REUTERS EVENTS™

In Partnership with

MAERSK

A generational shift in sourcing strategy

A global and European deep dive into near-sourcing, nearshoring and reshoring in the post-pandemic world

A Reuters Events Supply Chain white paper in partnership with Maersk

Author: Alex Hadwick, Editor-in-Chief, Reuters Events: Supply Chain

Contents

List of Figures

Foreword
Re-thinking global supply chains

Over the past two years, we've seen supply chains around the world hit with unprecedented disruption. The Covid-19 pandemic sent shockwaves across the logistics industry in 2020 and beyond, while the war in Ukraine, resulting sanctions against Russia, and fragmenting global markets have left supply chains exposed.

It's little wonder, then, that companies hold supply chain resilience in increasingly high regard, as the ability to deliver products reliably and on time becomes more and more important to their respective customer value propositions.

It's safe to say sourcing strategies have come under the microscope for many in this bid for resilience.

Resilience doesn't come without its additional costs, of course, but instead of being a financial hindrance, future supply chain logistics need to be perceived as a business enabler and potential source of competitive advantage when set up correctly.

This means adopting a less fragmented logistics supplier base and a more integrated, holistic approach across the entire supply chain – together with a trusted logistics partner accountable for outcomes.

Future supply chains logistics will undoubtedly look different from today's offerings, as supply chains start to move closer to the end consumer with fewer intermediate parts traded over long distances.

While it is still unclear how pervasive nearshoring will be, heightened uncertainty and changing trade policies are an important determinant that have already impacted supply chain decisions in some sectors.

Multi-sourcing and changes in inventory management will become more widespread and will need to be supported by new and more holistic logistics offerings to manage complexity and cost. Integrated logistics and fulfilment strategies will be in even sharper focus to meet consumer demand for flexibility, speed and reliability across a widening range of delivery channels.

Finally, outcome-based, long-term logistics partnerships are needed to deliver seamless, cost-effective and resilient supply chain solutions based on widely accepted ESG standards.

We are still very much at the beginning of the journey, but we hope this report gives you a better understanding of sourcing opportunities and the possible future of supply chain resilience.

A.P. Moller – Maersk and Sealand are excited to be part of it with you.

Mikkel Søndergaard Rasmussen
Regional Head of Logistics and Services, Europe
A.P. Moller – Maersk

Aruna Hussain
Managing Director, Europe and Mediterranean
Sealand, an A.P. Moller – Maersk company

Acknowledgements

We would like to extend our enormous gratitude to the following participants who made this research possible:

Kim Nigel Overman | Regional Head of Lead Logistics, Europe | A.P. Moller – Maersk

Patrick Haex | Managing Partner | BCI Global

Karel Stransky | Head of Corporate Industrial Advisory, Occupier Services EMEA | Colliers

Michael Skobierski | Manager, International Supply Chain and Projects | Desigual

Sushank Agarwal | Managing Director | INVERTO, a Boston Consulting Group company

Mourad Tamoud | Chief Supply Chain Officer | Schneider Electric

Introduction

There are only so many times you can shake the foundation of a structure before it changes what is built above it. With supply chains almost constantly feeling the effects of repeated shocks in the last half decade, recovery and strengthening have become front of house for supply chain professionals.

We are now in a rebuild that is not just looking to construct the same edifice all over again, but to improve and shift it to firmer ground. In practice, that means reassessing and contracting closer to home and spreading sourcing functions in more locations than before.

Companies around the world are now moving towards making the leap to source components and materials in the near vicinity of their final markets in the hope of having shorter, more reliable, less risky, and increasingly sustainable supply chains.

There will be winners and losers from this change, but it is clear from the recent past that continuation of long-distance, low-cost labour sourcing comes with its own price tag, which is driving change.

The emphasis is no longer low cost at all costs, but a more nuanced search for reliability, proximity and the right skills mix. This will drive the next phase of global manufacturing and logistics in an automated age.

These trends are shown clearly in our research, which surveyed logistics, supply chain and transport professionals to understand how sourcing and production are changing to fit more unstable times, as well as a changing global labour force and consumer base.

The results were conclusive: We are now well into a new phase of supply chain strategy, one where sourcing is being prioritised and brought into closer orbit of the contracting company and intended market.

Read on to get a global and European analysis of the state of near-sourcing, nearshoring and reshoring in the post-pandemic era.

Enjoy our research,
Alex Hadwick
Head of Research, Reuters Events: Supply Chain

Executive summary

How sourcing strategy is changing globally

Global supply chains have been heavily impacted by recent disruption. This is leading to a major move to rebalance supply chains, deleveraging from highly concentrated areas of production and towards both locations closer to the end market and a wider range of low labour cost countries. It is hoped that this will provide the flexibility and resilience to reduce delays, transport costs and shortages of products on shelves. While the shift has been ongoing for several years, it will accelerate over the next decade as highly globalised supply chains have been the most affected and are now the ones most actively seeking change.

How European sourcing strategy is changing

European companies are looking within as they seek to rebalance their supply chains. This is part of a drive to reduce risk in supply chains while increasing oversight and improving sustainability. In particular, the industrial heart of the continent, and its two largest manufacturing workforces, Germany and Poland, are the most attractive sourcing and reshoring locations. It goes beyond these two countries, however, as there is a broad-based commitment to source more from within Europe – both East and West – and its near periphery. The reduced distance to end market and an increasing need to draw on pools of skilled labour forces are pushing these locations up priority lists.

