



U.S. MANUFACTURING

Over the past decade, thousands of U.S. companies have turned to China to outsource production of components and products due to factors contributing to lower production costs in the People's Republic. These factors include an abundant supply of low-cost labor, an enormous and growing domestic market for goods, an artificially low currency, and the availability of significant government incentives which helped to attract foreign investment. From 2000- 2009, China's exports increased fivefold to 1.2 trillion and its share of global exports rose from 3.9 percent to 9.7 percent. China's share of the world export market for furniture went from 7.5 percent to 25.9 percent during this decade. Meanwhile, the U.S. lost 6 million manufacturing jobs and closed tens of thousands of factories.

However, contrary to popular belief, U.S. manufacturing is not dead. Domestic output is almost two and a half times its 1972 level in constant dollars, even though employment has dropped by 33 percent. In spite of the trend of outsourcing to China, the value of U.S. manufacturing increased by one-third from 1997- 2008 (before the recession) because of the strongest productivity growth in the world. Boston Consulting Group predicts another resurgence of U.S. manufacturing as more investors turn to the U.S. for production to serve North American markets. China's rising wages, shipping costs, and land prices along with the strengthening of Chinese currency are eroding China's cost advantages just as the U.S. is emerging as a lower-cost producer. Factors contributing to this emergence include the weakening of the dollar,

decline or only modest rise of U.S. wages, the availability of a flexible workforce and tremendous gains in productivity by U.S. workers.

Numerous forces are at work to reduce China's production cost advantages for many components and products. Wages there have grown much faster than productivity growth. Average wages in Chinese coastal cities increased by 150 percent from 1999 through 2006. Predicted wage and benefit increases of 15-20 percent per year in Chinese factories will hurt the labor-cost advantage enjoyed by industries. Chinese labor organizations are demanding higher wages and benefits from foreign companies and the Chinese government is passing new labor laws giving greater rights to workers, including severance pay in some cases. An increase in utility costs is unavoidable due to rising prices for imported thermal coal and an end to preferential rates for businesses. Since 2010, the cost of electricity has risen by 15 percent and China's industrial sector uses 74 percent of the country's electricity. The cost of industrial real estate is increasing dramatically, especially in coastal cities. Transpacific shipping rates are rising due to increasing oil prices, a decrease in new shipbuilding and a projected shortage of container port capacity by 2015. Other costs of extended supply chains that should be considered include inventory expenses, quality control issues, unanticipated travel expense, the threat of supply disruptions and added concerns about intellectual-property theft and trade disputes.

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The Franklin Furniture Institute is an institute of the Forest and Wildlife Research Center, Mississippi State University. The Institute is a collaborative effort involving the College of Forest Resources; College of Business; Bagley College of Engineering; and the College of Architecture, Art and Design. George M. Hopper is Director of the Forest and Wildlife Research Center.

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DIRECTOR'S *corner*

Bill Martin, Director



As expected, the industry values the work performed by the Franklin Furniture Institute. And we so appreciate your help in directing our programs and offerings. We recently completed the analysis of an awareness survey distributed last summer to industry manufacturers, suppliers and support organizations. The purpose of the survey was to gain a better understanding of our position within the industry and to determine the areas in which we need to concentrate to better serve the industry. One item of note

is that a majority of respondents indicated a need for more stable funding for the Institute. At present, the Institute is funded by the university, grants and contracts, and service projects. A more detailed summary of the survey is provided in this newsletter. Thank you for your response and confidence in the Franklin Furniture Institute.

As I travel around the state, I am hearing sounds in our manufacturing plants that have been relatively quiet over the past few years—the hum of machinery as production revives. Is our Mississippi furniture industry having a manufacturing renaissance? We hope so! This newsletter focuses on trends, programs, and research that indicate manufacturing in the U.S. has started “Reshoring.”

Evidence supports the notion of a manufacturing revival. Mississippi lost 36,325 manufacturing jobs between 2005 and 2010. The industry, which is the third largest manufacturing sector in the state, comprised 27 percent of those jobs or approximately 9,600. This represents a 33 percent loss in jobs just in the furniture sector. However, according to data supplied by MSU’s National Strategic Planning and Analysis Research Center, the furniture industry increased employment by a net 610 jobs from 2009 to 2010. Because of the lack of available data which tracks 9 months in arrears, we cannot analyze the 2011 numbers, but based on discussions with industry representatives and the number of plant openings and expansions, we anticipate additional growth.

