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COLUMNS

That "Made in USA" label may be worth more than you think

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Ask most Americans if they prefer products made by American workers, and they readily say, "Of course!" But do they put their money where their mouth is?

The common assumption is that, when given the choice of saving a few dollars by buying a toy, a pair of sneakers, or a cell phone made in China versus purchasing a more expensive product that says "Made in USA," the vast majority of Americans go for the bargain.

It may be time to rethink that assumption.

Sticker shop

Our research suggests that a "Made in USA" label may be worth a lot more than many retailers and manufacturers think.

In September 2012, we surveyed 5,000 consumers in the United States, China, Germany and France about their buying behavior and the value of the "Made in USA" brand.

More than 80 percent of U.S. consumers stated that they are willing to pay more for products labeled "Made in USA" than for those labeled "Made in China." Concerns about quality and a desire to keep jobs in the U.S. were the key drivers.

That, in itself, may not be surprising. Such sentiments have been expressed in other surveys.

But we probed more deeply, using a survey method named after its inventor, the Dutch economist Peter van Westendorp that many consumer companies use to determine consumer price preferences in industries as diverse as packaged goods and media.

We showed photos of four productsa gas range, a mobile phone, a pair of athletic shoes and a wooden baby toyto half of the U.S. consumers in our sample and told them that the products were manufactured in the U.S.

We then asked the respondents a set of open-ended questions about how much they would be willing to pay for those items.

We asked the same questions and showed the same photos to the other half of consumers in the sample, but this time the products were labeled "Made in China."

The responses were revealing.

Premium fair

The prices that U.S. participants quoted for U.S.-made athletic shoes were 8 percent higher than for the same products made in China.

Furthermore, the respondents were willing to pay premiums of 19 percent for the U.S.-made gas range, 30 percent for the mobile phone, andremarkably63 percent for the wooden baby toy.

We also asked U.S. consumers about their willingness to pay premiums for U.S.-made products in ten general categories: baby food, home appliances, household furniture, car parts and tires, apparel and footwear, electronics, household goods such as sheets and cookware, hand tools, toys and sporting goods and mobile phones.

Around two-thirds of the respondents said that they were willing to pay more across all 10 product categories.

At least 20 percent said that they would pay a premium of 10 percent or more for U.S.-made products in each category.

Thirty-seven percent said that they would pay at least 10 percent more for U.S.-made baby food than for baby food imported from China.

What is more, nearly 60 percent of U.S. consumers stated that they had chosen products made in the U.S. over less expensive Chinese goods at least once in the month preceding the survey.

Even more surprising to us was that the preference for U.S.-made goods was nearly as strong among the Chinese consumers we surveyed.

More than 60 percent said that they would pay more for products made in the U.S., and nearly half said that they prefer U.S.-made products even when their price and quality are equal to those of comparable China-made items.

Chinese respondents also said that they were willing to pay premiums ranging from 10 to almost 80 percent for the specific products they were shown.

Like the U.S. consumers, more than half said that they had chosen U.S.-made products over cheaper China-manufactured goods at least once within the past month.

What should manufacturers and retailers make of these powerful findings?

Maiden push

We believe that, at a minimum, the responses suggest there is a big opportunity to command price premiums for products that are clearly labeled "Made in USA" versus those labeled "Made in China"in the U.S. as well as in China. (The consumers we surveyed in Germany and France said that they generally preferred products manufactured in their own countries.)

And we think the place to begin capturing that opportunity is with communications.

Manufacturers and retailers should more vigorously stress the key drivers of consumer sentiment in their advertising, merchandizing, packaging, and signage.

Respondents of all age groups and income levels in both the U.S. and China cited concerns about quality as the main driver of their willingness to pay more for U.S. products.

Eighty-five percent of U.S. consumers and 82 percent of Chinese said that they "agree" or "strongly agree" with the statement that they "feel better about" the quality of items labeled "Made in USA."

Patriotism is another strong consideration for U.S. consumers: 93 percent said that they would pay more for U.S.-made goods to keep jobs in the U.S., and 80 percent said that buying U.S. products demonstrates patriotism.

U.S. retailers could more aggressively target the 20 to 25 percent of American shoppers who are willing to pay at least

10 percent more for U.S.-made hand tools, apparel, car parts, furniture and home appliances by stocking a greater selection of U.S.-made products and merchandizing "Made in USA" more prominently.

