by Herb ***Shields***

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IS YOUR BUSINESS READY FOR RESHORING?

THE TIME IS RIGHT TO CONSIDER RESHORING OR NEAR-SHORING AS SOURCING STRATEGIES TODAY

While no one has declared the end of outsourcing as a business strategy, the latest trends have taken a turn towards North American sourcing. Here's an excerpt from the January 19, 2013 edition of *The Economist* magazine:

"When five years later (the company) investigated the difference between the total cost of production in China and America, including the cost of shipping, customs duties and other fees, he was amazed to find that California was only about 10 percent more expensive than China. And that was just on the immediate numbers, without allowing for the intangible benefits of making the devices almost next door."

Reshoring is the term used to describe the process of production brought back to the United States from China, Taiwan, and other points in Asia. Near-shoring refers to the transfer of production from Asian sources to Mexico. If your distribution company is one of the many that sourced products in Asia in order to reduce costs over the last 10 to 20 years, there are many reasons why you should consider re-shoring or near-shoring as possible sourcing strategies today.

Why is this a good time to review your sourcing strategy? Here are some of the basic reasons why re-shoring has become a trend:

- The gap is closing between labor rates in Asia and North America. Make no mistake, we said closing, not meeting. But rates in China have increased by over 25 percent in some areas and the availability of workers who are willing to work for the lowest rates is diminishing. Labor rates in the United States have not been increasing, and in some cases, have decreased in recent years due to the 2008/9 recession and the continuing high unemployment rate. Labor in Mexico is still much less expensive than here in the U.S.

- Oil price uncertainty and its impact on transportation expense is another important factor. When oil peaked at $140 a barrel just prior to the recession, supply chain managers and transportation managers saw the impact immediately that fuel surcharges could have on the bottom line. Yes, ocean transportation is less expensive per pound than trucks, but when you have to truck product from the West or East coast to your Midwest warehouse, there is a real impact.

- The cost of quality was not in the savings calculation that many companies made during the rush to outsource. Hiring Asian-based consultants or inspectors is a real expense. Traveling to Asia to manage relationships, find sources and address issues adds time as well as money. How many shipments have been held due to quality issues or worse yet, how many have arrived at your dock and not been shippable to your customers?

- Risk management is becoming an important factor in managing global supply chains. Tsunamis, super-storms, droughts and other natural disasters have impacted production, shipment and product availability around the globe in recent years. Moving production closer does not necessarily mitigate these risks, but it does make some of the recovery easier to manage.

- The cost of carrying an additional four to six weeks of inventory that results with global outsourcing, has not caused much pain recently due to the extremely low cost of money here in the U.S. But you cannot expect the rates to stay at these levels forever. And, even with low rates, the extra warehouse space, additional outside storage and operating expenses associated with inventory have gone up.

WHAT'S NEXT?

All product categories and industries are not the same. Many companies jumped on the source-in-China bandwagon and did not do sufficient homework before making their sourcing decisions. We have recommended and implemented a strategic sourcing process with many of our clients. The process starts by categorizing your products or items into four types, each of which requires different actions and approaches. The key word is *Strategy*, you want to take an approach that will produce positive results over a long period of time. Here are some basic steps you should consider:

- Calculate the total cost for your current suppliers and products. Include transportation costs, quality costs and inventory costs. Ask yourself the question - what will happen to those costs if oil reaches $200 a barrel?

- Research suppliers in North America. Are your original suppliers still in business? Is Mexico a viable option for your product categories?

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- What issues, if any, developed as a result of sourcing in Asia? If you re-shore, how do you avoid a repeat of some of these issues?

Many distributors buy and sell proprietary products, and in that case, may have limited flexibility in making basic changes in sourcing strategies. If that is the case, you need to discuss this subject with your principal suppliers. It would not surprise us for you to find that they are already thinking about these issues themselves. CS

Herb Shields is a partner with The Distributor Board, which builds value for distribution companies through a variety of disciplines. The Distributor Board is a designated STAFDA consulting partner. Contact Herb at 847-287-1575; e-mail: Herb@TheDistributorBoard.com; or visit www.TheDistributorBoard.com.


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