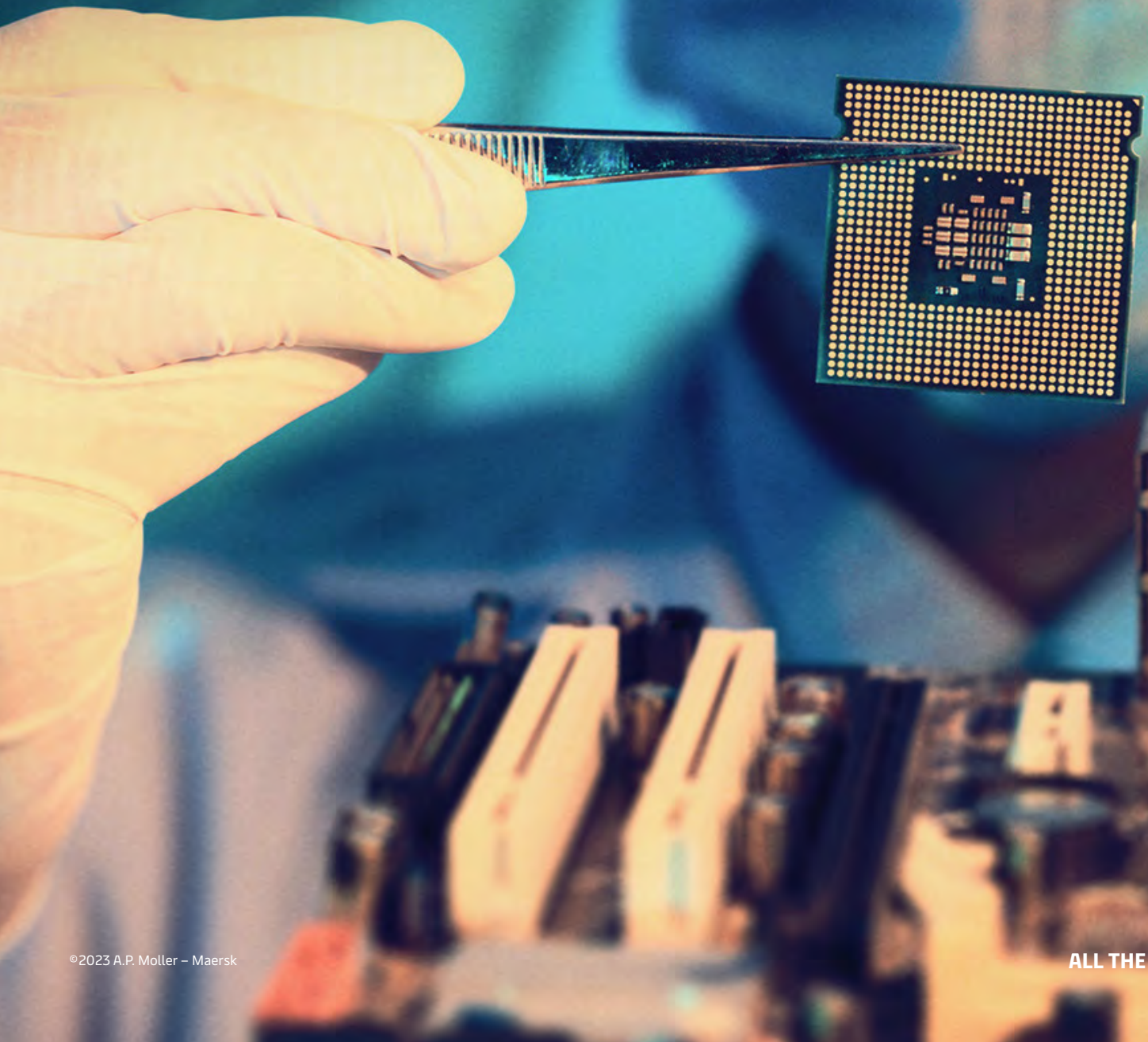


# NEARSHORING NORTH AMERICA

Supply Chain Considerations  
for When Closer is Better



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Supply chain disruption stories have become nearly commonplace, from the boardrooms to the kitchen tables of the world. For the past several years, there has been little break from news headlines of pandemic-fueled shortages, increasing economic headwinds, trade wars, and geopolitical crises. East-West tensions have grown along with accompanying technology bans, knowledge worker bans, and the implementation of retaliatory regulations. This strained environment has led to a serious re-examination of the globalized “just in time” supply chain management practices that have been the norm since containerized shipping made the economics of global outsourcing a preferred option decades ago. And yet, according to an April 2020 Thomas survey,

**64% of manufacturers are likely to begin nearshoring.**

Many organizations have begun to advance their plans.