It also appears that companies are evaluating their off-shoring decisions. Industry representatives to whom I have spoken indicate the cost of ownership to import kits and show wood from China continues to increase, and the savings once generated are diminishing rapidly. As you will see in this newsletter, several factors, including productivity issues and higher wages in China, will be drivers for reshoring. I actually discussed these issues with a Chinese manufacturer during my trip to the Shanghai Market in September. He indicated that his wages had increased by 40 percent and two of the required employee insurance costs were increasing at a rate of 20 percent per year. Additionally, according to a dealer of used sewing and furniture manufacturing equipment in Mississippi, also reported in this issue, demand for these items is greater than the available supply.

Other reshoring drivers were outlined in a 2011 Alliance for American Manufacturing National Poll. The results indicated that 90 percent of respondents favorably viewed American manufacturing companies, 97 percent favorably viewed U.S. manufactured goods, 72 percent had an unfavorable view of Chinese-made goods, and 83 percent viewed companies that went to China for manufacturing unfavorably.

Manufacturing is the core of a strong robust economy. It seems the stars are aligning for Mississippi furniture manufacturers to take advantage of conditions that would help an economic recovery and bring back pride in the "Made in U.S.A." label!

We at the Franklin Furniture Institute are here to support your efforts. Working Together, WE Can Make it Happen!



upcoming EVENTS

Visit www.ffi.msstate.edu for more information on upcoming events

March 21, 2012	Manufacturing Summit Manufacturing the Future: Strategies for Success in Furniture	Mississippi State University
August 22-25, 2012	International Woodworking Fair	Atlanta, Georgia
August 22-23, 2012	Upholstery Symposium	Atlanta, Georgia
August 22, 2012	Wood Properties and Identification: What You Need To Know	Atlanta, Georgia
August 23, 2012	Wood Protection for the Forest Products Industry	Atlanta, Georgia

RESHORING EFFORT

picks up steam

The shift of manufacturing from the U.S. to low-wage countries, particularly China, during the past decade is well documented. Some facts supporting this assertion include

- the loss of approximately 42,400 U.S. factories since 2001,
- the loss of 32 percent of U.S. manufacturing jobs since 2000, and
- some 12 million less Americans working in the manufacturing sector as of 2009, the same number that were employed in manufacturing in 1941.

However, several recent studies have indicated that a re-evaluation of the China model may be taking place. Part of this attention is focused on changing business conditions in China and other low-wage countries. These changes are making it less cost-effective to outsource components and products from other countries. Examples include increased labor rates and benefit packages in China, rising shipping rates, customs services and duties, the appreciating value of foreign currencies and increased regulations and bureaucracies engaged in foreign direct investments. Factor in labor shortages, language barriers, quality issues and transportation time and the costs of outsourcing greatly increase. A 2004 study by Nicholas P. Dewhurst and Jay Mortensen found, “blindly outsourcing a product to China for low labor rates is not always a good decision.” (www.dfma.com/truercost/paper.pdf). A re-examination of the issue in 2011 by Mortenson and David Meeker found that U.S. companies make outsourcing decisions based on simplistic models which lack an understanding of total costs and risks. The second study identifies and examines tangible and intangible costs of offshore manufacturing and provides a checklist to assist companies in making the outsourcing decision (www.dfma.com/truercost/revisited.pdf).

Harry Moser, founder of the Reshoring Initiative, makes a case for reshoring or bringing production back to the U.S. The reshoring trend has picked up steam in the past few years. It focuses on the manufacturing sectors in the small-medium enterprise range that have suffered devastating job losses for decades. The initiative aims to

reduce U.S. imports, increase U.S. net exports and regain manufacturing jobs in a “non-protectionist” manner. Moser, retired president of Agie Chamille LLC, a leading machine tool supplier in the U.S., is a leader in the move to revive American manufacturing and create jobs. Moser states “The massive U.S. trade deficit is a major cause of the decline of U.S. manufacturing over the past several decades, the high unemployment rate and debilitating budget deficit. Domestic suppliers have watched as large manufacturers have offshored work and well-paying jobs. Offshoring ultimately contributes to waste and instability. Reshoring is actually easier than exporting more, and is potentially the fastest and most efficient way to strengthen the US economy. “

