



IndustryWeek.com  
LEADERSHIP IN MANUFACTURING

[Home](#) : [Operations](#) : Moving Sourcing Closer to Home

## Moving Sourcing Closer to Home

Nearshoring offers many of the advantages of offshoring, but with an added degree of security.

*Wednesday, August 19, 2009*

**By** Steve Minter

The world may be flat for many manufacturers operating globally, but that doesn't mean they don't face a host of practical issues when setting up sourcing halfway around the world. Manufacturers often lack sufficient monitoring of suppliers, with resulting risks for product quality, intellectual property protection and corporate reputation. Setting up sourcing requires developing effective working relationships and that means face-to-face meetings -- and long, expensive trips. Even when all parties speak English, there are cultural differences that can result in two parties to a conversation coming away with very different impressions of what, if anything, was agreed on. And when you arrive at the office at 8 a.m. in Pittsburgh with a brainstorm, it's 6 p.m. in Mumbai and 8 p.m. in Beijing.

None of these issues may be deal-breakers in and of themselves, but they have helped to fuel renewed interest in nearshoring, a hybrid offshoring strategy that brings some production closer to home. In a March report, AMR Research's Noha Tohamy reported that manufacturing and retail executives expected to increase their nearshoring sourcing and manufacturing activities by a factor of 5 to 1. "Mexico is the preferred nearshoring destination, with 84% of the respondents choosing it as a place for sourcing or manufacturing, followed by Canada at 55% and Brazil at 49%," Tohamy wrote, adding that companies were also looking at more sourcing in Eastern and Central Europe. She said businesses were attributing these moves to "the increased cost competitiveness of nearshore locations, as well as company desires to build a more balanced geographic portfolio to avoid some of the risks associated with low-cost-country sourcing."

Volatility in consumer demand is one key reason for considering nearshoring, according to Danny Halim, vice president of industry strategy for JDA Software, a supply chain management software provider. He notes that offshoring may require longer lead times for product delivery and in some cases result in the risk that companies will be unable to react to spikes in product demand. "Maybe we have 50% to 70% of our supply produced in China but the rest produced in countries such as Mexico, Brazil or Canada," says Halim. "The overall cost would be somewhat higher than China, but lower than if produced in the U.S. and I have lower variability. I can take more risk if I am producing closer."

Halim says while physical proximity is an issue in nearshoring, lead time is the key factor to evaluate. That means understanding how infrastructure -- roads, ports, telecommunications, export rules and bureaucracy -- can impact how long it takes to move products from manufacturing sites to assembly or customer destinations.

In his 2005 report for Accenture, "The Secrets of Successful Low-Cost-



Country Sourcing," Kris Timmerans noted, "Once a company has decided which parts of its business are best-suited to low-cost-country sourcing, it needs to choose either a near-shore or a far-shore supplier -- a choice dependent on the careful consideration of cost, logistics and quality."

In deciding on any near-shore or far-shore sourcing, says Andrew Miller, president of ACM Consulting, companies must first determine what their organizational objectives are and develop a sourcing strategy. He says companies should keep these four considerations in mind as they develop that strategy:

**Know the business environment.** Miller says companies may put so much emphasis on low-cost sourcing that they ignore the business environment into which they are moving. He urges clients to consider issues such as legal contract enforcement, shipping barriers, infrastructure, labor and environmental practices, and degree of control they will have over what goes into the products they are buying.

**Know your business partners.** "Getting into bed with the wrong partner will cause a lifetime of grief and anxiety and runs the risk of losing revenue and customers," Miller warns. He says companies should learn as much about their potential partners as they can through social media sites, other companies that have worked with them, and government agencies and trade organizations.

**Know what your risk tolerance is.** Miller says companies need to carefully consider not just the cost advantages of any outsourcing but also the risks, such as poor environmental practices, transportation delays, language barriers and corruption.

**Know the total cost of ownership.** "This is the one where the most organizations miss the boat," says Miller. Companies can see initial contract savings quickly evaporate if they are faced with unexpected charges for shipping, storage or customs duties.

#### See Also

- [Procurement Outsourcing in Manufacturing](#)
- [Offshoring by U.S. Companies Doubles](#)

©2008 IndustryWeek. All Rights Reserved.

---

*This copy is for your personal, non-commercial use only. To order distribution-ready copies or to electronically reproduce this material on your site, contact the IndustryWeek Reprints Department at 1-888-858-8851, or by e-mail at [jkirk@penton.com](mailto:jkirk@penton.com). A complimentary subscription to IndustryWeek magazine is available to those who qualify. Fill out our online form at <http://www.submag.com/sub/iy?pk=W0105>. Distribution and use of this material are governed by copyright law. Copyright© 1998-2008 [Penton Media, Inc.](#) All rights reserved.*