# Shifting Global Trade Patterns



As government leaders and business managers wrestle with the question of how to de-risk supply chains in the face of so much uncertainty, there has been an explosion of interest in a [wide range of strategies](#) beyond simply “offshoring.” Supply chain options run the gamut, including China+1, dual sourcing, friend-shoring, nearshoring, and reshoring, among others. At the heart of many of these approaches lies an effort to pivot from global supply chains back to regional or even local ones. For its part, the U.S. government is actively working to incentivize businesses to bring supply chains closer to home with the passage of legislation such as the \$280 billion CHIPS and Science Act. The move is intended to address U.S. economic competitiveness as well as its national security posture. The incentives are having an effect. Some semiconductor businesses such as Samsung, Micron, Texas Instruments, and Intel will benefit directly from a

**\$52.7 billion stimulus set aside for U.S. based semiconductor chip manufacturing.**

Just beyond the U.S. border, Mexico has been bathing in the “nearshoring” spotlight as hundreds of businesses have registered their interest with the Mexican government to move production from Asia to Mexico. The companies have been attracted by Mexico’s manufacturing-based economy and lower cost labor, its participation in North American free trade agreements, and lower cost real estate with close proximity to the United States.

According to the Wall Street Journal, foreign direct investment in Mexico exceeded \$32 billion in just the first nine months of 2022, the highest investment rate since 2013. Globally, there has been growing attention on regions that have the potential to become new, 21st century, regional supply chain powerhouses such as Southeast Asia, Latin America, Turkey and countries in Eastern Europe. Clearly, a broader shift in global trade patterns is under way.

## Your first nearshoring consideration – Why?

Supply chains are built piece by piece through years of effort by many stakeholders. The decision to nearshore or re-shore is a multi-pronged decision that requires a careful review of supply chain networks. Before you make changes, you should be evaluating each aspect of the decision very carefully, beginning with the question, “why?”.

There may be any number of reasons you are considering a change. Perhaps there’s one driving factor or possibly multiple reasons behind the move. For example, are new regulations forcing a change in strategy? If so, have you been able to adequately evaluate the full scope of the impact and identify the particular aspects of the regulations that require a change in approach?

One example of regulatory change causing many businesses to look deeper into their supply chain networks is the U.S. Uyghur Forced Labor Prevention Act that took effect in June 2022. The act requires U.S. importers to overcome the presumption of forced labor by establishing “clear and convincing evidence,” or face detentions and exclusions of merchandise, which could have a devastating effect on business models. As of May 2023, U.S. Customs and Border Protection officials report they have blocked more than

**3,500 shipments valued over \$1 Billion suspected of forced labor origins.**

While this one example reflects an onerous requirement, a dramatic change in strategy may not necessarily be required with the right amount of information and documentation on the various tiers in a supply chain.

Another “why” scenario might be a new law that requires a minimum production output to take place within specific geographies. That being the case, a smaller scale operation might be established that doesn’t negate the need for the existing supply chain configuration. The “why” might also be attributable to a customer that mandates your products are “made” in the United States, which raises a whole host of definitional considerations. Then again, ongoing geopolitical activities may have pushed your supply chain timelines beyond what the business can endure. Without a resolution in the foreseeable future a new supply chain solution may need to be put in place before irreparable harm to the business ensues.

Ultimately, you need to have clarity as to whether change is an “option” to continue your supply chain the way it is, or whether it is a “requirement” you’re being pressured into and therefore must manage whatever added costs come along to minimize the impact to the business.



# The next step – mapping your supply chain

Were only there a “Google Maps” for your supply chain! Unfortunately, supply chain mapping can be exceedingly complex, especially when conducted beyond Tier 2 and Tier 3 providers. Identifying sourcing patterns and understanding the flow of inventory is critical before you can develop a plan of where to adjust and when to do it, if at all. Like it or not, there will always be unavoidable pain points within a supply chain. Which of those areas are tolerable? Which stand out? What are the things that are really working well? A mapping exercise will quickly reveal how your supply chain is actually a supply “web” of interlinking and crosslinking components.



## The general steps involved in mapping a supply chain include:



### Identify the entities:

Name all stakeholders, including suppliers, manufacturers, distributors, and retailers if any. For each, gather information on their location, ownership, and size.



### Determine what's critical:

Review your material requirements and delineate what is critical vs. non-critical. Consider available options for critical components.



