Onshoring: An i-Opener for Apple, Inc.

Mr. Francisco Javier Salazar
University of the Incarnate Word
San Antonio, Texas, USA

Dr. Ryan Lunsford
University of the Incarnate Word
San Antonio, Texas, USA

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I. INTRODUCTION

The December 2012 announcement from Apple, Inc.'s CEO Tim Cook that the company intends to move the production of its Mac computer lines to the United States is interesting on several levels. Cook acknowledged that the move is influenced, at least in part, by a desire to bolster a sluggish U.S. unemployment rate that continues to hover around 8% (Gross, 2012). There was no mention of where the company might be locating its facilities at the time of the announcement, "but bringing assembly-line jobs back to the U.S. lights a symbolic beacon of hope for working-class Americans who worry that the global economy has no use for them" (The Associated Press, 2012). Although Macs accounted for less than 20% of Apple's nearly $36 billion in revenue in its most recent quarter (Rampell, 2012), it is nonetheless intriguing that Apple would decide to build domestically, once again, given the numerous proven advantages of offshoring. And why would Apple onshore their Macs, but not their iPad and iPhone products which amount to nearly 70% of its sales? Cook acknowledged that "we're part of a global economy. Over 60% of our sales are outside the United States. So we have a responsibility to others as well. But this is our home market, and I take all of those very seriously - jobs, education, giving back, the environment" (Tyrangiel, 2012). When news broke that Apple plans to move some of its manufacturing back into the U.S., suspicion and intrigue mounted. With this move, the company intends to invest $100 million in U.S. manufacturing, and in turn, create much needed domestic employment opportunities. Traditionally, Apple releases its newest products first in the Americas and then introduces and distributes them to the rest of the world. Cook said that some of its "larger" products, such as the Mac, will be made in the U.S. and that the onshored "jobs will include more than just final assembly" (Jorgensen, 2012).

II. THE INTRIGUING ANNOUNCEMENT

Apple has decided that onshoring may be an especially relevant and uniquely rewarding solution to several existing issues that slowly but consistently developed from the decision to offshore. "Designed in California - Assembled in China" is the current declaration communicated on "iProduct" boxes (iPad, iPod, etc.). Whether it be a singular or a multi-faceted move, Apple will begin manufacturing some of their Mac computers in the U.S. as they plan to invest more than $100 million to bring some of its manufacturing back to the U.S. from China. The move to bring jobs back to the U.S. could not have arrived at a better time for the U.S. economy as the country faces struggling unemployment rates due, in part, to many offshored manufacturing jobs to lower wage nations. Once onshored, Apple will be able to change the Mac country of origin labeling to "Designed in California – Made in America."

For decades, a number of U.S companies have looked overseas in order to profitably relocate their manufacturing, production, and/or delivery of services to developing countries with strong labor forces. Chief among these reasons for offshoring has been the opportunity for benefiting from low labor wage rates that exist in many developing countries abroad. As an example, throughout much of the 1990s, labor costs in China were around $0.50 an hour. But as labor costs have increased (on average, 20 – 30% annually) simultaneous to escalating fuel costs, U.S. labor is much more competitive (because of direct labor costs and productivity rates). The number of corporations representing a variety of industries (the examples are numerous and include Dell, Accenture, Xpanxion, NCR, and Ford) that are now actively exploring the onshoring phenomenon is further encouraged by Boston Consulting Group's (2011) conclusion that by the year 2015, it will be just as competitive to produce in the U.S. as in China. To that point, Apple has begun manufacturing Mac Pros in Austin, Texas and will further expand their onshoring efforts by opening facilities in Florida, Illinois, and Kentucky (Arnold, 2013).

In addition to Apple's $100 million investment into its domestic product line, many other companies are investing domestically. GE has committed $1 billion to its domestic appliance division and Wal-Mart has promised to source an additional $50 billion in domestically produced goods. IBM held a ribbon-cutting ceremony to announce the new IBM technology services delivery center located in Dubuque, Iowa. The Dubuque facility joins more than eighty IBM delivery centers worldwide that will be a key hub for clients located in the United States. "We are delighted to partner with the city of Dubuque and the State of Iowa and look forward to a successful and enduring relationship," Mike Daniels, senior vice president and group executive of IBM Global Technology Services said in a statement (Smith, 2009). Not only does IBM's onshoring effort help the economy in the U.S. and increase profitability for the company, but it also establishes a long-term relationship within the community in Dubuque, Iowa.

