



Nearshoring, reshoring, and insourcing: Moving beyond the total cost of ownership conversation

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Abstract As firms from across all manufacturing sectors are rethinking their outsourcing and offshoring strategies, there is the potential for a manufacturing renaissance in the U.S. The findings from this case study suggest that the current manufacturing relocation shift is not perceived by manufacturers as a long-term business strategy (as outsourcing has been). As such, the results suggest that manufacturing relocation decisions based exclusively on models such as total cost of ownership (TCO) will not deliver anticipated near-term costs savings. In addition to TCO, firms must have access to information concerning the complexity of the outsourced manufacturer's manufacturing and supply chain processes in order to fully evaluate the 'as-is' outsourced function against 'to-be' manufacturing relocation opportunities.

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1. The location-specific manufacturing shift

In its infancy, outsourced manufacturing was seen as a way to minimize or eliminate those

manufacturing functions that the focal firm did not consider a core competency or that did not directly add to the firm's competitive advantage in the market. In more recent years, executives have viewed overseas-outsourced manufacturing as a strategic approach for decreasing labor-related costs in the production of components, commodities, and end items. While core competency and competitive advantage remain important focus areas, labor costs in overseas manufacturing markets are increasing and many firms are evaluating opportunities to relocate manufacturing nearer to

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Figure 1. The outsourcing-to-insourcing shift

the U.S. (nearshoring), within the U.S. (reshoring), or to within their own firm (insourcing) (Foerstl, Kirchoff, & Bals, 2016). As location-specific manufacturing begins to shift (see Figure 1) from overseas outsourcing toward nearshoring, reshoring, and insourcing, manufacturing supply chain executives may find themselves facing difficult relocation decisions. The outcome of any manufacturing relocation decision may systematically alter the focal organization's global manufacturing and supply chain strategies.

For more than 3 decades, industry professionals and academic researchers alike have exhaustively studied outsourcing. Collectively, these individuals have developed comprehensive answers to the why, how, what, where, and when questions of outsourcing (e.g., Hätönen & Eriksson, 2009). The manufacturing shift back to the U.S. will also provide abundant opportunities to address these same questions from different perspectives in the years ahead. There is a clear focus on the revitalization of the U.S. manufacturing sector, and academic researchers are encouraged to make contributions to this outcome (Gray, Skowronski, Esenduran, & Rungtusanatham, 2013). Unfortunately, for today's decision makers, there is a dearth of resources that they can turn to in order to inform the myriad of manufacturing- and supply chain-related decisions they undoubtedly will have to make as the anticipated manufacturing location shifts occur.

We also recognize that there may be firms that are relatively new to the 'manufacturing renaissance' discussion (e.g., McMeekin & McMackin, 2012). As Charles Fine (2000) identified, industry business cycles are dynamic and there are mechanisms that force industries to change over time. Fine's (2000) research centers on the speed at which

supply chain evolution occurs in an industry. His findings provide insight into the foundational principles of supply chain design concerning outsourcing and equally apply to the manufacturing relocation shift regarding today's nearshoring, reshoring, and insourcing efforts.

For those firms entering into this discussion, we suggest that complete information about a firm's manufacturing situation will provide the bedrock to support any firm-level effort to develop a strategic approach for evaluating current outsourced manufacturing relationships—helping to position the firm for success in any future manufacturing relocation decisions. The purpose of this article is to provide an initial information framework for decision makers, regardless of where they are in their manufacturing relocation decision-making process. In particular, the findings will benefit those firms just beginning to discuss options for relocating manufacturing functions as it will help identify critical pre-decision information gaps.

2. Multiple case study research method

Coughlan and Coughlan (2002) recommended the use of qualitative research methods to develop models and theories to explain current phenomena such as the manufacturing relocation shift. In this vein, we selected qualitative research methods to support our research since the primary focus was to address 'why' questions concerning manufacturing relocation shifts. As the research centers on 'why' questions, Yin (2009) and Ellram (1996) suggested that qualitative, exploratory case study research is appropriate, in part due to the uniqueness of the contemporary event where there is little prior understanding of the phenomenon.

Over an 18-month period, we conducted case studies of 12 large, mid-size, and small manufacturing firms to gain an in-depth understanding of the critical information needed by senior decision makers prior to entering into a manufacturing relocation decision. The firms studied were: AeroJet, American Axel Manufacturers, Cox Manufacturing, Deere & Company, E&R Industrial, Evenflo, M2 Global Technologies, PEPSICO, Pratt & Whitney, Sulzer Metco, The Triumph Group, and Westinghouse.

2.1. Data collection and analysis

Our approach was to interview senior executives and managers familiar with the rationale and objectives that led to the manufacturing relocation

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