

Relocating production?

The Covid pandemic has underlined the importance of how and where companies produce. Strategic, financial and operational risk factors must be addressed to restructure for resilience

The change imperative

Optimization, wage cost arbitrage, focus on core competencies and just-in-time planning: four concepts that led to stretched global supply chains.

But this is now challenged. Just consider:

- Offshore wage escalations and fluctuating COGS
- Shifting demographics
- Trade wars and tariff increases
- Increased geopolitical volatility
- The need for pandemic-resilient networks
- Potential supply-chain impacts of a "hard" Brexit
- Trends towards customized, next-day delivery
- Weak offshore IP and technology protection

Executives need to rethink flexibility and resilience.

This will have profound implications for supply chains, footprint, cost structure, and risk management.

Offshore, nearshore, onshore, unsure

Going forward, shoring decisions will be about designing and implementing resilient sourcing solutions.

It involves changing the ways-of-old, and hence entails design and implementation risks. But the need to adjust better than the competition will be key to survival, recovery and long-term success. Both for SMEs and large corporations.

Many factors need to be addressed, including:



From just in time to just in case

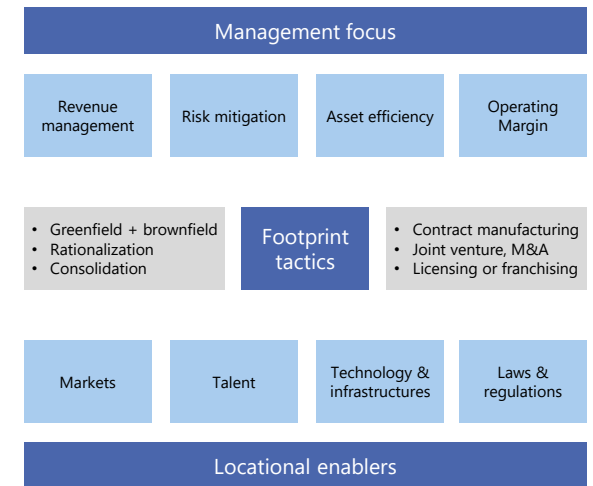
De-risking and increasing resilience will be key focuses of restructuring efforts.

Expect to see:

- Diversification closer to market, via multi-modal production and supply networks
- New alliances, M&A and a different choice of suppliers and service providers
- Increased total ownership cost due to buffer inventories and hidden costs (tax, logistics, etc.)
- Improved direct workforce availability as furloughs end and unemployment increases
- Automation initiatives hampered by stubborn lack of skilled labor
- Governments offering expansive incentive programs to return manufacturers on-shore
- Countries with the right mix of capabilities and costs to reduce reliance on China-sourcing
- Nearshoring to increase (for example in Central Europe and Mexico)

Footprint first

As they restructure, Supply Chain & Manufacturing (SC&M) executives need to strike a new balance between corporate focus, locational enablers and footprint tactics.



Location is integral to success with local supplier ecosystems, talent pools, infrastructure, cost structures and speed to market, determining which SC&M operations can locate where and at what level of risk.

Restructuring for resilience – a balancing act

Resilience depends on many variables; restructuring comes with numerous challenges. Companies will need to navigate trade-offs

Leaving no stone unturned

Risk cuts across all locational enablers, and increases as networks extend across suppliers, contractors and owned facilities across different countries. It spans a range of natural disaster, IP, financial, economic, political and reputational considerations.

To highlight a few of the variables:

Logistics & sourcing	Proximity to market and suppliers, supplier capabilities & resilience, logistics providers
Workforce	Ability to scale/sustain, competencies, regulation, unionization, immigration, costs
Business climate	Level of government support, bureaucracy, corruption, contract enforcement
Infrastructure	Utilities capacity/quality/resilience, real estate configuration, ownership, zoning, flexibility
Structuring	Taxation, entity incorporation, profit repatriation, IP & royalties, advance rulings
“Hidden” opex	Duties, fees, labor benefits, shift premiums, indirect taxes, insurance, FX fluctuation, inflation
One-time costs	Site acquisition and preparation, construction, recruitment, equipment, restructuring charges

Reshoring challenges

Reshoring is about companies locating closer to market, not necessarily about returning to their country of origin.

But reshoring comes with challenges. Moving closer to market often entails moving into more mature environments.

