

A POLICY ROADMAP TO RENEW U.S. MANUFACTURING

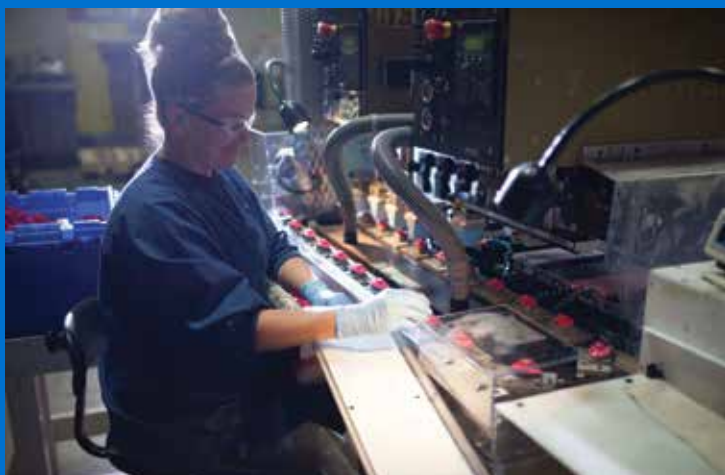




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A Policy Roadmap to Renew U.S. Manufacturing

Why U.S. Manufacturing?

Walmart is committed to renewing U.S. manufacturing. In 2013, we announced the goal of sourcing an additional \$250 billion over ten years in goods that support American jobs. By investing in products that support American jobs, we are able to bring new products to our shelves and website that our customers want—and new jobs to the communities we serve across the country. Growing direct manufacturing jobs can have a strong multiplier effect in supporting other types of employment and economic opportunity throughout our local communities. According to data from our suppliers, items that are made, assembled, sourced, or grown in the U.S. account for about two-thirds of what we spend to buy products at Walmart U.S. However, we believe there is still much more to be done.

Why is Walmart Engaged?

Over the last four years of our \$250 billion commitment, we have learned a great deal about the business challenges and opportunities that exist not only within our own sourcing goal but also in growing U.S. manufacturing of consumer goods as a whole. We understand that on-shoring U.S. manufacturing is a complicated and difficult task and that no one actor can identify all of the solutions. We are nonetheless committed to convening key stakeholders and facilitating their conversation and collaboration. Our ongoing domestic sourcing efforts and results to date, and our scale and market share in consumer goods, provide us with a unique perspective not only on how various business challenges can be overcome, but also as a convener and facilitator for broader systemic changes that must occur.

In particular, we believe that a number of public policy reforms at the federal, state, and local levels of government are necessary to unlock greater growth and job creation in consumer goods manufacturing. To advance a national conversation on the most effective policy changes to drive manufacturing, we engaged The Boston Consulting Group (BCG) and leveraged our sourcing data, merchandising expertise, and supplier insights in order to produce a Policy Roadmap, a set of concrete actions that policymakers, industry, and communities can undertake to renew American manufacturing.

Why a Roadmap Now?

In the U.S. today, long-term unemployment is reaching historically high levels. At the same time, up to 2 million new manufacturing jobs will go unfilled due to the widening skills gap in the next decade.¹ Several macroeconomic trends have increased the competitiveness of U.S. manufacturing including lower domestic energy costs, access to more advanced technologies, and business advantages of shortened supply chains that are more responsive to customers, while also reducing costs and risks.

According to BCG's analysis, there is an opportunity to make in the U.S. approximately \$300 billion of the \$650 billion of consumer goods that are currently imported, including furniture, cookware, and sporting goods. Every \$100 billion of retailer spend that is on-shored has the potential to create over 500,000 direct manufacturing jobs, which could potentially result in an additional 1.5 million indirect jobs.² With the right policies and industry tactics, the U.S. can strengthen our manufacturing industry and drastically reduce long-term unemployment by both driving job creation and upskilling a workforce capable of excelling in newly created manufacturing positions.

What's Next?

