

MADE IN AMERICA

In the next few months Hisco will present a three-part series, “Made in America,” examining some of the most important shifts and emerging trends in modern manufacturing.

In Part 1 – *Made in America, It’s Complicated* we’ll take a closer look at what it takes to label your product “Made in America.” In Part 2 – *Made in America, Reshoring*, we’ll explore why there’s hope on the horizon for the return of manufacturing to America. And, in Part 3 – *Made in America, Where’s the Workforce*, we’ll examine what might happen if American-made and reshoring take further hold. Will we have the skilled labor needed to fill the new jobs?

Part 1 Made in America, It’s Complicated

Depending on which survey you read, there seems to be no definitive answer to questions like - does the American public really care where a product gets manufactured or assembled; and how much does the American-made claim impact the bottom line?

Do Americans care where it’s made?

The [Associated Press](#) sponsored a recent GfK poll (data-mining firm) to try to answer the question and concluded -

“The vast majority of Americans say they prefer lower prices instead of paying a premium for items labeled ‘Made in the USA,’ even if it means those cheaper items are made abroad.”

However, according to a [Consumer Reports](#) survey -

“Almost 8 in 10 American consumers say they would rather buy an American-made product than an imported one. And more than 60 percent say they’re even willing to pay 10 percent more for it.”

Most likely, both surveys have truth to them. Depending on the person, the price, kind of item, individual’s income bracket and quality of the product, the individual who wants to buy American does so for very diverse reasons.

When it comes to understanding the manufacturing process and how things truly get made, perhaps some consumers take the time to rigorously search out the country of origin label required on most products. However, some manufacturers actually choose not to label their products American-made because of their relationships with overseas suppliers and partners.

A further search for answers to these questions (some surveys were created by interest groups) resulted in a smattering of differing views about buying American. Some reports unequivocally confirmed people do not care while others steadfastly concluded the public does care.

In general, quality of product, reputation and product availability sustain manufacturers. Should they also have the good fortune of meeting FTC guidelines for being labelled “Made in America”—that’s all the better.

Making a false claim, accidentally or otherwise

Some manufacturers obviously believe the latter. A Made in America label means bigger profits, and unfortunately some decide it’s important enough to hide the true origins.

One instance involves Wellco Industries, which secretly moved the production of its military boot "uppers" to China and for years instructed workers to include the U.S. flag and the term "USA" on the labels before shipping to the U.S. The U.S. Department of Defense (DoD) had been one of their largest customers and believed they were in compliance with the Buy American Act and Berry Amendment (both encourage contracting with U.S. manufacturers, first, over foreign). The DoD spent millions of dollars with the company.

Then, on September 13, 2016, Wellco was indicted by the U.S. District Court in Greeneville, Tennessee and charged with one count of conspiring to commit wire fraud, seven counts of wire fraud, one count of "major fraud" of the government and one count of smuggling goods into the U.S.

"Every case is different and subject to interpretation," says FTC Attorney General Koss. "Most of the complaints the FTC receives are initiated by companies that are pointing a finger at competitors they claim are seeking an unfair advantage."

Another recent FTC ruling demanded Detroit-based company, Shinola, cease and desist using the slogan "Where American is Made," in reference to their watches. The FTC notes this type of verbiage as one of the ways a company might imply a product is American-made. The Shinola watches also contain Swiss-made parts.

Shinola's founder Tom Kartsotis responded with an [open letter](#) that manufacturers may understand because of having run into similar frustrations.

The truth is that Shinola is and has been a leader in bringing as much of the manufacturing process back to the U.S. as it can possibly achieve. But as you can imagine, many of the components and raw materials are simply not available in the U.S., and because of that we are unable to meet the almost unattainable "Made in USA" standards created by the government. -

-Tom Kartsotis

Making the determination

As the desire to say "Made in the USA," seems to grow, how do you safely determine whether you can label your product "Made in America?"

The FTC's basic definers—

- Did final assembly or processing take place in the U.S.?
- How much of the product's total manufacturing costs can be assigned to U.S. parts and processing?
- How far removed is any foreign content from the finished product?

After these three questions have been answered, companies still struggle with whether they can tag their products or not. Accurately calculating the product's true origins, manufacture, and assembly to meet the FTC criteria can be potentially misinterpreted or overly complex, especially when trying to correctly estimate necessary percentages.