### Identify the processes:

Understand the processes taking place at each supply chain node, such as procurement, production, transportation, and distribution. For each process, gather information on the inputs, outputs, and resources required.



### Identify the dependencies:

Identify the dependencies between the different entities and processes in the supply chain to help to illuminate where disruptions may occur.



### Map the data:

Use a visual tool to identify the different stages of the supply chain and the flow of materials and products between them.



### Analyze the data:

Identify where value can be increased, costs can be reduced, or risks can be mitigated to optimize your supply chain.

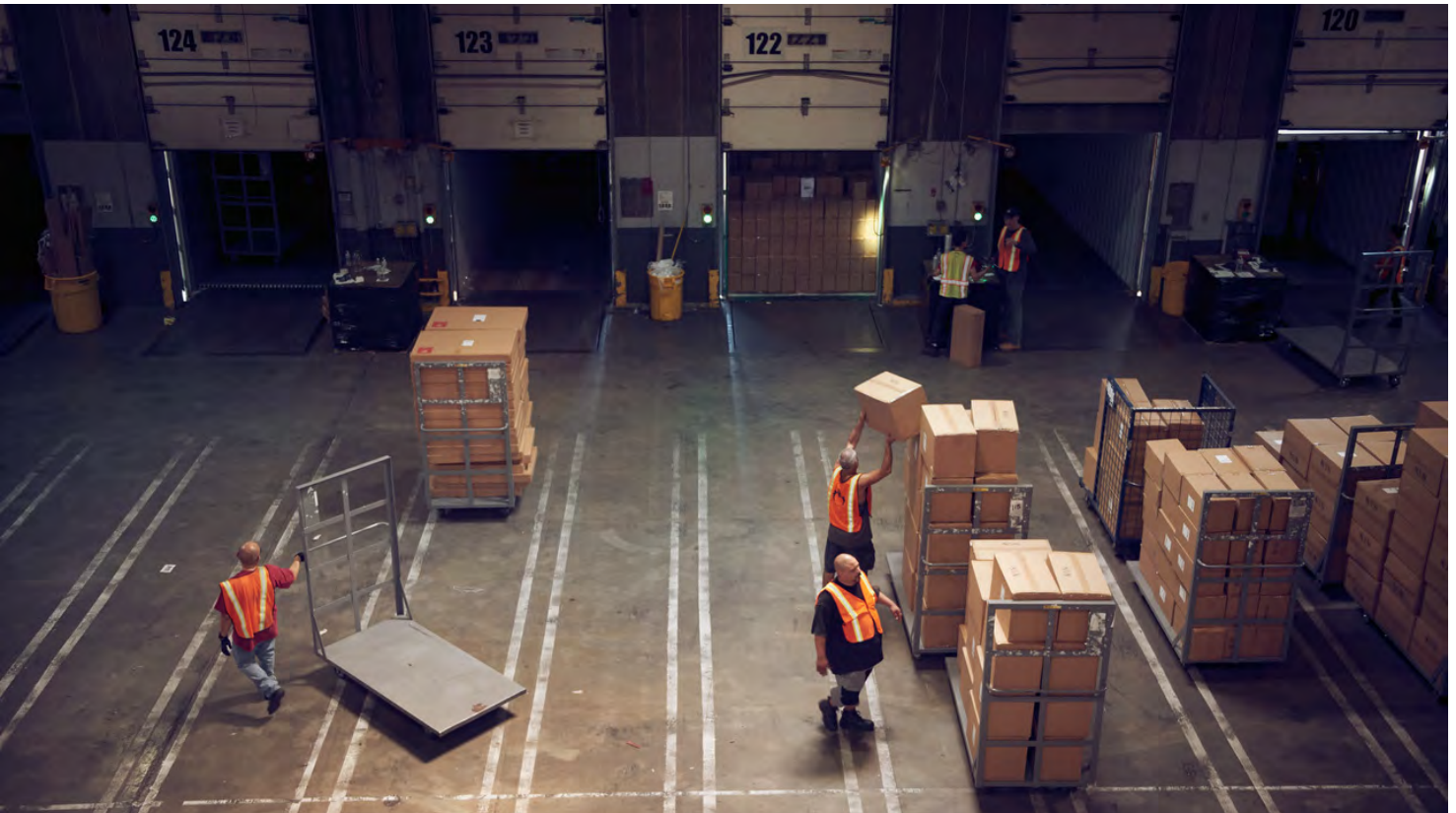
These details will help you begin to gather a complete picture on where freight is readied and where it is destined to. Once the freight lands in country, you will document exactly how it is handled, whether it goes directly to a transload facility or straight to a distribution center while remaining in the original container itself, along with whatever happens next to each particular shipment.