While these are encouraging figures, it is not a given that this growth potential will be realized. Manufacturers in multiple industries, and all along the value chain, will need to see and act on the business opportunities in front of them. Leaders at all levels of government must work together, and with the retail industry and civil society, to make policy changes that grow and enhance these business opportunities. The policy roadmap presents new research that analyzes the barriers businesses face to growing manufacturing, and proposes specific policies that have the potential to effectively accelerate and grow U.S. manufacturing. We're committed to helping bring jobs and economic opportunities to American communities and look forward to engaging many different stakeholders to achieve this vital national mission.

¹ Deloitte Consulting, LLP and the Manufacturing Institute

² Based on BCG Analysis

Barriers to Manufacturing Growth

Identifying policy barriers and advocating for actionable policy levers that can overcome them is part of the roadmap's focus on unleashing America's manufacturing potential. Doing so will deliver benefits to Walmart customers, our communities and our country. Our analysis indicates that there are four highest impact policy barriers that constrain the growth of U.S. manufacturing.

Workforce	Lack of available, qualified workforce. Many consumer goods manufacturers are constrained by their inability to recruit, retain, and upskill enough willing and locally-available workers to meet their current production and staffing needs for emerging manufacturing processes and positions of the future.
Coordination & Financing	Many key inputs for manufacturing suppliers are not available domestically resulting in significant gaps in supply chains; there is often a lack of coordination in supporting manufacturers in site selection and operational scaling; additional upstream and downstream supply chain communication and coordination is needed.
Regulation	The complexity of local, state, and federal manufacturing regulations deters investment, and creates high costs of compliance and legal risks; some regulations are not right-sized or flexible enough for small businesses; lengthy and overlapping permitting and regulatory approval processes can significantly delay new operations.
Tax & Trade	The U.S. tax system and trade agreements need to be modernized to help support manufacturing competitiveness.

How to Lead Change

Meaningful change will require participation and leadership from a range of actors, including all levels of government, business, NGOs, and others. Although policy changes alone cannot fully reshape business incentives, there are real policy opportunities that can enhance the attractiveness of U.S. manufacturing:

- **Government**

Elected officials and government agencies at the federal, state and local levels must work to resolve jurisdictional overlap between agencies and harmonize regulations, such as those governing "Made in USA" labeling. Effective policies should be implemented to address barriers to growth, allowing manufacturers to thrive.

- **Business**

Retailers, manufacturers, and other businesses can invest in workforce development, manufacturing clusters, and improved coordination to complement more effective government policy.

- **NGOs & Independent Organizations**

There is tremendous opportunity for broader civil society engagement in helping to address these challenges. Through their own activities and research, NGOs, economic developers, and other organizations can help drive the policy discussion among the public and private sectors, while also unveiling best practices on worker training and supply chain development.

There are opportunities for significant public-private sector collaboration in addressing these issues and unleashing manufacturing potential. Because these policy changes have significant overlap, it is critical that they be pursued together, across a diverse group of coordinated stakeholders.

10 Policy Levers to Address Manufacturing Growth Barriers

The following pages detail specific actions, under each of the 10 most impactful policy levers, that policymakers and industry leaders can take in order to renew U.S. manufacturing. Each of these 10 levers address one of the four primary barriers described on the previous page: workforce, coordination & financing, regulation, and tax & trade. These barriers and their corresponding policy levers were identified based primarily on Walmart’s sourcing experience, especially over the last four years of its \$250 billion commitment, in addition to the more recent series of merchant, supplier, and policy expert interviews. These interviews have been supplemented by a BCG-led quantitative analysis of economic trends, retailer spend, sourcing data, and product category competitiveness. Levers range from short to long-term feasibility and several are interdependent, meaning that progress in one area may rely on progress in one or more other areas. Therefore, a comprehensive approach across these areas, with effective collaboration and coordination among key actors, is essential to harnessing the potential to accelerate and grow U.S. manufacturing.

