

Moto X plant seen as harbinger of more US manufacturing

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The mobile phone in Dennis Woodside's hand looks like something Captain America would carry, with a cherry red back, glossy white front and thin rings of metallic blue around the side buttons and camera lens.

"There are 150 million smartphones in the U.S. today, and not one of them is built here," said Woodside, chief executive of Libertyville, Ill.-based Motorola Mobility.

The patriotically hued device is Motorola's attempt to change that status quo and venture a comeback in a market in which it is woefully behind. Here, on a former cow pasture turned into a massive industrial park, workers at a 480,000-square-foot facility are snapping the final components into place for the Moto X, the company's first major new product under Google Inc. ownership and, officials said, the first smartphone assembled in the U.S.

In opting to retrofit a Fort Worth plant, Motorola became the latest big technology company to recognize that China's low-cost wage advantage was slipping as the Asian giant's economy heated up, opening the door for a return of some manufacturing to the States. This year, Chinese computer company Lenovo started producing desktops and laptops at an expanded facility in Whitsett, N.C., where it added 115 manufacturing jobs. And Apple is investing \$100 million to build a line of Mac products in Texas, CEO Tim Cook told a Senate subcommittee in May.

"Google is a place where we take bets," Google Executive Chairman

Eric Schmidt said Tuesday, when Texas Gov. Rick Perry and others gathered for a tour of the facility. "This is a bet we're taking on America, on Texas, on this incredible workforce that's assembled here. We think this is a safe bet. The reason is, the math works."

The Fort Worth facility is operated by Flextronics International Ltd., a Singapore-based equipment-maker that signed a manufacturing agreement with Motorola in December. Full production of the Moto X was launched in early August, and the 2,500 employees at the factory are shipping 100,000 phones a week.

When measured against the number of manufacturing workers in China, Taiwan and elsewhere churning out electronic gadgets, the several thousand jobs represented by these tech giants' recent decisions don't amount to much. And it will take more than a handful of companies in one sector to reverse years of declines in American manufacturing. But experts say the companies' moves go beyond patriotic window dressing, instead speaking to larger economic dynamics at work that could gain momentum.

"On a macro level, the situation hasn't changed," said Scott Paul, president of the Alliance for American Manufacturing, an industry group representing U.S. manufacturers and the United Steelworkers. "But from a business decision level and a managerial perspective, the equation has changed a bit. We'll see more results of that in five or 10 years than we will today. There's a lot of things that could go awry. ... But the arc does seem (headed) toward more production in the United States."

The basic business logic underpinning Asia's dominance in electronics manufacturing is that American companies can produce goods more cheaply there than they can at home. But that calculation is beginning to change as wages in China continue to rise. Electricity and natural gas

costs are also on the upswing.

The Boston Consulting Group projects that by 2015, average manufacturing costs in China will be just 5 percent lower than in the U.S.

"A lot of what I've seen is based on real economics and good business, not PR," said Hal Sirkin, a Chicago-based senior partner at the consulting group who co-authored a 2012 book about the return of the U.S. manufacturing sector. He also sees companies' supply chains relocating with them over time.

"A fundamental shift is happening faster than we thought," Sirkin said. "And companies that three years ago would never even have thought about it are not just thinking about it, but building the plants."

A preliminary analysis of the Moto X by research firm IHS Inc. determined that the company was able to build the device in the U.S. without a significant spike in costs.

The firm estimated labor and other assembly costs for the Moto X at \$12, about \$3.50 to \$4 more than Apple's iPhone 5 and the Samsung Galaxy S4, which are produced overseas. But the Moto X's components are similar to what is found inside those other high-end smartphones, making Motorola's total cost for its flagship device - \$226 - fall between the iPhone 5's \$207 and the Galaxy S4's \$237. The Moto X is available at all major carriers for a subsidized \$200 with a two-year contract.

Companies have motivations beside costs for bringing manufacturing closer to home, such as the ability to assert better quality control and protect intellectual property. In the case of the Moto X, the need for speed and flexibility was a crucial factor. During the development process, Motorola designers could travel easily to Fort Worth to make

product tweaks or troubleshoot issues. And Dallas-based AT&T has a facility in the same industrial park, allowing the carrier's officials to offer in-person feedback on the device by simply driving down the street.

Consumer customization also is paramount. Motorola offers more than a dozen colors, from cabernet to spearmint, for the device's back plate and another seven metallic finishes for the hardware accents. The company committed to getting customers their phones in four days or fewer - an impossibility if production were located overseas.

"Consumers want to design their own devices," Woodside said "We'll pursue that theme over time in some interesting directions."

On the cavernous factory floor, production workers outfitted in white coats and blue pants build the smartphones in long lines. When it comes time to snap on the colorful back plate, workers scan each incoming order. Off to the side are rows of mechanized bins, each narrow drawer sporting a green bulb on its face and containing plates of a particular hue. The order scan triggers the correct bin to light up and slide open with a mechanical hiss.

The new activity at the Moto X factory represents the return of mobile phone manufacturing to the Fort Worth area, although not at the same levels as before. Finnish cell phone maker Nokia, which built the facility in the 1990s, employed as many as 3,800 people in Tarrant County in 2000 before shifting production to Mexico and closing the plant in 2006.

Flextronics, which did not receive incentives to locate in Fort Worth, worked with local staffing firms and public agencies to recruit workers for the Moto X plant. Sal Adamski, workforce improvement director at Workforce Solutions for Tarrant County, which helped recruit and train employees, said salaries for the positions vary widely but "are fairly well

in-line with standard industry salary ranges for test technicians and assemblers."

David Berzina, executive vice president of economic development at the Fort Worth Chamber of Commerce, said local officials are eager to use the Moto X plant to convince other companies to look at Fort Worth as a manufacturing hub.

"We spend time in Asia every year and we talk to companies about coming to the United States," Berzina said. "We will certainly start talking to companies that have Asian manufacturing programs and talk to them about Motorola and Google. We think it's worth their while to do it here."

Motorola, for its part, will be talking to suppliers about coming back stateside. Mark Randall, senior vice president of supply chain and operations, said the company hopes this shift starts as early as next year.

"They see this is the trend," said Randall, a former Nokia executive who helped design the original Fort Worth facility. "They have the same economic issues to deal with."

American boosters will still have to make a case for the U.S. over other economies that are eager to capitalize on rising costs in China. At an investors conference last week, Flextronics CEO Mike McNamara said China remains a "pretty inexpensive place to operate where the supply base is very robust." He believes Southeast Asian countries such as Malaysia, Indonesia and India will benefit as the global economy builds "to a more regionalized and distributed manufacturing base over time."

Ultimately, much of the outcome of Motorola and Google's new experiment in American manufacturing will depend on how the Moto X sells. With a market share that badly lags that of Samsung, the industry

leader, as well as Apple, Motorola has a lot of catching up to do.

"I don't think the test of (the product's) success rests on whether it's made by American workers or workers somewhere else," said Paul, of the manufacturing group. "A lot of it is about marketing, distribution, the customer experience, what kinds of features you're offering. It goes beyond what any individual puts into it."

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