Starting Up: 'Made in the USA' Is Back in Style for Businesses

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"HOME-GROWN" PRODUCTS ARE popular again.

Offshore manufacturing has long been seen as a much more cost-effective alternative to setting up shop here at home. After all, labor in countries like China and Bangladesh is extremely cheap. But now, businesses are questioning the merit of making products overseas. The weakened U.S. dollar has made it less cost-effective, a slew of product recalls has made it more risky, and rising oil and fuel prices make transporting goods an extremely pricey proposition.

According to a recent report from CIBC World Markets in Toronto, the cost of shipping a 40-foot, standard container from East Asia to the eastern seaboard of the U.S. has tripled since 2000. Further, Jeff Rubin, the firm's chief economist and author of the report, predicts that, should oil hit $200 a barrel, shipping costs will double from current levels.

"Unless that container is chock full of diamonds, shipping costs have suddenly inflated the cost of whatever is inside," Rubin writes. Indeed, many businesses that use offshore manufacturing raised prices in order to offset skyrocketing transportation costs. Meanwhile, businesses that stayed stateside have largely been able to contain costs and keep prices unchanged, says Raymond J. Keating, chief economist at the Small Business & Entrepreneurship Council in Oakton, Va. "Home-grown or domestic businesses have seen an advantage over foreign imports," he says. If something is produced in Pennsylvania and then shipped to Ohio, it'll naturally cost less than shipping items from Italy.

As a result, products that are "Made in the USA" are gaining momentum. The latest data from the Commerce Department shows that U.S. exports in June surged 21% from a year earlier. So far this year, those exports have helped reduce the U.S. trade deficit by roughly 4% compared to 2007.

As many small-business owners are finding out, it's become less expensive and entails far fewer headaches to keep operations in the U.S., says Gene Fairbrother, lead business consultant for the National Association for the Self-Employed in Dallas.

Just ask Annie Morhauser, the founder of Annieglass, a high-end glassware maker in Santa Cruz, Calif. Over the past 25 years, Morhauser has watched her competitors ship a growing number of their manufacturing jobs overseas. Morhauser, too, attempted to move some operations offshore. A few years ago, she commissioned a line of glassware made from a Portuguese manufacturer, but the foray ultimately failed. "It is very difficult to oversee production across an ocean," she says. In addition to contending with a five-hour time difference, there was no way to ensure the quality of the products coming out of the partner's factory. "It was a constant guessing game," she says. "It's not like I have staff over there checking every single piece."

Morhauser's products are now only made in America. "We have total control of what we're doing," she says. And since currency fluctuations have driven the prices for foreign products higher, Annieglass' goods look cheap in comparison to foreign-made ones. "Our pieces are not as expensive as they once were," she says. For this reason, she says, last year was Annieglass's best ever. In 2007, the company's sales surged 18% to $3 million. This year, she expects sales to pick up by 12%.

And thanks to the weak dollar, labor costs in the U.S. also appear cheaper. In Europe and Canada, where the national currencies have risen sharply against the U.S. dollar, businesses are seeing large spikes in labor costs, says Victor Notaro, senior vice president and group manager of Global Treasury Management of PNC Financial Services Group in Pittsburgh. As a result, he says, "products are more expensive [to produce] because business owners are paying their people in euros, or Canadian dollars." Large foreign-based companies, including Germany's BMW and French engineering firm Alstom, have seen the writing on the wall. Both companies are opening manufacturing facilities in the U.S. in order to, among other things, cut labor costs.

Meanwhile, skilled workers in traditionally low-wage developing countries, such as India and China, are beginning to demand higher pay and benefits — moves that will take yet another bite out of businesses' profits, says Bruce Bachenheimer, a clinical professor of management and director of the entrepreneurship program at Pace University's Lubin School of Business in New York. "Some firms might opt to stay domestic as the profit margins resulting from hiring overseas workers narrows."

That said, even U.S. businesses that stick around aren't impervious to the factors hitting the economy, such as inflation, says Keating, chief economist at the Small Business & Entrepreneurship Council. For example, he says, a falling dollar pushes the prices of oil and other commodities higher, which then puts added strains on domestic producers. That's why, he says, when you're deciding where to set up shop, it's best to "look at the more fundamental issues." For instance, pay close attention to the tax and regulatory environments. Stability is also paramount. "The fact is the US is still the world's leading economy — even with China's tremendous growth — [it has] a great advantage," he says.