III. THE POWERFUL INFLUENCE OF APPLE

The Apple II, quite simply, revolutionized the computer industry with the introduction of the first-ever color graphics. Sales at Apple jumped from $7.8 million in 1978 to $117 million in 1980, the year Apple went public" (Richardson, 2008). Co-founders Steve Wozniak and Steve Jobs both left the company, leaving John Sculley, of Pepsi Co. to be president of Apple. The company continued to be profitable through much of the 80's and 90's, and although Jobs was no longer at the company during this time, much of Apple's success is credited to Jobs for plans he had implemented while he was still at Apple. By 1997, amidst declining market share and increasing pressure from their biggest competitor, Microsoft, Apple desperately needed an operating system of their own. Apple bought out NeXT Software (Steve Jobs' company) and the board of directors made Jobs interim CEO (iCEO as Jobs called himself - Jobs was not officially the CEO until 2000). Jobs forged an alliance with Microsoft to create a Mac version of its popular office software. This decision proved to be a turning point for Apple. Jobs revamped the computers and introduced the iBook (a personal laptop). Perhaps Jobs' best move was branching out into mp3 players (iPod) and media player software (iTunes) as it enabled Apple to demonstrate more than thirty years of consistent pioneering innovations (Richardson, 2008).

Apple distributes its products globally through Apple-branded retail storefronts and websites, and through third-party cellular network carriers, wholesalers, retailers, and value-added resellers. Apple continued growth in 2012 was demonstrated by its acquisition of a Silicon Valley startup, WiFiSlam, which makes mapping applications for smart phones, the launch of iPhone 5 and the third generation iPad (Reuters, 2013). Apple offers a vast range of mobile communication and media devices, personal computing products, and portable digital music players, software, networking solutions, third-party hardware and software products. Apple's products and services have been able to establish a unique reputation as a product innovator in the consumer electronics industry around the world. Along with its reputation, "this includes a customer base that is devoted to the company and its brand, particularly in the United States. Fortune magazine named Apple the most admired company in the United States in 2008, and in the world in 2008, 2009, and 2010" (Business Insiders, 2013).

Apple has played a significant role in the ever-expanding world of technology as a primary innovative contributor to the personal computer, tablet, consumer electronics, telecommunications, music, and television industries. And while Apple is certainly continually working on "the next big project," the Cupertino-based company is actually the market share leader in the music downloading industry. Since the launch of Apple's iTunes store, digital music downloads have become the chief revenue source for the recorded music industry and iTunes continues to be the dominant retailer. With consumers just as excited about music as ever before, this explains why Apple is thinking long and hard about an "iRadio" service" (Bibey, 2013).

Market share is a crucial measure of virtually every organization's success, and Apple is certainly no exception. One of Apple's biggest selling products is its popular smartphone, the iPhone. However, first quarter 2012 saw iPhone's share of the global smartphone market decline as its shipment grew at the lowest rate in its history. Apple's market share fell to 18% from 23% in the same period a year earlier, whereas Samsung Electronics, Co. captured its highest-ever share of 33% from 29%. Samsung's smartphone shipment grew 56% to a record 69.4 million units while Apple's grew 7% to 37.4 million units, its slowest-ever year-on-year rate. The data comes as Apple's growth strategy is under scrutiny from investors and analysts. Samsung sells a number of smartphones in various price ranges, whereas Apple has focused on the premium segment of the market with its iPhone. Earlier this week, Apple reported net profit for January-March fell 18%, its first year-on-year quarterly earnings decline in a decade. Despite slowing growth and a squeeze on margins, the iPhone business is still far more profitable than that of any other smartphone vendor. "People familiar with the iPhone's production told The Wall Street Journal this month that Apple is working with manufacturing partners in Asia on a less expensive iPhone that could be released as early as the second half of this year" (Osawa, 2013). Although Apple strategically uses a premium-product approach for marketing of their iPhone, which it may very well be reaching its ceiling, the existing manufacturing jobs of Apple smartphones in China are not the jobs that the company plans on onshoring back to the United States. Yet the Mac computers which are being planned on being manufactured in the U.S. are also popular premium Apple product. It appears as though the return to domestic manufacturing will, at least for now, be reserved for the most premium sectors. However, if the number of U.S. consumers who are willing to pay a premium for American-made products (currently at 75%) continues to be strong, Apple could very well consider profitably on shoring other products.

