responsibilities, and how we can collaboratively get things done.”

With the right technology, talent and manufacturing go even further. According to Goldfarb, when part of Johnson & Johnson moved from Florida to Texas, it left behind some $500 million worth of equipment in its wake. Along the way, it also opened up opportunities for innovation.

“That equipment sits idle, aside from class time,” he says. “That’s manufacturing capability. FIU has something very similar in its engineering school. So, small-batch manufacturing is possible at these universities, and with the assets they already have. When you partner with these universities, you get lower-cost real estate and lower-cost labor.”

Innovation-fueled cost efficiencies

In the U.S., automation and other innovations continue to flourish. When it comes to reshoring, these breakthroughs can easily offset costs associated with labor, real estate, equipment, and energy.

“With automated manufacturing and some of the engineering that’s going on at universities, you don’t need a lot of people,” Goldfarb continues. “We have about a three-percent unemployment rate for just about a million people—that’s 30,000 idle employees. That’s all we really need for full employment. And that also means these high-level manufacturers with a lot of technology can pay a hundred or so people an especially high salary.”

Of course, money brings in talent—and, in turn, even more innovations and cost efficiencies.

Manufacturers can tailor domestic production strategies.

Alternative manufacturing strategies

Some manufacturers may benefit from other alternatives to offshoring. These include:

100% onshore production

Reap all the benefits of reshoring, but without the risks of an initial offshore strategy. Fully domestic manufacturing transforms the entire product life cycle, enabling shorter lead times, simpler (and cheaper) inventory management, stronger quality control, and greater IP protection.

Vertical integration

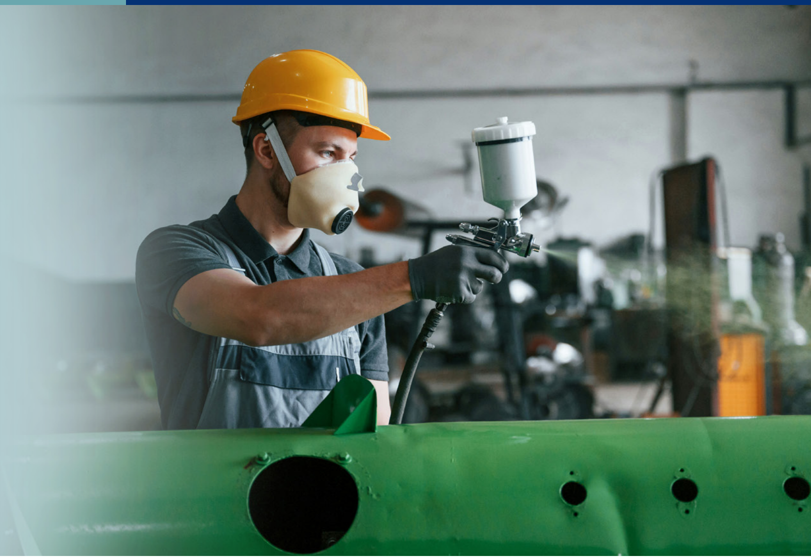
Like reshoring, vertical integration yields greater control, better quality, and more sustainable cost savings. Both strategies drive innovation—which, according to Goldfarb, thrives especially well at home.

“Let’s look at shortages,” he says. “We never ran out of pacemakers or high-technology products. Those items are made in the U.S. and Europe. What’s been offshored [and occasionally scarce] are products that were designed and developed decades ago.”

Partial/hybrid reshoring

Still others are embracing a more gradual approach. For some manufacturers, full reshoring may not be feasible for any number of reasons, in which case partial reshoring may offer the best of both worlds.

Partner with an expert bank in manufacturing strategies.



A new era of American manufacturing

Production is returning to the United States for a host of reasons. It's a welcome homecoming—and a win for both manufacturers and their customers.

Through tailored lending solutions and specialized guidance, First American Bank streamlines reshoring, domestic expansion, and ongoing operations. With our broad range of flexible options—including equipment financing, working capital lines of credit, and industrial revenue bond financing—manufacturers can turn ideas into innovations, and revenue into thriving bottom lines.

The information is for educational purposes only. It is not legal or tax advice. For legal or tax advice, you should consult your own counsel.