To accomplish the goal of bringing good, well-paying manufacturing jobs back to the United States, the Reshoring Initiative has developed tools to help companies evaluate their sourcing decisions and make the most cost-effective decisions for their business. The Reshoring Initiative provides

- a free Total Cost of Ownership software program that helps companies determine the real offshoring impact on profit and loss,
- marketing materials to help drive the reshoring trend,
- an online library of articles and case studies about successful reshorings, and
- access to NTMA/PMA Contract Manufacturing Purchasing Fairs to help companies find good, competitive U.S. sources. (www.savingusmanufacturing.com).

These tools help manufacturers to make the right sourcing decisions for their company and for U.S. manufacturing. For more information on the Reshoring Initiative, visit www.reshorennow.org.

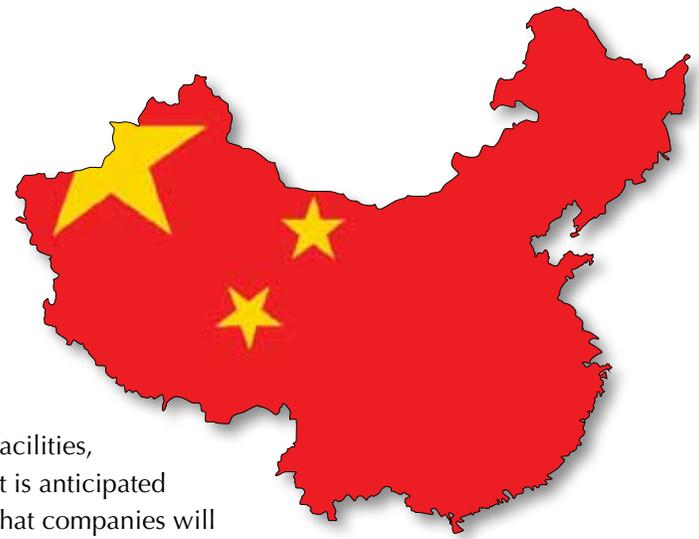
U.S. MANUFACTURING

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China is facing other supply and demand situations. Automation and other productivity measures being added to China's manufacturing sector may undercut the primary attraction of outsourcing—low-cost labor. The move of companies away from the coast often negates cost advantages enjoyed in the coastal cities. Inland locations may lack the supply of skilled workers needed, a reduction in the supply networks available, and efficient transportation infrastructure. In addition, Asia's rising demand for goods increases exponentially with increased income levels and China's production capacity will be needed to serve its rapidly expanding middle class domestic market.

When transportation, duties, supply chain risks, and property costs are included, the cost advantages of manufacturing in China are being reduced. The Boston Consulting Group predicts that within five years the total cost of production for many products will be only 10-15 percent less in Chinese coastal cities compared to some sections of the U.S. where factories are likely to be built. Many states in the U.S. south may be the least expensive production sites in the industrialized world. Thus, the high productivity and availability of U.S. workers and a trend towards U.S. domestic production will increase greatly.

In fact, the shift is already starting and the Consulting Group predicts that this trend will accelerate. The impact of the changing cost equation for Chinese production will vary from industry to industry. Products in which labor accounts for a small percentage of total costs and where volumes are modest, are most likely to be shifted to U.S. production. Examples where this is most likely to occur include auto parts, construction equipment and appliances. Goods with a relatively high labor and high volume will most likely stay in China where the labor rates will still be lower. Companies with mass-produced, labor-intensive products such as apparel and shoes may move away from China to other low-cost nations. It is predicted that China will utilize its production capacity to supply their domestic markets and will remain a major supplier of goods to Western Europe. But for new production



facilities, it is anticipated that companies will explore all alternatives instead of automatically opting for China. The U.S. will be the best choice for many manufacturing concerns aimed at serving the North American market. New production facilities should consider labor rates, worker productivity, transit costs, time-to-market considerations, logistical risks, and energy costs, among other items. Companies should ensure that supply chains are flexible, dynamic, and globally balanced and consider the advantages of locating manufacturing close to consumers. The advantages of customer proximity include the ability to get products to the customers quickly, replace depleted inventory and make quick design changes in response to customer demands. When all the costs and objectives are considered, it is suggested that the "U.S. will become an increasingly attractive option, especially for products consumed in North America. As long as it provides a favorable investment climate and flexible labor force, the U.S. can look forward to a manufacturing renaissance."

