

5 ways cloud-based ERP makes reshoring easier and more profitable





Reshoring is a growing trend embraced by manufacturers that find the economic benefits of offshoring are no longer compelling, whereas the competitive and innovation opportunities of reshoring are most promising. Reshoring requires a complex effort that demands reliable planning and smart resource management. Modern ERP, more powerful and flexible than the rigid, expensive systems of the past, can provide the foundation to make reshoring and continuing manufacturing operations successful and productive. ERP in the cloud, moreover, can make software capabilities and data available without dependency on a fixed operational location, which is invaluable in a reshoring transition.

With Microsoft Dynamics 365, the best of modern ERP, developed with real business roles and processes in mind, becomes available to manufacturers on the Azure cloud platform. Sikich offers the business and technical expertise to ease your reshoring initiative and ensure the long-term viability of your manufacturing business.

This whitepaper discusses some opportunities and risks of reshoring, and highlights five main reasons that cloud-based ERP is a great asset to help you perform a successful reshoring project.

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Understanding reshoring and its current trends

In recent years, an increasing number of manufacturing companies are reshoring operations back into the U.S., abandoning their offshore locations or downscaling activities there. This trend includes some of the best-known manufacturing brand names as well as smaller and more specialized companies.¹ Some reshoring manufacturers have operated offshore for decades, others just a few years.²

In December 2015, 54 percent of companies with revenues above \$1 billion were considering reshoring, but today many more smaller companies are anticipating or already performing the relocation. Manufacturers transition away from China, India, countries in the Asia-Pacific region, and, less so, from Latin America and Africa.

Reshoring was a relatively unusual practice that around 2010 gained greater momentum, which has continued since then. Industry observers point out that it slowed somewhat during 2016, but is nowhere near stalling. Reliable numbers are hard to come by³, although, according to the Reshoring Initiative, 265,000 manufacturing jobs returned to the U.S. between January 2010 and July 2016.⁴ By another measure, reshoring in terms of jobs has increased by 250 percent between 2012 and the beginning of 2017.

Why companies reshore: Costs are important, but not the sole reason

Manufacturers initiate reshoring efforts for some of the same cost factors that motivated offshoring. In many cases, the rapidly increasing costs of labor, facilities, materials, and logistics services in the offshore locations erode margins and revenues. When the wages of Chinese manufacturing workers came close to 30 percent of U.S. worker salaries, that, together with other cost increases, prompted more manufacturers to get serious about reshoring.

Some companies find that returning to the U.S. increases their costs by a percentage only in the single digits, as opposed to the much higher expenses they might have projected before doing their research. Over time, many organizations find that they can substantially reduce their costs of transportation services and warehousing. Manufacturers also have made a convincing business case for reshoring based on their total cost of ownership (TCO) analyses.

Data at risk. Especially some of the more innovative manufacturers are reshoring because of the poor protection of intellectual property and hesitant government enforcement in many offshore regions. For them, the risk of the theft of intellectual property and its impact on the competitive viability of the business makes the increased security of reshoring compelling.

1 <http://www.ama50.com/american-manufacturing-blog/reshoring-american-manufacturing-jobs>

2 <http://www.economist.com/news/special-report/21569570-growing-number-american-companies-are-moving-their-manufacturing-back-united>

3 <http://news.d2p.com/2016/01/21/is-reshoring-increasing-or-declining/>

4 <http://www.reshorennow.org/companies-reshoring/>

Better quality and compliance. Other organizations find that they can manage quality and compliance goals more effectively with U.S. resources and that the proximity to their customers' operations can be highly fruitful for creating more collaborative and rewarding relationships. They also see reshoring as a way to simplify their business, given the increasingly complex import and export regulations in many countries.

Changing business climates. Many governments in the offshore regions courted manufacturers and smoothed their path. Some of these measures were temporary; for example, some tax incentives provided by the Chinese government had a twenty-year life span and are about to expire. In India and some other countries the business climate has changed to encourage domestic enterprise and reduce dependencies on U.S. and European companies.

Under both the previous and the current administration, the U.S. government has provided resources and planning assistance to help them reshore. In the U.S., an increasing awareness of a jobless economic recovery, with qualified workers out of work or under-employed, has also brought attention to the opportunities and benefits – not all of them easily measured – of reshoring.

Complex requirements and compelling opportunities

No matter what your resources and budgets are, reshoring is a major, strategic undertaking. It presents complex planning and operational requirements for manufacturers, stretching beyond the operational status quo to require new leadership, teams, infrastructures, facilities, processes, and vendors. It involves myriad moving parts that you need to track and move in the right direction, which requires sophisticated, reliable planning and projections.

Simply transitioning manufacturing operations to a U.S. location from offshore without any changes in business practices might mean you also continue with current inefficiencies and productivity drains. That, in turn, could greatly limit the business returns from your reshoring initiative. In reshoring, manufacturers may be able to **take advantage of other, high-potential opportunities** in addition to financial benefits:

- Improve the customer experience, including customer collaboration and communications, with greater responsiveness and flawless fulfillment of your commitments.
- Increase the business outcomes from your investments in manufacturing processes, machinery, digital technology, and facilities, achieving, for instance, greater competitiveness and increased brand value.
- Closely connect manufacturing and product engineering to accelerate innovation cycles and reduce the time-to-market for new products or product revisions.

Develop supply chain relationships with top vendors, monitor and reward consistent quality and timeliness, and include them in efficient collaborations.