Our research shows a particularly strong preference for U.S.-made children's products, perhaps because consumers have greater confidence in their safety.

Why not consider a dedicated "Made in USA" section stocked with everything from wooden trains to sippy cups? Hardware, appliance, and electronics stores could adopt the same approach.

Manufacturers that already make some or all of their products in the U.S. should think about how to better communicate that fact.

Many simply include a slogan, such as "Proudly Made in the USA," in advertisements and put "Made in USA" in small type on a tag inside a garment.

At the very minimum, they should display the U.S. flag and make the "Made in USA" label more prominent.

Savvier companies do much more: When they open a new U.S. plant, they promote it. They post on Facebook. They talk about how many people they hire and the services they provide to the local community. And they stress the high quality of U.S.-made products.

Companies should also reassess their global sourcing strategies and their manufacturing footprints and consider having more of their products made in the U.S.

Borne China

We are not saying, of course, that companies should relocate manufacturing from China to the U.S. just because of our survey results.

As we have long advised clients, companies should base production decisions on a holistic, long-term understanding of the total cost of making a particular product for a particular market.

In many instances, the premium that some U.S. consumers say they are willing to pay for a "Made in USA" label is not nearly enough to offset the cost savings from making those goods in China.

But as The Boston Consulting Group has noted in previous reports, the price advantage that China currently holds is eroding fast.

A little more than a decade ago, when hourly factory wages in China were approximately 3 percent of U.S. factory wages on average, the cost advantages of manufacturing most consumer goods in China were overwhelming.

But we project that rising Chinese wages, higher U.S. productivity and other factors will lower the total labor cost savings of manufacturing many goods in China to less than 10 percent by around 2015.

Furthermore, when shipping and the many risks and hidden costs of operating extended global supply chains are fully considered, the cost savings from making goods in China that are then sold in the U.S. become only marginal.

Product categories such as appliances, furniture and computers already are close to the tipping point. If companies can get a 10 percent price premium as well, then that tipping point will arrive much fasteror might even have arrived already.

Manufacturers that shift production to the U.S. could gain a competitive advantage over competitors whose products still say "Made in China."

As the cost gap between the two countries shrinks, the argument for the domestic manufacture of many of the goods sold in the U.S. grows more compelling.

There may also be greater opportunities to export U.S.-made consumer goods to China.

Several premium brands of U.S.-made garments and furniture already sell well in China. And our research suggests that, as Chinese consumers become increasingly affluent and quality conscious, a potentially strong market for everything from U.S.-made electronics to athletic shoes will emerge as well.

The "Made in USA" premium may not yet be solid enough to compel many companies to "re-shore" manufacturing from China to the U.S.

But as U.S. manufacturing continues to become more cost competitive, it could be another compelling reason why more products should be made in Americaagain more products should be made in America again.

Please click here to download a PDF copy of BCG's report, "Made in American, Again: Why manufacturing Will Return to the U.S."

Please click here to read the report, "U.S. Manufacturing Nears the Tipping Point: Which Industries, Why, and How Much?"

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1 thought on “That "Made in USA" label may be worth more than you think”

1. Regina says:

   February 2, 2014 at 7:28 pm

   As a e-commerce retailer of fashion apparel & accessories, I have noticed a huge saturation of pop-up small fashion boutiques cropping up all over the place as a result of the BOOM of Instagram & Pinterest, and the likes. When i started my company in 2009, which isn’t that long ago, I actually did, and still do a ton of leg work and in person networking with my vendors. I began to notice that MANY of my vendors have opened up their wholesale to what seems to be, just anyone who has a “boutique”. When I was obtaining these very accounts, there was a lot of steps necessary and verifications needing to be made in order to gain access to purchase goods for resale. Over time, I have gotten more poor quality goods from these same vendors than I had in the past. I guess due to them fulfilling a higher demand for their goods and the help their bottom line. Many of them have also suddenly revised their return policies, which in short means that they have ELIMINATED offering returns and even to an extent; an exchange. Which why would I want to exchange only to receive the same quality. So, I have been slowly moving away from them and am now in transition to a new direction for my company in which my customers will be pleased.

   Reply