For the complete report "Made in America, Again: Why Manufacturing Will Return to the U.S.," visit www.bcg.com/documents/file84471.pdf.

FURNITURE FABRICS & MORE P & K EQUIPMENT

When Kary Peters graduated from college in 1973 with an accounting degree, he probably had no idea how important a role the furniture industry would play in his future. After starting his career with a large bank in north Mississippi, Peters moved on to the furniture industry in 1976 when he went to work for Brookwood. While at Brookwood, Peters designed and developed a child's rocker that could be upholstered with just one yard of fabric. The chair, which was originally designed for his daughter, was such a hit that he eventually started sourcing fabrics and producing the furniture on his own.

While Peters was involved with this business, he did some consulting work and continued to source fabrics for companies on commission. The expertise and contacts he developed in the fabric industry led Peters to open Furniture Fabrics and More in 2003. Located in Burnsville, the 72,000 square foot warehouse is one of the largest fabric houses in the country, containing more than 7,000 different varieties of fabric totaling over 600,000 yards. Price and selection drive the business. A fabric that typically sells for \$25-\$29 per yard in a fabric store sells for as little as \$2.99 per yard at FF&M. An average price per yard is \$3.99 and no fabric sells for more than \$7.99 per yard. Customers drive for hours to purchase fabrics for drapes, furniture, and custom upholstered needs. FF&M supplies fabrics for the upholstered needs of churches, hotels, and restaurants as well as to the boating and automobile industries. The company also offers in-house custom upholstery.

Kary Peters' entrepreneurial spirit has driven him down many roads: from furniture manufacturing to design, from fabric sourcing to retailing, and then into a business of buying and selling used furniture manufacturing machinery and equipment. A few years ago, as Peters continued to source fabrics, he began to get requests to remove sewing and other equipment from companies as many furniture manufacturers started to outsource much of their production to low-wage countries such as China. So, Peters put on another hat and started P & K Equipment which specializes in buying and selling used furniture production equipment.

Peters has long felt that the move towards outsourcing was a big mistake. He says that many companies looked to China as a business partner in the beginning but they are not a partner, but a rival and a competitor. Wearing his cost accountant hat, Peters says that many companies, especially smaller ones, do not know their real costs of production and overlook significant hidden costs when determining whether to outsource or to keep components in-house. He is pleased to see the trend towards outsourcing begin to slow as many furniture companies re-evaluate and make the decision to re-start operations which have been dormant for several years.

Peters' business saw a burst activity in August of 2011, as manufacturers began searching for woodworking and sewing equipment to activate downed production lines. The economic slump and housing downturn has many furniture companies turning to used equipment, rather than investing in new machines. The equipment requests are coming in so fast that he cannot fill the demand. Peters sources from all over the country including Michigan, North Carolina and Texas. He is seeing the upward trend in north Mississippi as well as he tries to fill the requests for used sewing equipment. The recent preference for "American-made" goods appears to support the move from outsourcing to re-shoring. Kary Peters, as many other furniture industry stakeholders, is especially pleased about work and jobs coming back to the U.S. He says that it is time to "roll up our sleeves, and go to work." Judging from the success of Mr. Peters' enterprises, one can safely assume that he is very familiar with the work concept.

For more information on Furniture, Fabrics and More and/or P & K Equipment, please contact Kary Peters at 662.401.9421.



industry spotlight

CELIA MOH SCHOLARSHIP

recipients

Mississippi State seniors Haley Haverstock and Jennifer Gates, both interior design majors, have been awarded full scholarships for the upcoming year from the Celia Moh Scholarship Fund. This prestigious and highly competitive scholarship, funded by an initial gift of \$3 million, was established in 2001 by furniture industry entrepreneur Laurence Moh to honor his wife, Celia. The scholarship provides full tuition and school expenses including room, board, books, and fees to deserving students enrolled in full-time home furnishings programs. The annual scholarship is considered the preeminent scholarship for students preparing for careers in the home furnishings industry. The Celia Moh Fund has provided scholarships to sixty-five students over the past ten years. Former recipients today work in areas such as product design and development, merchandising, retail management, consumer research, interior design, production engineering, retail store design, sales and marketing.