IV. HISTORICAL OFFSHORING MILESTONE

Offshoring has been a profitable financial strategy since the late 1980's, but became particularly popular after General Electric epitomized the potential rewards for corporate American to see. GE served as the offshoring pioneer as it offshored I.T. and business processing jobs to India in 1996. Interestingly, GE said in a February 2012 regulatory filing that it was holding $108 billion in profits overseas as of the end of 2011 (That is up from $102 billion a year before). GE further said in the filing that it reinvested most of these profits in foreign business operations and does not intend to bring those profits back to the U.S." (Kavoussi, 2013). Of course the Y2K phenomenon helped catapult offshoring as many U.S. organizations began contracting with programmers in India to prepare for the projected computer bugs. "Of course, Y2K contracts ended in 2000. Yet many Indian companies took advantage of their now sterling programming reputations to negotiate for more sophisticated work" (Farrell, 2005), which consisted of research, software development, accounting services, and long-distance medical advice. The globalized fear of Y2K and the uncertainty of the new millennium provided an

opportunity for U.S companies to establish product manufacturing and services abroad, allowing offshoring to grow exponentially. These opportunities allowed for U.S companies to realize a number of significant benefits such as lower operational costs, expansion to new markets, and the feasible opportunity to provide 24/7 customer support. The offshoring trend continued to gain momentum as more and more companies utilized it as a solution to a variety of business challenges. "It was often cheap labor in emerging markets that, more than two decades ago, led companies in developed markets to move company jobs away from the home country either to company owned facilities (off-shoring) or to third parties (out-sourcing) in developing markets. The broad idea was that less expensive manufacturing or inexpensive white collar workers would create goods and services in developing nations that would serve world markets" (Heineman, 2013). "Corporate finance, in particular, is now seeing an acceleration of this offshoring trend. While IT has dominated the mix of business functions jobs lost to offshoring since 2000, growth in IT offshoring is now leveling out. According to Hackett, the total number of jobs lost to offshoring in corporate finance will grow by a compound annual rate of about 20% between 2010 and 2014" (Butcher, 2011).

Offshoring has historically provided benefits to both the host country and the manufacturer. However, the current economic climate in the U.S. has provided an environment with enough business, social, and political pressure that many organizations are at least examining opportunities for onshoring. There are a number of reasons why a company would consider onshoring (Luttrell, 2009). The most compelling is the consistently increasing wage rates in most popular countries abroad for offshoring. The relative rise of the labor costs globally have in turn, closed the gap of profitability for many companies that initially offshored their manufacturing, production, or services. The ironic "cause" of these increases in labor cost is that these host countries have experienced significant economic growth from those very jobs that were created and transferred by U.S-based offshoring companies. More than a one-third of all U.S.-based manufacturing companies with annual sales of $1B or more are planning to bring "some" back production to the U.S. from China. Labor wages in China have skyrocketed, shooting up 500% since 2000 and expected to continue to climb 18% per year (Schmitz, 2013). Regarding specific wages where Apple is onshoring from, "perhaps the most critical catalyst for "onshoring" has been wage rises in Asia during the region's outsourcing allure. Real wages in Asia rose over 7% per year between 2000 and 2008. In China, wages have grown even faster, hitting 19% a year from 2005 to 2010. Compare this with what has happened in developed economies where salaries only rose 0.5% to 0.9% annually between 2000 and 2008. Even worse, since 2005, real wages in U.S. manufacturing have declined by 2%. Onshoring is a good example of how companies in developed countries are keeping themselves relevant by adapting to competitive shifts and tapping into the potential that technological innovation, automation, changes in energy markets (namely the shale revolution) and the superior branding can offer (Armet, 2013). As a result of offshoring, the beneficial move to onshore jobs back home comes with its own set of issues that must be strategically resolved by these companies. However, growing successfully from onshoring may be better deal for these companies in the long run, considering the possible financial losses that may exist if a company continues to offshore their jobs and products.