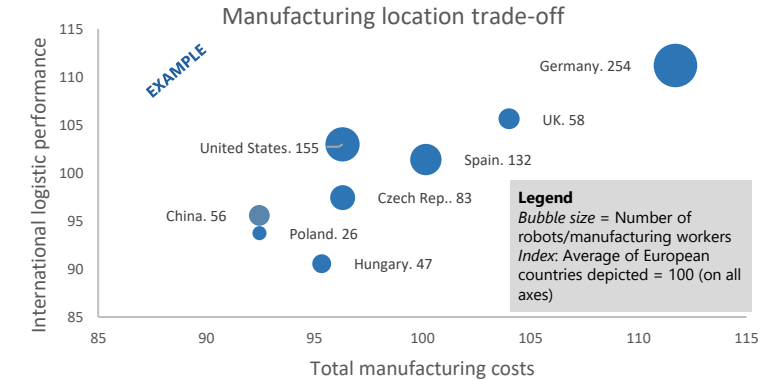
Key challenges that reshoring companies encounter include:

- Workforce: finding the right skills in the right numbers
- New supplier-basin: cost, quality and availability issues
- Regulation: complex labor codes and tax/regulatory environments
- Lack of adequately-located industrial sites and buildings
- Transfer of knowledge from offshore operations
- Data: difficulty accessing relevant data for robust decision-making
- Business case: timelines and associated one-time/recurring costs
- Leadership: few executives have reshoring project experience

Location trade-offs

Project and company specifics lead to many different location options. All require executives to balance multiple variables. And to define their acceptable level of trade-off - there is no such thing as “the perfect location”.

Take the example of a Europe-bound manufacturer that seeks to automate production to compensate lower off-shore wage costs. It will seek locations with a proof of concept for robotization. But it needs to balance market access and manufacturing costs as well.



As illustrated above, locations vary significantly. To further complicate decisions: there are more country options than depicted, while in-country differences can be significant.

This will make restructuring for resilience a daunting and time-consuming task for those that rarely conduct location strategy.

A helping hand

Locationperspectives works bottom-up from operational reality. We help you make and implement resilient decisions

Capabilities

Supply Chain Risk

Reshoring & Rationalization

Workforce

Ecosystem

Incentive Negotiations

Site Selection & Implementation

Typical client questions

• How resilient are we to external threats?

• Where to nearshore and what to consolidate?

• What is the skills supply-demand mismatch?

• What vendors/suppliers does the location offer?

• What can we expect, and under which conditions?

• Which location, site, building is best?

Locationperspectives

Locationperspectives fills the gap between “big plans” and operational reality in cross-border business.

We are an international network of driven location strategists and business advisors.

We serve across the SC&M value chain:

- Manufacturing
- R&D
- Warehousing & Logistics

Your benefits

- Strictly confidential investigations
- Accelerated decision making
- Accuracy, robust analytics and real-time insights
- Tailored and flexible support
- Implementation-ready recommendations
- Market-competitive, flexible fee models

Our principles

- Deliver results
- Bring new perspectives
- Share experience
- Partnership not PowerPoint
- Think straight, talk straight

Team and track-record

Team

Our senior team gained their spurs at leading consultancies such as Accenture, Deloitte, EY and Wavteq. It taps 55 years of advisory experience. Through that period, our leaders delivered 970 location and sourcing projects. Their field experience covers over 50 countries and 300 cities worldwide.

Track record (sample)

Alcon, Alza, Amar Autotech, Amgen, Amipass, Avnet, Baxter, Bird, Bombardier, Cambridge Innovation, Cloudgaia, Compaq, CSM, Dexcom, Dutch Cocoa, eBay, Ecolab, Ericsson, Fictiv, Firestone, Ford, GM, Haagen-Dasz, HAAS Alert, Haemonetics, Handcheque, HP, Jaguar Land Rover, Insignia, JEE Automation, Johnson&Johnson, KLA-Tencor, Lloyds Bank, LT Foods, Magna, Mars, Mattel, Meggitt, Merck, Mittal, Nike, Novartis, Nu Skin, Pfizer, Phillips, Printcare, R&G Espinosa, Roseate, San Saba Pecan, Sanofi-Genzyme, SKF, Smithers-Oasis, Smiths, Stanley Black and Decker, Tenneco, Toyota, United Phosphorus, Volvo, Wellcome Trust, Wellman Advanced Materials

Locationperspectives

Shaping cross-border business

This document has been prepared for the sole purpose of introducing Locationperspectives as a potential resource for support
Location data presented are indicative and should not be used to cast a location decision

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