In trying to help explain where American-made begins and ends, the FTC presents scenarios; however, each manufacturer's situation is different and the examples may only go so far in helping. Here are two illustrations –

- 1) A company produces propane barbecue grills at a plant in Nevada. The product's major components include the gas valve, burner and aluminum housing, each of which is made in the U.S. The grill's knobs and tubing are imported from Mexico. An unqualified Made in USA claim is not likely to be deceptive because the knobs and tubing make up a negligible portion of the product's total manufacturing costs and are insignificant parts of the final product.
- 2) A table lamp is assembled in the U.S. from American-made brass, an American-made Tiffany-style lampshade, and an imported base. The base accounts for a small percent of the total cost of making the lamp. An unqualified Made in USA claim is deceptive for two reasons: The base is not far enough removed in the manufacturing process from the finished product to be of little consequence and it is a significant part of the final product.

Pages and pages of examples follow as well as other Labeling Act statutes. The take-away—read carefully when determining if your claim is “deceptive” or “not deceptive.”

Not quite made in America

If your product doesn't quite qualify for an overall “Made in America” claim, you may consider other labeling alternatives like Shinola did. They agreed to reword their claim to say, “Built in Detroit” and added, “with Swiss and Imported Parts.” The FTC defines two variations -

Assembled in USA - A product that includes foreign components may be called “Assembled in USA” without qualification when its principal assembly takes place in the U.S. and the assembly is substantial. For the “assembly” claim to be valid, the product's last “substantial transformation” also should have occurred in the U.S.

Crafted in America - where a product is designed in the U.S.A., but manufactured in a foreign country.

Edsyn, known for their soldering irons and tips—and a California-based company—chose a variation and identifies their products as “Designed and assembled in the U.S.” instead of “Made in the USA.”

Their decision to not claim “Made in the U.S.A.” came partly because of the FTC case against Leatherman, maker of the popular multi-tool. After millions of dollars spent on legal fees, the original monetary award of \$13,000,000 (excludes attorney fees) to consumers was eventually struck down due to the lack of evidence.

“In today's day and age, global manufacturing is just a part of life,” said Edsyn's marketing manager Juli Fortune. “One hundred percent pure anything is almost as mysterious as the Lochness monster in my opinion. The Leatherman case put a lot of fear in small and great manufacturers – us included – because we too have a very small minority of parts/pieces that are made outside the U.S. So, even though we do manufacture the “majority” of our products here in our factory, we do not state “MADE IN USA.”

Note: California has its own, much stricter rules about identifying products “Made in America.”

Looks can be deceiving

Does your label have graphics that may imply your product is American-made? Things like images of the “Stars and Stripes,” U. S. map references on labels, or suggestive locations along with other misleading

symbols may imply U.S. origins. This particular discovery could warrant significant penalties and may also give competitors the basis for a lawsuit based on the [Lanham Act](#) (Unfair Competition).

Bottom line

Another recent survey conducted by the Boston Consultancy Group (BCG) estimated that -

“The average cost to manufacture goods in the U.S. is now only 5% higher than in China and is actually 10% to 20% lower than in major European economies and projects that by 2018, goods will be 2% to 3% cheaper to make in the U.S. than in China.”

Other recent reports and analysis continue to show, China’s labor costs have constantly gone up while manufacturers have gained a better understanding of the real costs to manufacture in China, i.e., higher shipping costs, receiving damaged goods, and delays in production and shipment. These explanations have all been cited as reasons to believe manufacturing is returning to America.

In a recent Bloomberg article an analysis by the Boston Consulting Group found -

“For every dollar required to manufacture in the U.S., it now costs 96¢ to manufacture in China, before considering the cost of transportation to the U.S. and other factors. This would indicate the gap is closing.”

In the end, a manufacturer doesn’t need approval from the FTC to make a “Made in USA” claim; however, the statement must be true and the responsibility lies in the hands of the company claiming the product’s origin(s). Be sure to substantiate your claim and do your homework.

Tied to the idea of American-made goods is the ongoing news that companies have started to come back to America to manufacture their goods after having chosen to produce items outside of the U.S. for years. In Part 2 - Made in America, Reshoring, we’ll take a look at the multiple factors that may be influencing the return of manufacturing to the U.S.