V. Onshoring as a Solution

Because of the significant investment that an organization makes when it decides to offshore, it is only natural that the benefits of reversing that decision (to now onshore) be closely examined. During this examination and evaluation period, the potential development of new or reinvigorated relationships with suppliers should receive careful consideration. Onshore suppliers give companies greater flexibility as overseas transportation is eliminated and orders can be placed much closer to the selling season. As a result, the company can have a better forecast of demand information. It also gives the organization more time to understand the needs of the customer and integrate the updated product specification required by the customer into the production process (Wu, 2011).

As labor rates in China have continued to rise, the significant profit margin that once existed in offshoring has now become a narrow gap for financial success for companies such as Apple. Not to say that Apple products that would be manufactured in the U.S. would be more profitable than if they were to continue being built in China, however an equal cost of manufacturing for onshoring may still have greater value at home.

VI. Offshoring No Longer an Easy Guaranteed Solution

As there are reasons as to why offshoring is no longer a solution for companies that once saw outsourcing as a competitive edge, it is also the modern world and its complexities that make different types of companies take different approaches to onshoring. The reasons for one company to onshore may not be the same as they are for another company. In fact, some companies, like Apple, may only be onshoring part of their operation, and other may be onshoring entire operations. This could also mean that only specific components of the company's manufacturing may come home. By making what could be a costly transformation in onshoring, companies must consider the benefits of onshoring. Some of these benefits may include removing inventory from the supply chain (given the distance between the plant and consumer, time to market is the leading issue when offshoring to Asia). By eliminating lengthy transoceanic transit times and resulting delays, you can extract some eight weeks of inventory from your supply chain and respond to customers with more agility. Lower costs: given the skyrocketing costs of cargo ship fuel (three times what it was only 10 years ago) and the high fixed costs of launching an offshore operation and managing one supply chain at home and another overseas, on-shoring can be an economical alternative for products like appliances, computers, machinery, TVs,

plastic, and rubber. President Obama has laid out a plan to encourage (via tax credits) manufacturing in the U.S. The plan eliminates deductions for offshoring, offering tax incentives for manufacturing in America. Still in "the works" the credits are expected to become law. The result? A very exciting decade for on-shoring – to the tune of $100 billion of manufacturing returning to the United States' (Rackley, 2013).

If onshoring is to be a viable, long-term solution for an organization, there must be a sustainable competitive advantage that accompanies the move back to the U.S. The source of that sustainable competitive advantage might come from increased control, decreased business hassles and nuances, diminished language and cultural differences, or gains from previous time zone disconnects and unforeseen costs encountered with communication breakdowns, just to name a few. Onshoring is an opportunity for offshoring U.S. companies, to realize competitive advantages at home, while developing and stimulating local economic growth while still competing in the global market.

VII. THE APPLE'S SEED

Apple's onshoring efforts will not only contribute to their bottom line, and to U.S. consumer demands for American-made products, but they will also continue to positively impact their leadership position as an exemplary corporate citizen. Apple's existing corporate social responsibility (CSR) efforts include designing their products them to use less material, transport them with less packaging, eliminating many toxic substances, and being energy efficient and recyclable. Although it is difficult to forecast the potential impact of their onshoring decision, Apple is committed to reduce their impact on the environment and based on their history of innovation, we anxiously await the future best-practices that Apple is sure to create as they add onshoring to their CSR portfolio.

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AUTHORS PROFILE

Mr. Francisco Javier Salazar is currently the Regional Public Relations Manager at the Better Business Bureau in San Antonio, Texas. Javier's' career includes over 13 years of experience working for Telemundo in capacities including Marketing Director; Technical Director, and

Commercial Producer/Director. Javier received his B.S. and M.S. (both in Business Administration) and from the University of the Incarnate Word.

Dr. Ryan Lunsford (Corresponding Author) is Associate Professor of Business and Chair of the Master of Science in Business Administration at the University of the Incarnate Word in San Antonio, Texas. Professor Lunsford received his B.S. and MBA degrees from The Texas A & M University System. He continued his graduate training at The University of Texas at Dallas where he earned both the M.S. and M.A. degrees. He earned the Ph.D. in Management from Northcentral University (Prescott Valley, AZ). Professor Lunsford teaches a variety of undergraduate, graduate, and executive courses both online and face-to-face.