Applicants for the scholarship must be a full-time sophomore, junior or senior undergraduate student at one of the scholarship-approved universities, majoring in one or more of the approved home furnishings programs and have an academic grade point average of 3.0 or better. The application process requires students to complete an extensive questionnaire, write a personal essay, obtain instructors' recommendations and provide a college transcript showing exceptional academic achievement. The candidates must be selected by their respective universities to move forward in the process and the final recipients are selected by a scholarship committee comprised of notable home furnishings industry executives from across the country.

Haverstock and Gates joined ten other award recipients at the October Furniture Market in High Point, North Carolina. The scholarship brings recipients to the market each year to network with each other as well as industry professionals, to learn about the scope of careers in the home furnishings industry, to visit showrooms and attend educational seminars and other functions. The students attended a press breakfast and an awards dinner with national and international home furnishing industry leaders present.



Jennifer Gates, a native of Cleveland, Miss., is a senior majoring in Interior Design and minoring in General Business Administration. Jennifer serves as an Ambassador and Dean's Council member for MSU's College of Architecture, Art and Design, is a member

of the American Society of Interior Designers and participates in numerous interior design competitions. Jennifer is also a member of numerous honor societies including the National Society of Collegiate Scholars, Phi Kappa Phi, Order of Omega and Sigma Alpha Lambda, among others. Jennifer has maintained a 4.0 grade point average throughout college. Upon graduating, Jennifer hopes to continue her education by pursuing a master's degree in Interior Design.



Haley Haverstock is majoring in Interior Design and she too, has maintained a 4.0 during her college career. She is active in the Delta Gamma Sorority and is a prestigious Alumni Delegate. She is president of the student chapter of the American Society of Interior Designers. She is also a member of

Phi Kappa Phi, Order of Omega and National Society of Collegiate Scholars. Haley was awarded the Lynda M. Clark memorial endowed scholarship and recently was awarded the first prize in the Day Brite competition scholarship.

Discrimination based upon race, color, religion, sex, national origin, age, disability, or veteran's status is a violation of federal and state law and MSU policy and will not be tolerated. Discrimination based upon sexual orientation or group affiliation is a violation of MSU policy and will not be tolerated.

FFI AWARENESS *Survey*

In 2009, staff in the Franklin Furniture Institute developed a three year strategic plan that outlined services, programs, organizational structure, mission, vision and financial projections. While FFI has been relatively successful in implementing its plan, it is now time to re-evaluate and develop a new plan which further strengthens the industry and the institute.

To help ensure the right plan and products are offered to the industry, an online survey was developed to collect customer input. The National Strategic Planning and Analysis Research Center at Mississippi State University conducted the survey to determine the level of awareness and the importance of the Franklin Furniture Institute to the Mississippi furniture industry and its suppliers.

“Franklin Furniture Institute will use this information to continue to develop strategies to sustain and grow the Mississippi furniture industry.” ~ Bill Martin, Director

Survey Results...

- The response rate was 25 percent, of which, 63 percent were furniture manufacturers.
- All respondents indicated that Mississippi State University should provide outreach and technical assistance to the furniture manufacturing industry.
- All respondents indicated that MSU's resources are needed by the industry.
- Approximately 82 percent of respondents stated the Franklin Furniture Institute is important to the furniture industry, with over 62 percent rating it as “very important.”
- Respondents indicated that 11 of the current programs offered by FFI have been utilized by industry, with the top four being product testing, workshops/ seminars, workforce/management training, and lean manufacturing training.
- 43 percent of respondents indicated that services and programs should be expanded in the FFI.
- The majority of respondents (78 percent) indicated that the FFI should have more stable funding through state appropriations or through the university. In contrast, 60 percent of the respondents indicated the institute should be funded by industry. A little over 4 percent indicated that the institute should be funded through grants or private donations.