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INSIGHTS ON

ONSHORING

Onshoring is the practice of relocating business and/or production operations from a foreign country back to the company's home country. Put simply, it is the opposite of offshoring or outsourcing. The goal of onshoring in many cases is improve quality control, increase agility and responsiveness to changes in demand, decrease lead times, and in some situations, reduce costs.

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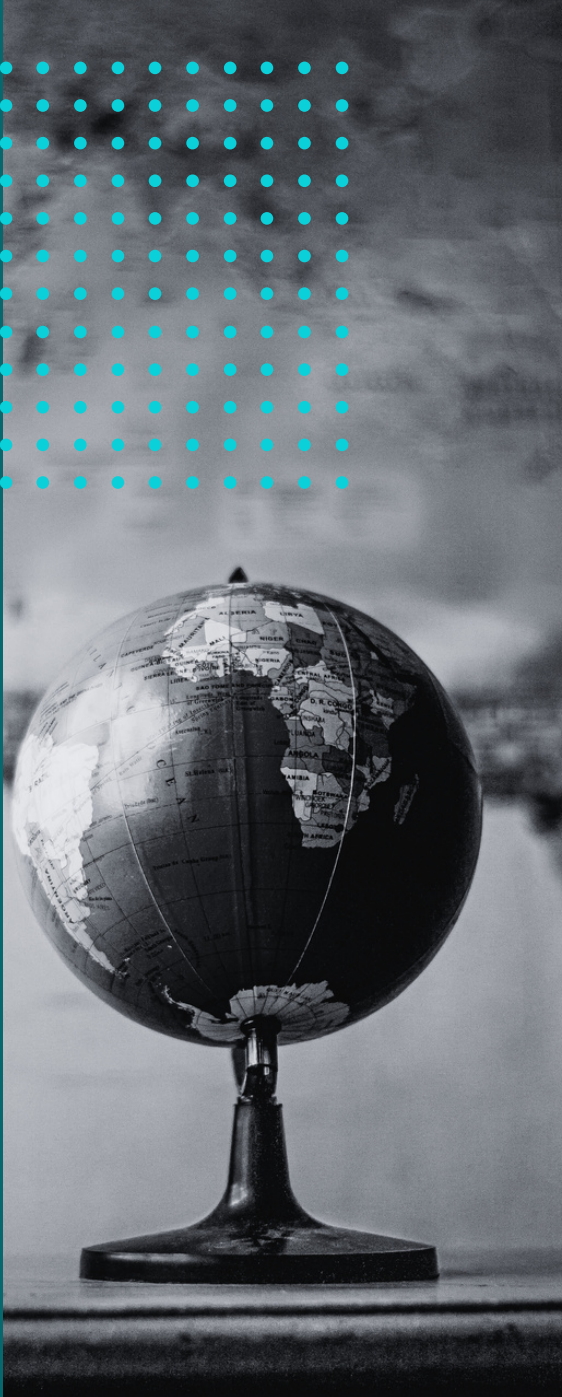
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Onshoring at a glance



For decades, companies were outsourcing their manufacturing operations overseas, driven by the allure of cheaper labor and material costs. Before the 1980s, local manufacturing and domestic production thrived in Europe and the United States. However, with the advent of globalization, many companies moved their production lines abroad.

Recent years have seen an uptick in onshoring or reshoring, the practice of bringing production back to domestic shores. There are various reasons for this shift, from increasing supply chain control to mitigating risks exposed by the COVID-19 pandemic. The trend has been further propelled by rising foreign production costs and desires to facilitate domestic economy growth.

In this article, we will discuss the advantages of onshoring and its recent uses by major economies and corporations. Processes adjacent to onshoring, like nearshoring and friend shoring, have also become strategic decisions for companies to consider as the aforementioned driving factors endure.



Advantages of Onshoring

Cost Minimization

One of the main reasons why companies have traditionally outsourced their production overseas is to take advantage of cheaper labor costs. However, this cost advantage is diminishing as wages in developing countries continue to rise. Onshoring can help companies avoid transportation costs, tariffs, and fees associated with importing goods. Additionally, many countries now are offering economic incentives for keeping operations domestically.

Supply Chain Simplification

Onshoring can help improve supply chain resilience and increase responsiveness to market demands. By producing goods domestically, companies can reduce the time it takes to get products to market, thereby meeting the expectations of customers who expect delivery in a matter of days.

Production Standard

The standard for producing goods vary across the world, making it difficult for companies to guarantee the quality and consistency of their products. Onshoring allows companies to simplify their supply chains and ensure that their products meet domestic regulations and standards.