POLICY LEVERS		FEDERAL GOV.	STATE & LOCAL GOV.	MFG. INDUSTRY	RETAIL INDUSTRY
WORKFORCE	1 Build vocational training programs linked to local industry	●	●	●	
	2 Reduce financial burden on private industry to train and upskill workers	●	●	●	
	3 Rebrand U.S. manufacturing to attract new workers and drive demand of domestic products	●	●	●	●
COORDINATION & FINANCING	4 Encourage growth of component production to help close supply chain gaps	●	●	●	●
	5 Facilitate public-private cooperation to promote manufacturing clusters	●	●	●	●
REGULATION	6 Harmonize manufacturing regulations across different levels of government, including eliminating federal overlap	●	●	●	
	7 Streamline compliance requirements for criticality and business size	●	●		
TAX & TRADE	8 Create globally competitive tax environment, including lower rates and a territorial system	●	●		
	9 Expand and protect targeted, state and local tax deductions that foster manufacturing investments	●	●		
	10 Modernize trade agreements to enhance the competitiveness of U.S. manufacturing	●			

Policy Levers in Depth

Workforce

1. Build vocational training programs linked to local industry

FEDERAL, STATE, AND LOCAL GOVERNMENT

- Facilitate communication between manufacturers, academic institutions, and other training curricula developers; match public and private resources against the need to develop curricula that addresses local industry-identified gaps
- Allocate federal, state, and local funds for educational institutions, vocational schools, and training programs that are tailored for skill sets in high demand by local and regional manufacturers

MANUFACTURING INDUSTRY

- Identify skill gaps and partner with academic institutions to develop appropriate curricula for employers, community colleges, and other training providers

2. Reduce financial burdens on private industry to train and upskill workers

FEDERAL, STATE, AND LOCAL GOVERNMENT

- Protect and expand funding for the most effective manufacturing extension partnerships (MEPs) and local workforce investment boards (LWIBs), including outreach to struggling manufacturers; create stronger measurements for effectiveness that is tied to funding
- Incentivize manufacturers (e.g. tax incentives) to create and expand in-house apprenticeships and training programs for both new and seasoned workers
- Support manufacturers in training and upskilling new workers, specifically from non-traditional labor pools
- Identify emerging job skills needed in the future to help private sector, NGOs, community colleges and others to update and develop new curricula, for technology-empowered roles, and advanced manufacturing

MANUFACTURING INDUSTRY

- Offer upskilling opportunities via formal apprenticeship programs and other training opportunities, e.g. ESL, GED, machinery usage, specialized skills, and other STEM-related training
- Proactively seek workforce support (e.g. career training, layoff aversion) from local workforce investment boards (LWIBs), manufacturing extension partnerships (MEPs)
- Target recruitment and training toward non-traditional labor pools to fill workforce gaps, e.g. women, minorities, veterans, and displaced workers

3. Rebrand American manufacturing to attract new generation of workers and drive demand of domestic partners

FEDERAL, STATE, AND LOCAL GOVERNMENT

- Allocate funds for manufacturer-run youth programs and invest in regional career development initiatives
- Work with Department of Education to include manufacturing seminars and workshops in high school, community college, and state university curricula
- Facilitate national conversation between manufacturer trade associations and associations of educational institutions, training providers, and career counselors to foster manufacturing career awareness
- Support development of training for skills needed in tech-based advanced manufacturing and credentialing

MANUFACTURING INDUSTRY

- Jointly develop youth engagement and public awareness campaigns to instill positive image of manufacturing career trajectory – partner with local schools to create youth field trips, regional fairs, camps, engineering competitions

RETAIL INDUSTRY

- Make and publicize sourcing commitments to U.S. manufacturing; call on other retailers to do the same
- Market U.S.-manufactured products to stimulate consumer demand

Coordination & Financing

4. Encourage growth of component production to help close supply chain gaps

FEDERAL GOVERNMENT

- Align tax and other incentives with state identified target industries
- Streamline process for foreign direct investment (FDI) through simplified agency processes & support for foreign business owners; continue to invest in SelectUSA with a focus on directing FDI toward manufacturing opportunities
- Strengthen foreign market access for U.S.-made products by disseminating market information, supporting trade missions, trade financing and other resources, while coordinating with state and local industry groups and economic developers

