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BUSINESS

# More Factories Crop Up Closer to Customers

Tissues, windows are being built in new plants to counter logistics problems and rising transport costs

*By Austen Hufford*

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The largest share of manufacturers in at least a decade is spending to expand facilities, as companies look to build plants closer to their customers to offset record-high trucking costs and seek out pockets of available workers in a tight labor market.

Twelve percent of U.S. manufacturers that invested in added capacity at domestic factories in the second quarter did so through building expansions, according to the Census Bureau, the highest proportion in the decade that metric has been released. Manufacturing construction spending hit a 16-month high in September, according to the Census Bureau. Executives are making some of those investments in new factories to alleviate rising transport bills and supply-chain bottlenecks.

Ferrellgas Partners FGP 27.06% ▲ LP added two plants in recent months to make and refill its Blue Rhino propane tanks closer to customers. The new factories in Alabama and California will allow the company to cut over a dozen delivery routes and lower costs by as much as $3 million annually.

"The freight savings is so extraordinary," said Paul Haeder, Blue Rhino's director of production.

The number of U.S. factories where executives said material shortages and logistics problems were limiting output was also the highest in a decade in the second quarter, the Census Bureau said.

The Census Bureau surveys factories across the U.S., asking them questions such as why has capacity increased and why is production below that capacity.

Italian tissue-paper maker Sofidel Group opened its sixth U.S. plant in Circleville, Ohio, in October. It plans to open another in Oklahoma in 2020, and said it might add a few more elsewhere in the U.S., to make its products as close to customers as possible to speed up delivery times and cut logistics costs.

"Our products are very light in weight and very bulky," Chief Executive Luigi Lazzareschi said. He added that Sofidel tries to keep its U.S. transportation journeys to below 700 miles.

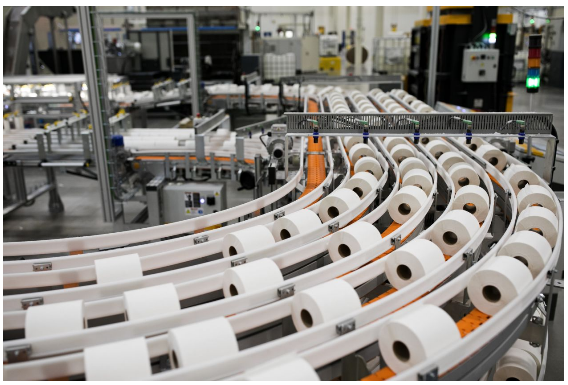
The expansion comes as unemployment is at the lowest point in nearly half a century. Manufacturing payrolls rose by 32,000 workers in October, the biggest monthly increase this year. Consumer confidence and wages are rising, and many companies are counteracting higher costs by raising prices on the expectation that consumers are willing to pay more as the economy charges ahead.

Expanding in a strong economy has its risks. Operating multiple factories or warehouses increases the amount of inventory needed to fulfill the same amount of demand, according to logistics experts, which increases costs. While companies benefit from solid demand for their goods, it also can lead to higher interest rates. A rising rate environment causes loans for building to be more expensive and inventory becomes more costly compared to cash.

“A strong economy could both be a blessing and a curse,” said Yemisi Bolumole, a supply-chain management professor at Michigan State University.

Instead of building factories, some manufacturers are making investments and strengthening supply chains to existing plants.

Travel-trailer-maker Airstream, owned by Thor Industries Inc., broke ground in August on a $40 million factory adjacent to its existing plant in Jackson Center, Ohio. That plant had fallen short of demand for three years.



Sofidel’s Circleville, Ohio, plant is the Italian company’s sixth in the U.S. **PHOTO:** MADDIE MCGARVEY FOR THE WALL STREET JOURNAL

Airstream CEO Bob Wheeler said the company thought about building a plant in the Western U.S., near many of its customers, but decided against it. “We just didn’t have any confidence we could recreate the workforce,” he said.

Companies building plants nearer to customers say the investment costs can be made up in faster turnaround times and increased orders.

Andersen Corp., a Minnesota-based maker of windows and patio doors, said in September that it would invest over $105 million in a new plant near Phoenix, to capitalize on the increased concentration of customers, suppliers and available workers there.

“One of the important parts of our business is being close to our customers,” said Chris Galvin, Andersen’s head of manufacturing and logistics.

Some companies also are trying to source more parts locally to mitigate the impact of U.S. tariffs on some foreign goods, said executives at Flex Ltd. , which makes and ships products—including shoes and personal electronics—for other companies.

“Globalization is becoming regionalization, and regionalization is becoming intra-national,” said Tom Linton, Flex’s supply-chain officer.

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A truck outside Sofidel's plant in Circleville, Ohio. Burgeoning trucking costs are prompting companies to build more plants closer to customers. PHOTO: MADDIE MCGARVEY FOR THE WALL STREET JOURNAL