Five to seven years ago the push to off-shore contract assembly was at its peak, and with good reason. US demand was up and volumes were increasing. US labor and raw material costs had risen dramatically. Cheap knock-offs from Chinese companies were flooding the market. To compete the US companies chose to join them, not fight them, and began moving first simple subassemblies and then more complete products to LCRs (low cost regions) like China and Vietnam.

We, the American consumer, cannot blame the US off-shoring companies. We wanted more and we wanted it cheaper. We accepted lower quality because ours was a throw-away society – use it for a while and when it breaks just buy a cheap replacement. We went from buying just the most basic components off-shore to buying completed goods, all made in the world’s LCR.

Today however that tide is turning. The change in currency exchange alone has made this a different world. The US dollars just do not buy as much off-shore as it used to.

The environmental mantra of “reduce, reuse, recycle” has taken hold. Americans are willing to pay a bit more for things of a higher quality that might last longer. Would we pay double? Probably not. So where is that tipping point and how close to it are we? When should producers in this hemisphere investigate on-shore contract assembly?

Let’s look first at recent changes in cost in the Pacific Rim.

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**Exchange Rate Cost Increase**

*for a $1 million project*

(Source XE Trade)

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Chinese labor costs have doubled and are expected to rise another 50% in 4-5 years.

Chinese currency is 30% more expensive: it was 8.11/ US$, and is now 6.21/ US$.

The cost of shipping products has increased, some rates by 43%, others by more.

If you left our shores for contract assembly in the Far East, and you then saved one-half of your production cost, how much of that savings remains today? 15%? 10%? Less??? Even just 10% might be a reason to let the business remain there because after all, why incur an avoidable cost increase? Are there issues that must be considered in addition? The answers might be in the less obvious areas.
Doing business around the world has obvious hurdles, like language. There are also less obvious obstacles like business mindset and ethics. We in the West have standards that differ even on a single continent. We should not be surprised to discover that there is a greater difference between cultures with less history in common. That is not to say that one is better than the other, only that they are different and must be taken into account in negotiations and daily business transactions.

What are other practical issues that impact an OEM’s business when considering off-vs-on shoring?

- Should you invest in an overseas manufacturing scenario today if there are major aspects over which you have limited control, and there are forecasts of increasing economic pressure?

- The 12 hour time difference: how easy is it to have a phone or video conference if one group is just arising while the other is getting ready for dinner? Is everyone really at the top of his game?

- The 24 hour trip to have an on-site round table discussion. How many of your staff could you spare at the same time so as to make the meeting truly productive? And what happens back home while they are gone – it is still that 12 hour phone tag lag.

![Graph showing Typical China Hourly Factory Wage Increases (Source Forbes)](image-url)
- What is the background, ability, and availability of the LCR staff? Do they have the skillset that you are used to encountering? Do they smile and nod because they agree or because they do not understand?

- Are your quality standards something that they are just willing to accept or do they wholeheartedly embrace the concept? Are they committed to protect the product quality and hence the good name of their clients or would they walk away from a situation and just move on to another client from a different industry or different country. After all, their name is shielded from notoriety by secrecy agreements.

- And speaking of secrecy, how is your intellectual property protected? Agreements for non-disclosure are easy to sign but difficult to enforce when the parties are separated by 8,000 miles, different legal systems, and centuries of tradition.

Quantifying these non-monetary aspects is difficult but we know they exist. When do they, added to the direct cost, warrant moving your contract assembly back to North America?

This question could be answered with the use of a super computer and the services of many an expensive consultant. Or you could bid your next job here and there, compare the economic results, factor in the ease of dealing locally, and make your first on-shore placement. You will not be the first in North America to make that change and you will certainly not be the last. If you would like a USTEK recommended CEM, just ask us!

<table>
<thead>
<tr>
<th>Flexible airline schedule, per person</th>
<th>Time/Cost</th>
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<tbody>
<tr>
<td>CMH Ohio To Shenzhen China</td>
<td>23-26 hrs</td>
</tr>
<tr>
<td>Economy</td>
<td>$ 3,700</td>
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<tr>
<td>Business class</td>
<td>$ 8,900</td>
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<td>First Class</td>
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(Source United Airlines)