STATE AND LOCAL GOVERNMENT

- Focus funding, workforce development initiatives, and tax incentives on targeted industries
- Enhance economic development centers, foreign investment offices, and site selection support to more easily facilitate manufacturing capacity expansions

MANUFACTURING INDUSTRY

- Partner with up/downstream manufacturers to fill identified gaps in availability of product inputs or components (e.g. through volume commitments)
- Identify manufacturers in existing manufacturing base that may be able to expand or modify operations to fill gaps

RETAIL INDUSTRY

- Facilitate broader upstream supply chain linkages; share updated information to improve material flow and capacity



5. Facilitate public-private cooperation to promote manufacturing clusters

FEDERAL GOVERNMENT

- Align funding and resource allocation with state and regional clusters

STATE AND LOCAL GOVERNMENT

- Target grants, tax incentives, and coordination support
- Facilitate broader stakeholder communication with policymakers, manufacturers, retailers, and academia
- Identify existing and emerging clusters and adopt policies to create an environment that supports cluster growth
- Support clusters with investments in skilled workforce, R&D activity and knowledge creation, capital availability, and infrastructure

MANUFACTURING INDUSTRY

- Promote advancement of industry research and innovation through self-organized groups
- Look for opportunities to coordinate firms upstream/downstream along value chains, and for manufacturers to co-locate

RETAIL INDUSTRY

- Invest in innovation; support R&D projects (e.g. Walmart U.S. Innovation Fund, public-private partnership between Walmart and the U.S. Conference of Mayors to develop new technology and advanced manufacturing processes that can advance the domestic production of consumer products like textiles)

Policy Levers in Depth

Regulation

6. Harmonize manufacturing regulations across different levels of government, and eliminate federal overlap

FEDERAL GOVERNMENT

- Utilize Government Accountability Office (GAO) Duplication & Savings reports to de-tangle overlapping agency jurisdiction and legislation
- Direct GAO to prioritize regulatory overlap that is burdensome to manufacturing operations and new investments
- Permit and incentivize agency groups to harmonize rule-making
- Leverage recommendations by the Department of Commerce to streamline regulations and permitting processes, based on public comments by a range of manufacturing firms and industry groups

STATE AND LOCAL GOVERNMENT

- Engage with federal government to find regulatory harmonization opportunities (e.g. Made in USA labeling regulations)

7. Streamline compliance requirements for criticality and business size

FEDERAL, STATE, AND LOCAL GOVERNMENT

- Create a more flexible compliance scale for small businesses regarding federal regulations originally designed for larger companies
- Enhance ability of the Small Business Administration to assist small business compliance with more flexible regulations
- Review impact of regulations affecting manufacturing for effectiveness, criticality (i.e. cost-benefit analysis)



8. Create globally competitive tax environment, including lower rates and a territorial system

FEDERAL GOVERNMENT

- Switch to a territorial tax system to end incentives for companies to avoid U.S. investment of foreign-earned income
- Lower the corporate income tax rate to be globally competitive
- Reduce complexity and compliance costs in the tax code

STATE AND LOCAL GOVERNMENT

- Broaden corporate income tax bases and lower rates
- Consider lowering or repealing inventory taxes and other property taxes that are disincentives to investment in manufacturing activities

9. Expand and protect targeted, state and local tax credits and deductions that foster manufacturing investments

STATE AND LOCAL GOVERNMENT

- Review tax credits and incentives to measure effectiveness in driving manufacturing investments in clusters that have unique strengths in states and regions
- Offer and expand high-return, targeted state and local tax credits and incentive programs for training/retraining and capital investment especially where manufacturing clusters exist and can grow

10. Modernize trade agreements to enhance the competitiveness of U.S. manufacturing

FEDERAL GOVERNMENT

- Promote export market access for U.S.-manufactured goods
- Expand tariff relief for intermediary inputs not produced domestically that are necessary for U.S. manufacturing (e.g. through the *Miscellaneous Tariff Bill*)



Ideas in Practice

The below are three cases of policy intervention that helped to address a significant barrier to enable greater manufacturing growth. These examples demonstrate that effective public policy can come in many shapes and sizes, and that a variety of stakeholders will need to coordinate in different ways in order to overcome often complex, inter-connected barriers to growth.

