



## Domestic vs. Offshore Sourcing

Companies have to decide whether to produce their product in-house or to outsource all or most of manufacturing to a domestic/local or offshore contract manufacturer. This decision is especially important and difficult for start-ups because the product design is often not quite stable, a short launch time is essential, IP is valuable and cash is in short supply.

The purpose of this page is to help you make that decision. For start-ups, the optimal decision is often to proceed in phases, e.g.:

1. Build prototypes in-house
2. Outsource the complete product
3. Bring assembly in-house while still sourcing all components
4. Bring production of key components in-house

Offshore purchase price can be substantially lower. For a commodity product that lower price may be a decisive consideration. Freight cost and time can vary widely depending on choice of ocean or air freight. Domestic, especially local, sourcing enhances partnering with the supplier. Fig. 1 outlines some of the advantages and disadvantages of domestic and offshore sourcing.

Important Issue	Domestic/Local	Offshore, e.g. China
Unit Ex-Works price		Avg. 30% lower
Flexibility, e.g. 24 hour production.		Sometimes better
Tooling cost		Lower
Advantage for Asian sales		Substantial
MOQs	Generally lower	
Distance/travel cost	Much better	
Communications	Much better	
IP risk	Much lower	

Ease of making design changes	Much better	
Ability to optimize product and mfg. process technology	Better	
Cash tied up in inventory	Lower, maybe half	
Ability to respond to fluctuations in demand	Much better	
Consistency of quality	Better	
Elimination of trade/tariff risks for U.S. sales	Total	
Currency risk	None	

Fig 1

The Reshoring Initiative’s free resources to help companies make the sourcing decision are shown in Fig. 2.

Resource	Description	Purpose
<a href="#">Total Cost of Ownership Estimator®</a>	Free online tool to quantify the “hidden” costs of offshoring, e.g. duty, freight, IP risk, inventory levels, travel costs.	Help the company decide whether the increases in these “hidden” costs offset the advantages of lower offshore purchase prices.
<a href="#">Resources for Retail Suppliers</a>	A broad range of resources from 35 organizations. Resources include: how to decide which parts to offshore; cost reduction via DFMA, lean, government incentives, etc.; and help with supplier selection.	Minimize mfg. cost, especially in the U.S.

<a href="#">Reshoring Library</a>	Library of 5,500+ articles about companies that have chosen to bring production or sourcing back to the U.S.	Companies can see how others in their industry decided to choose domestic/local.
<a href="#">Consumer preference for Made-in-USA</a>	Detailed compilation of 10 surveys of consumer preference.	Help you quantify one advantage of domestic sourcing.

Fig 2

The non-profit Reshoring Initiative can help you make this important sourcing decision. Call on us for help

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