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SUPPLY CHAIN DESIGN MEETS THE RESHORING TREND

Companies are rethinking globalization and repositioning more of their operations and sourcing closer to home. Here's how the trend is affecting supply chain design.

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With globalization no longer the default option for all companies, many are returning product manufacturing from foreign countries to their home countries (reshoring); transferring work to different organizations within their own regions (nearshoring); and relocating business processes from one country to another (onshoring).

Mexico has become a particularly attractive target for U.S. firms. In November, the country's Economy Minister, Raquel Buenrostro, announced that 400 different companies were currently seeking nearshoring opportunities in the country. She credited the U.S.-Mexico-Canada Agreement (USCMA) and Mexico's close proximity to the United States with driving some of that momentum.

Regardless of which repositioning approach a company takes—reshoring, nearshoring, onshoring, or a hybrid—the general push to get manufacturing and sourcing closer to home is on. In fact, one recent Deloitte study uncovered "increased interest in moving manufacturing closer to the end consumer to mitigate disruption risk and the inflationary impact on the cost of goods." In total, American companies reshored about 350,000 jobs in 2022, the company says, compared to 260,000 the prior year.

In the United States, CEOs have been vocalizing their reshoring goals on their earnings calls. During the fourth quarter of 2022, for example, there were 122% more mentions of reshoring than there were during the previous quarter. Fortna's Darren Jorgenson says it's a topic he's also hearing more of these days. "Reshoring is something that comes up every time we work on a project and design a supply chain," says Jorgenson, practice leader of the strategy team. "We're seeing some instances where manufacturing is moving into Mexico, which is a solid business choice for some companies."

Rosemary Coates, executive director of the Reshoring Institute and president of Blue Silk Consulting, says many companies have already taken the interim step by seeking out more U.S. suppliers to add to their supply chains. "In the past, sending a buyer to China or sourcing products on sites like Alibaba kind of just happened automatically," says Coates. "Now, more companies are trying to source materials domestically and are very interested in reducing risk in their supply chains."

Coates says some of these moves are being driven by all of the misery that companies endured during the pandemic as they tried to get goods out of China. "There is a bigger recognition of the related supply chain risks," says Coates, "and to mitigate that, companies are redeveloping sources back in America. That is the interim step."

Other organizations are going a step further and either bringing manufacturing back to the United States or making decisions to not produce goods overseas anymore. "There's no question in my mind that this is happening right now at a slow and steady pace," says Coates.

Slow and steady pace

In most cases, Coates says a company's decision to reshore, nearshore or onshore happens at the executive level and is seen as a "much more strategic decision" than it ever was in the past. This aligns with a bigger shift in the way organizations think about their global supply chains and the strategies associated with these interdependent networks.

"There's a whole shift in the way companies are thinking about their global supply chains and the related strategies," says Coates. For example, she says more of them are considering moving operations to Mexico, where labor rates are now lower than they are in China, according to a recent Reshoring Institute global labor study across 12 different countries. India and Vietnam are two other low labor-cost countries that companies may want to consider.

"Mexico is always a good choice due to its close proximity to the United States. You don't have to wait for an ocean container to be unloaded at a busy U.S. port," says Coates. "Instead, you can just drive across the border." As an added bonus, the USMCA allows much of the merchandise produced in Mexico to be brought into the United States duty-free.

Of course, once the decision is made to change manufacturing locations, then the rest of the supply chain has to "fall in line," says Coates. The shifts include—but are not limited to—changing supply chain and logistics partners as well as possibly locations. You also have to manage a change in the routes and flows of your supply chain. For example, instead of bringing materials in via airfreight from Shanghai, you may be transporting truckloads of goods across the Mexican border.

The people component also comes into play here. "These shifts require different supply chain skill sets, which means the professionals who run these networks have to be open to changing the way they think about supply chain management," Coates points out. "They may also have to up their skill levels and think more openly and creatively about how to deliver on their job requirements."

All aboard the reshoring bandwagon

The global pandemic, trade wars, tariffs and ongoing supply chain disruptions are just some of the reasons why global management consultancy Kearney says American companies are getting more serious about reshoring. Kearney also says reshoring is being redefined as "more companies pursue the best cost instead of the lowest cost and weigh cost against other factors such as supply chain resiliency and sustainability."

Jorgenson sees evidence of this firsthand when he works with companies that want to build supply chains that are as sustainable as they are resilient. "Nearshoring can provide benefits in the form of resilience and reliability, and particularly when it comes to managing disruption," says Jorgenson, who sees more companies wanting to get closer to their customers and minimize any geographical gaps caused by globalization.

Lisa Henriott, senior VP of product marketing at Logility, is also seeing more reshoring as a way to get operations—both manufacturing and distribution—closer to the end customer. Companies are looking at the trade-offs, knowing that one set of costs may go up (e.g., labor costs) while another goes down (transportation) as a result of the supply chain shifts. Companies also have to consider the taxes, tariffs and other costs associated with reshoring, understanding that truck versus rail versus parcel all have different cost structures and delivery speeds.

Due to the uncertainty in the current marketplace, some of Logility's customers are also using data to assess variables like weather conditions, demographic trends and housing markets in specific geographic regions. This, in turn, can help them determine the viability of onshoring, nearshoring or reshoring their operations. "Companies can use causal factors to influence their forecasts," she explains, "as yet one more way to do some fairly advanced demand planning."

Closing the loop

Regardless of whether companies maintain their global supply chains, onshore all of their operations or use a hybrid approach—some onshore, some offshore—they all want anti-fragile networks that are resilient, sturdy and able to stand up to disruptions brought on by events like the COVID-19 pandemic.

To achieve this goal, many companies lean on technology that helps them sense problems, forecast demand and drive risk out of their supply chains. They're also developing tighter bonds with their customers, suppliers and other business partners in an attempt to "close the loop" that may exist between them. This, in turn, helps drive higher levels of collaboration and connectivity in any business condition.

"Creating closed-loop networks helps you manage your inventory effectively while also being able to anticipate future disruptions," says Philip Vervloesem, senior VP at OMP USA. "Anti-fragile networks go a step further by focusing on building the right level of buffers that ensure that you can cope with any type of supply or demand disruptions."

Knowing that it takes a village to make a single global supply chain tick, Vervloesem also tells companies to focus harder on the collaboration and connectivity across those various entities when redesigning a supply chain. This advice applies to any supply chain, be it global, domestic or both. "Having a closed loop with your co-manufacturers, customers and all suppliers' tiers is extremely important," says Vervloesem, "because you can shift gears much faster when everyone is in that closed loop versus working in their own silos."

Making the shift

As companies assess their supply chain operations and decide whether to take interim steps like sourcing more goods onshore, or larger steps that involve the full repositioning of operations to countries like Mexico, these organizations will also be redesigning their networks to accommodate the shifts.

Jorgenson reminds companies to view reshoring as a process versus just a step, and to ensure that any changes made align with the company's overall mission. Be prepared to tackle some complexities, he adds, and focus on good organizational alignment and change management as you work through it. "Then during the actual transition," Jorgenson adds, "make sure you have the redundancies in place to ensure that there are no issues as you make the shift."