You will also gain a greater understanding of the nature of the items being shipped. Are they dense or volumetric? What is the finished product and how does that affect logistics on a transcontinental basis? Are your supplies and/or finished goods something that can move via ocean or are they too sensitive and therefore require an air freight solution due to a sensitivity to something such as moisture, as in the case of computer motherboards. Packaging is a key consideration.

Within all of these movements is data – Big Data. Capturing all the requisite datapoints from multiple sources and converting them to actionable intelligence will give you the confidence to make the key decisions that move your business. Overall, big data can identify patterns, trends and insights that can help organizations gain a comprehensive understanding of their supply chain, identify areas for improvement, and optimize their operations.

Though the concept of big data has been around for a long time, even some of the most sophisticated enterprises are not equipped with the tools needed to work with the structured and unstructured logistics data that is oftentimes so large, so real time, or so complex that it's difficult or impossible to process using traditional methods. Properly equipped, a firm can formulate what the numbers are conveying and gain the insights of how effectively a business is being run when operating a particular supply chain strategy. Even better, Big Data tools can help organizations predict future supply chain disruptions, such as delays in delivery or production, quality issues, or changes in regulations. This foresight can help an organization develop strategies to mitigate these risks.

# Understanding the impacts of a supply chain adjustment



A helpful way to envision your supply chain is as if your business' production epicenter is a fulcrum at the center of activity along two unbroken lines of supply laid end-to-end. To the left is your raw material supply chain that brings in the materials you need to produce your good or service. To the right is the finished goods supply chain, at the end of which is your final customer. Depending upon how you set up your supply chains, either your raw material supply chain is long as a result of offshoring and your finished goods supply chain is shorter, or by nearshoring, you've just made your raw material supply chain that much longer. Nearshoring or re-shoring is about sliding the point of assembly fulcrum to a different spot on the continuum while keeping the supply lines from breaking down. The act of nearshoring will change both the inbound supply chain requirements as well as the outbound.

This raises an important consideration. Let's say you're looking to nearshore manufacturing from Asia back to a factory in Guadalajara. Will all the other sourcing elements be moving along with it? What impact will the move have on the whole supply chain's vendor base, particularly when many of the vendors that supply the raw materials or sub-elements are essential to the manufacturing process? If the critical vendors are not willing to follow suit with your reshoring / nearshoring effort, where will you source from? Are there even any opportunities to change the source? Instead, might you be able to change your production methodologies to eliminate or substitute the need for any particular element? If so, have you vetted those alternatives with your engineering design team or with potential new suppliers?



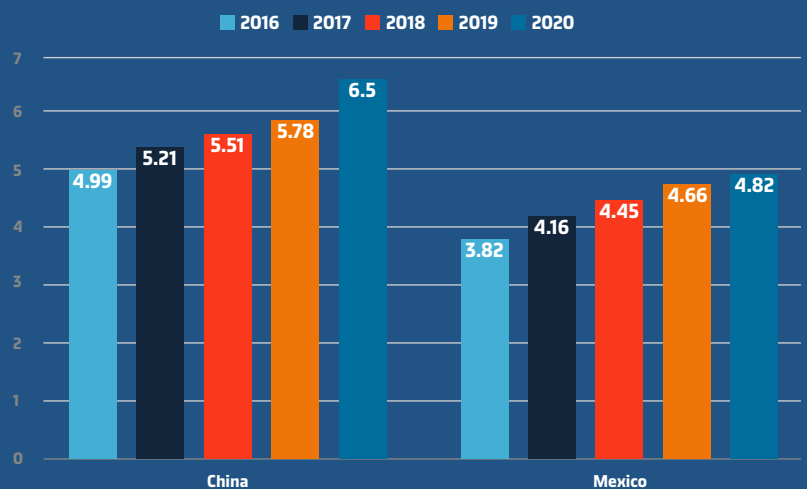
## Shifting Supply Chain Transport Costs

Global offshored supply chain models result in greater finished goods transportation costs. As the point of assembly is nearshored, transportation costs of raw materials increase as the transportation costs to finished goods decrease. The net distance traveled by the materials remains fixed between the origin and the point of consumption.