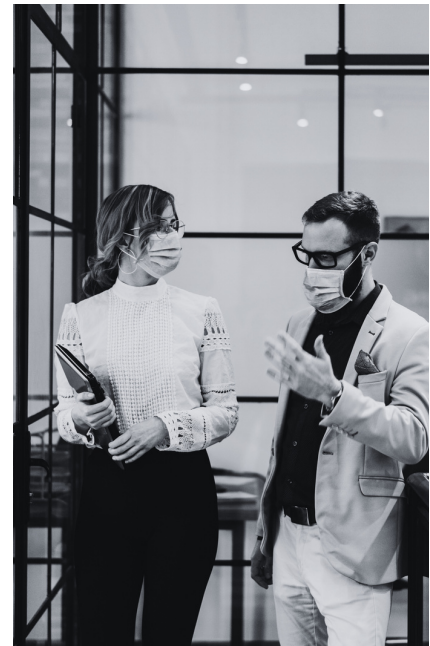
Political Advantage

Protectionism is on the rise in the United States and Europe, with both regions advocating for the creation of local jobs. Onshoring can help companies take advantage of this political climate and create jobs domestically.



COVID-19 and Onshoring

The COVID-19 pandemic has played a driving role in the rise of onshoring. The pandemic exposed the risks of relying on a single, global supply chain, and the disruptions caused by the pandemic have led to shortages of critical goods and materials, shipping bottlenecks, delayed deliveries, and increased costs for businesses around the world. As a result, many companies are now reevaluating their supply chain strategies, with onshoring and reshoring emerging as popular solutions to mitigate supply chain risks. According to a survey by Thomasnet, **64% of manufacturers say that they are likely to bring manufacturing production back to North America.** The pandemic has also led to a rise in onshoring and reshoring particularly among industries generating high-profit margins that aim to reduce risk.



Nearshoring



Nearshoring, a similar alternative to onshoring, has also gained popularity in recent years. The term refers to the process of establishing production close to one's national borders. Nearshoring has enabled companies to reduce lag time, drive efficiency in decision making, and meet and collaborate in real-time. Keeping production close to home often also entails a higher degree of cultural compatibility and, as a result, more effective communication and coordination between countries' taxing and financial laws. Several companies have been successful in their uses of nearshoring, including Boeing, which nearshored its aircraft wiring plant to Mexico in 2020, and Toyota, which nearshored its second production unit to Thailand in 1996 and now has three plants in Thailand along with multiple manufacturing operations in other neighboring countries.



Friendshoring

With ongoing geopolitical conflicts in Europe and the Middle East, many companies have also turned to “friendshoring” as a means of reducing economic risks. Friendshoring can be defined as the process of outsourcing production and supply chains to allied countries or trusted partners. The current US government administration has voiced support for the utilization of friendshoring, especially for industries with inputs crucial to national security (i.e. rare earth minerals, large-capacity batteries, pharmaceuticals, and semiconductors). Friendshoring offers a way for large economies to “safeguard” supply chains by lessening their reliance on authoritarian regimes. In the coming years, the US, along with its allies and many EU countries, could be motivated by human rights and national security concerns to relocate production from certain “high-risk” countries to more “friendly” countries that share their political and societal values.

Onshoring and the Global Geopolitical Landscape

In his 2022 annual letter to shareholders, BlackRock chief executive Larry Fink wrote, “The Russian invasion of Ukraine has put an end to the globalization we have experienced over the last three decades.” The ongoing political unrest in Europe and subsequent supply shocks and commodity price volatility has, for many companies, underscored the risks of overdependency on foreign economies for production. Ideological discordances between countries voicing support for or disregarding the Russia-Ukraine conflict have added a layer of complexity for multinational companies and their foreign ties. As countries begin to assume more protectionist stances in response to global geopolitics, we can expect the recent rise in onshoring and manufacturing relocation to persist in the coming years.





What does it mean for business owners and executives?



There is a growing trend towards companies onshoring or near-shoring. In fact, recent surveys indicate that more than 60% of manufacturers across the US and Europe have begun the process of onshoring or nearshoring their production. Bringing back manufacturing and production to countries closer to end consumers has been shown to pre-empt certain supply chain issues and often yields higher quality products along with a number of other benefits. One such benefit comes in the form of certain tax breaks and financial incentives to increase production to the US. Incentives include permanent tax breaks for U.S. manufacturers with production in the U.S. with export goods through “Interest-Charge – Domestic International Sales Corporations (IC-DISC), depreciation expensing, R&D credit, etc. Furthermore, there are certain incentives on the state-wide level that businesses can utilize to minimize the increased cost of domestic production which is coupled with an administration that is passing laws to encourage onshoring.

With shifting trends in how companies are positioning their supply chains, it can be worthwhile for companies to reconsider their own position. Please reach out to us to learn more about nearshoring and onshoring to explore whether bringing production back closer to home is a fit for your business strategy.

Sources:

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