Plan for a smooth transition

Like any complex undertaking, your reshoring project can be successful if you take the time and dedicate the resources to plan it well, modeling and fine-tuning possible schedules and scenarios with their financial and operational impact. Reshoring may become risky if you underestimate the effort involved, so you prepare poorly and execute badly.

Some companies take on too much. When companies assume that reshoring can be one of several concurring initiatives, they tend to shortchange the potential of reshoring. As in the well-known case of Otis Elevator, they take on too much at the same time, and it becomes difficult to manage all their initiatives toward success. Otis, for instance, overextended itself by performing a complex software implementation at the same time as it moved forward with its reshoring effort. In addition, the company had misjudged customer demand at a time of recovering markets. The reshore operation therefore fell short in delivering elevator technology and ancillary products to meet customer needs in a timely manner.⁵

Still, Otis persevered, saw its reshoring through to completion, made the necessary adjustments, and is growing in many of the world's regions, especially in China and Latin America – almost ironically, typical offshore locations. Otis realized the benefits of reshoring late, but the project was still a successful achievement.

Controlled, measurable approach. Reshoring is not the kind of activity where you prepare up to a certain point, flip a switch, and watch the results come in. Think of it as a step-by-step transition that you perform with an overall project plan that comprises multiple sub-projects that you can define, schedule, and perform in a staged sequence. Doing so requires a robust, elastic technology platform on which you can control and execute the specific activities associated with reshoring while maintaining the continuity of the business. You can avoid unwelcome consequences in a holistic approach centered on tangible outcomes.

A platform for reshoring and your other business activities. A powerful, versatile ERP system in the cloud – and, specifically, Microsoft Dynamics 365 – provides you with the capabilities to **control the many moving parts that need to come together in your reshoring success.** It helps you consider all cost factors, including the hidden costs that as many as 60 percent of manufacturers do not include in their planning. It offers project management utilities that let you deploy the right resources and industrial assets to meet your schedule for production at the reshore location. Its analytical and business insight tools enable reliable forecasting and decision-making. And, it's easy to use and tailored for real-life business roles, so your employees won't lag in adopting it.

5 <http://ww2.cfo.com/supply-chain/2014/06/avoid-failed-reshoring-project/view-all>

Modern, cloud-based ERP provides a solid foundation for successful reshoring and manufacturing operations

Manufacturers have for many years used ERP systems to plan and manage their business operations and address the challenges of global competition and market changes. Traditionally, these were complex software products that required large investments, lengthy deployments, and in-depth training of users, who often had to be coaxed to adopt their new tools. Even well-planned ERP projects could take a year or longer and take several years to generate ROI. Less successful ERP implementations did not deliver the hoped-for benefits, never reached a point of final completion, or were compromised by lagging user adoption.

Processes as a key asset. Several trends combined to change the nature of ERP and make it less complex and more manageable. For one thing, technology providers and their customers began to pay more attention to business processes as a unique, strategic asset that ERP needs to support. Newly process-aware ERP project planners adjusted their perspective and adopted implementation practices that more closely fit the business.

Simplicity and scalability of the cloud. Then, when cloud technology matured, it became possible to deploy ERP systems and facilitate business processes in a cloud data center that did not need to be tied to a single physical operation. That alone would make ERP in the cloud of great interest to reshoring manufacturers. Traditional, on-premise ERP systems can extend to incorporate locations or business units anywhere in the world. Typically, doing so requires systems integrations, partial re-deployments, and other activities performed by technical specialists. In the cloud, it's much easier to achieve the same results with a fraction of the work required in traditional ERP. You deploy just once. After that, you can give access to any user, anywhere.

Improved financial control. What's more, the cloud also completely changed the financials of acquiring software and computing resources. When companies take advantage of cloud infrastructures, they can contract with a cloud service provider for the resources they need, pay for what they use, and benefit from the cloud's scalability when they need to accommodate growing numbers of transactions, products, customers, users, or business locations. When their needs change, they can scale resources back down. Instead of a large upfront capital investment, they pay controlled, recurring operational expenses for their use of cloud technology.

Streamlined IT and cost savings. Solution upgrades, patches, and enhancements can happen automatically in the cloud, as part of your service agreement. For many manufacturers and other production companies, that scalability and inclusivity within the cloud's service-based business model means significant savings in hardware and software purchases and data center management. Often, with most of the day-to-day IT administration in the hands of the cloud service provider, they can reassign their IT teams to such higher-value tasks as development or building collaborative virtual-reality spaces.



If you are already thinking about reshoring production operations, we encourage you to set far-reaching goals. What do you want the business to look like five or ten years from now? If you had a chance to start over, what would you like to improve and accomplish? With Microsoft Dynamics 365 on the Azure cloud, we can help you reshore production processes with optimal efficiency. And, if you want to broaden the scope of your reshoring initiative and improve processes, increase customer retention, access new market segments, or launch new products and services, we can also plan and optimize your cloud ERP for those objectives.

To get started working with us to facilitate your reshore project, here are some next steps:

- »» Schedule a demo of Microsoft Dynamics 365 for your organization.
- »» Take an automated assessment to see if Microsoft Dynamics 365 might be a good fit for your company.
- »» Visit the Sikich Cloud Clarity site to learn more about Microsoft Dynamics 365, the Sikich cloud practice, and developments in cloud ERP.
- »» Connect with Sikich on LinkedIn, Twitter, and YouTube.
- »» Send us an email with your questions or comments.

1415 W. Diehl Road | Suite 400 | Naperville, IL 60563
(877) 279-1900 | www.sikich.com