No future supply chain state can be properly envisioned without reviewing just how moving the fulcrum of assembly will transfer costs as well. You need to understand what your terms of sale are today and how or whether they would change in response to a redesigned chain. When suppliers have to manage a longer supply chain, costs will rise and a negotiation will ensue as to which party will carry the burden of cost and whether or not that cost is ultimately borne by the end user. Short and long-term labor costs will also come into the equation given the growing regional differences. For example, as reported by Statista, manufacturing labor costs per hour for China were 34.8% higher than Mexico in 2020. Costs in China have also grown at a higher rate, rising 6% annually in China and only 5.2% annually in Mexico from 2016 through 2020.

Manufacturing labor costs per hour for China and Mexico from 2016 to 2020 (in U.S. dollars)



Source: IHS; Website (SourceToday); ID 744071

# What to look for in a nearshoring partner

Clearly, nearshoring is a complex endeavor. You will want the right set of partners engaged to plan and execute a successful transformation of your supply chain. The new process will likely take time to establish and is best constructed in a deliberate, block-by-block manner as was your original supply chain. Ideally, enterprises will be best supported by vertically integrated global service providers with multi-modal capabilities on both sides of the border(s) you are looking to cross with your goods. Simply put, your nearshoring supply chain partners should have a range of strengths that any cargo owner conducting business in any market would benefit from.

Envisioning the example of nearshoring from Mexico into the United States, several capabilities stand out for those looking to enact a cross-border nearshoring strategy:



## Locally situated Customs House Brokerage (CHB) provider with deep knowledge of cross-border regulations and requirements:

This is a particularly important anchor service to streamline the clearance of goods in the face of complicated cross-border legalities. A strong custom's ally will provide excellent support on the documentation and paperwork for the agile transfer of products. It will be especially helpful to work with a customs team with global expertise that can offer services for multiple modes of integrated transport such as ocean, air, or trucking to avoid the need to engage with multiple parties to care for your cargo.

## Ample warehouse infrastructure to distribute cargo on both sides of the border:

It will be critical to have access to secure consolidation and deconsolidation facilities on both sides of the border with dedicated capacity for Full Truck Load (FTL) and Less Than Truck Load (LTL) shipments. Bonded warehouses and Free Trade Zone access on the US side of the border for materials and chips coming from Asia have particular utility for companies operating in tech verticals. Consider exploring options for service providers willing to co-invest in additional infrastructure in return for long-term commitments.



## Interchange agreements and resources for cross-border trucking:

Simplified cargo crossings with an end-to-end transport solution have tremendous utility. Through-trailer service reduces handling by logistics and customs operators thereby improving cargo security. There is also significant upside to working with providers that can service the middle mile from the warehouses to customer Distribution Centers. FTL/LTL service providers with equipment (tractors and trailers) to move cargo in both countries with counterparts across the borders to offer door-to-door solutions would offer a competitive differentiator. As with all things real estate, the value your nearshoring service providers can deliver is tied to their access to “location, location, location.” While El Paso and Calexico are the top destinations for cross border logistics and distribution facilities on the US side, Chihuahua, Ciudad Juárez, and Monterrey are the prime destinations for cross border logistics and distribution facilities in Mexico. In addition, access to ocean terminals such as Port of Lázaro Cárdenas, as well as airport and inland rail facilities are also top of mind.

Some regions in Mexico have a better security environment than others. For example, the state of Nuevo León has garnered a greater reputation for safety as compared to some nearby Mexican states where there is a greater concern. Cargo security on the Mexican northbound journey embodies a necessary cost, especially for high-value products. Customers routinely seek trucking availability in the early times of the day to avoid night travels in insecure regions in Mexico. However, service providers that employ modern cargo visibility technologies strengthen the traceability and security of the production at MX factories and mitigate the risk.



# A long-term play



As the fundamental drivers of the logistics landscape continue to change, supply chain leaders are exploring new visions for the future of North American supply chains as a whole. They are carefully considering how to begin to rewire the system through nearshoring and the diversification of sourcing. However, undoing the web of the current supply chain is a long-term goal that will not be achieved without a significant investment of time and money. The best business model in the near term will most likely involve building flexibility into the supply chain with a hybrid of nearshoring, reshoring and offshoring.

The approach should be methodical and driven by Big Data. It should also be compartmentalized, without the need to change the whole supply chain at once. Take it one node at a time. One string at a time. Finally, build in the checkpoints that ensure the new supply chain is fully aligned to the vision of the company and the needs of the customers it serves.

Regardless of your approach to nearshoring your supply chain, be sure to take the right partners on the journey with you. There will be bumps along the road and perhaps a big wave or two. Pick partners you can count on to be “steady as she goes.”

We hope this information has been useful to you. Please [click here](#) to sign up for more updates.