WORKFORCE

ProPlas Transformed with California MEP Support

COORDINATION & FINANCING

Walmart, the Walmart Foundation, U.S. Conference of Mayors, and Leading Educational Institutions Drive Innovation and Lower Costs for U.S. Manufacturers

REGULATION

Government Accountability Office Supports Manufacturing USA Partnerships

BARRIER TO GROWTH

- ProPlas relocated in 2014 and suffered a significant shortage of skilled workers, leading to inefficiencies, production errors, and rising scrap rates
- ProPlas contacted California Manufacturing Technology Consulting (CMTC), a public-private partnership funded by NIST / Department of Commerce
- The production processes and technologies available to manufacture certain consumer goods in the U.S. are not cost competitive with foreign markets
- Departments of Commerce, Defense, and Energy established 11 public-private manufacturing innovation initiatives with 780 member organizations
- The interagency team responsible for outlining agencies' roles and responsibilities did not include all relevant agencies and organizations, or fully identify how the agencies should coordinate and contribute



POLICY ACTION

- CMTC conducted a root cause analysis and identified best practices and skill gaps in the current workforce
- It provided training to ProPlas leaders to identify gaps in employee skills and empowered better problem solving
- CMTC leveraged expertise of local workforce investment boards for layoff aversion support and funding
- Walmart, the Walmart Foundation, and the U.S. Conference of Mayors (USCM) established a \$10 million grant fund in order to support the research and development of new technologies and reduce the costs of making consumer products in the U.S.
- Grant recipients proposed projects with strong potential to successfully advance the feasibility and competitiveness of U.S. manufacturing of consumer products, with an emphasis on sustainability
- GAO evaluated coordination / governance structure & key performance indicators
- Proposed greater & expanded interagency coordination



OUTCOME

- \$200,000 in cost savings
- \$1.6 million in new sales
- 42 jobs created or retained
- Over the last three years, Walmart, the Walmart Foundation, and USCM awarded a total of \$10 million through 18 grants to leading universities for applied research projects that advance innovative solutions and technologies in textiles, plastic injection, and small motor manufacturing
- University awardees have made significant progress toward commercializing technologies, especially in textile production processes, that reduce costs, increase productivity, and improve the competitiveness of U.S. manufacturers
- Department of Commerce will now take coordinating role to enhance inter-agency collaboration for Manufacturing USA

Leveraging This Analysis

The time to act is now.

Every day, millions of Americans suffer the consequences of long-term unemployment. A strong policy roadmap will help renew American Manufacturing, rebuild communities, grow jobs and create greater economic opportunities.

While policy alone cannot resolve all on-shoring challenges, we must have improved coordination between retailers, manufacturers, the government, and civil society, so we can collectively address each of the policy barriers that are preventing accelerated growth in the manufacturing industry.

If we work together and act now, we have the opportunity to provide a platform for American workers and the economy to thrive for years to come.



Furthermore, many of the policy actions identified in our research could have broader benefits for the growth of U.S. manufacturing outside of consumer goods production, further contributing to U.S. manufacturing, economic growth and job creation overall.

Walmart is committed to continuing to lead a discussion on how best to identify, develop, and implement the right policies, at the right times, and in the right places.

While doing so, we will look to convene and foster conversations and cooperation among a broad range of stakeholders who are similarly dedicated to accelerating the growth of U.S. manufacturing, and generating economic opportunities for hard-working Americans across the country.



We invite you to join us by reaching out to USMPolicy@walmart.com

or visiting Walmart.com/americanjobs



[Walmart.com/americanjobs](https://www.walmart.com/americanjobs)