Global trends in sourcing and manufacturing

67%
of global retailers and manufacturers say that global supply chain disruptions have changed where they source materials and components from.

58%
of those who have shifted sourcing say that further relocation remains a high priority, or the top priority, for their business.

76%
do not expect supply chains to normalise in the next 12 months following Q3 2022.

37%
A much lower, but still substantial, 37% plan to change manufacturing locations.

Delays dominate the disruptions experienced recently, with delays to **raw materials (70%)**, **shipping (68%)**, and **components or finished goods (63%)** the key factors disrupting supply chains.

North American supply chains are the most internationally focused, with the lowest share reporting that they source only in their home region.

The above is why respondents from the region reported higher rates of disruption from delays in raw materials and components and finished goods. North American respondents also are more likely to be facing labour and factory capacity shortages than in Europe or Asia-Pacific.

Asia-Pacific has been hardest hit by shipping complications, reflecting COVID shutdowns in the region.

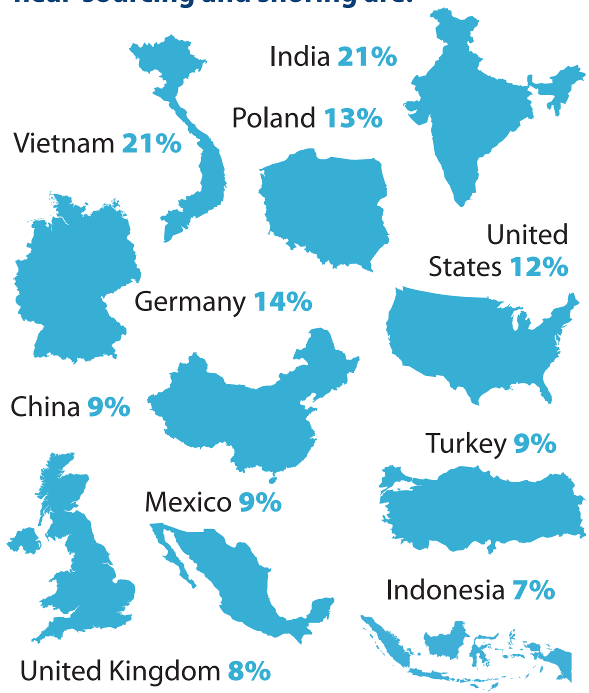
Compared to the pre-pandemic period, cost-cutting is a lower priority for supply chains, as the emphasis has shifted decisively towards lowering risk and shortening supply chains to increase speed and flexibility.

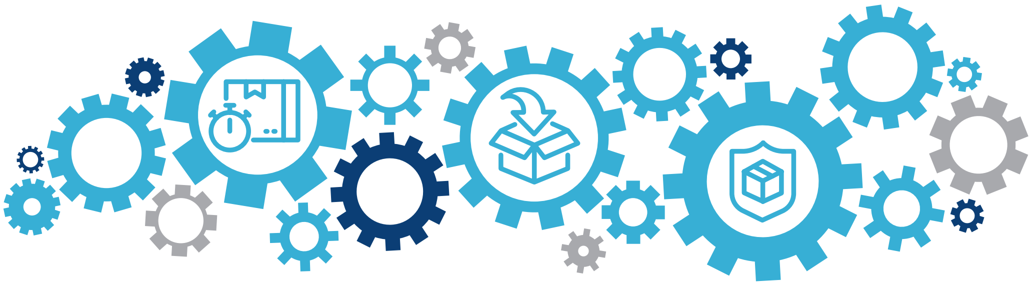
The top five reasons for changing sourcing strategy are to:

1. Shorten the supply chain to increase flexibility: **65%**
2. Limit reliance on single-sources of materials: **57%**
3. Limit risk across operations: **56%**
4. Shorten the supply chain to reduce transit time: **48%**
5. Increase control over operations: **45%**

The most popular change in sourcing location is to **reshore operations back into the same country as the final market (27%)**, underlining the trend to move much closer to the customer.

The most attractive individual countries identified by our survey population for near-sourcing and shoring are:





The primary barriers to changing sourcing locations are **finding reliable partners (66%)** and the **costs associated with changes (47%)**. The same is also true for those looking to change manufacturing locations.

Smaller companies are less likely to have highly dispersed supply chains and are therefore facing reduced ongoing disruption. Companies with revenues under $250 million are most likely to see that supply chains have normalised and are undergoing a less substantial strategic shift in sourcing locations than larger companies.

Within industry verticals:

- The electronics and technology, and automotive, aerospace and machinery sectors have been the most active in changing sourcing locations as a result of disruptions.
- The electronics and technology sector has been the most disrupted by delays in components.
- The Fast-Moving Consumer Goods (FMCG)/food and beverage sector has been the most disrupted by difficulty in securing shipping capacity and labour shortages.
- The chemicals and chemical products sector has been the most disrupted by delays in raw materials, inflation and delays in shipping.
- As spending slows down, household durables reported the highest percentage facing excess of inventory.

Some notable trends between industries when it comes to the reasons behind sourcing strategy changes are:

- Healthcare and life sciences has the highest percentage moving in order to increase control over operations and increase flexibility.
- Apparel fashion and textiles has the highest percentage moving in order to cut transit costs from shorter supply chains.
- Chemical and chemical products has the highest percentage moving in order to limit reliance on a single source of materials and to have better access to raw materials.

A European deep dive

More than half (51%) of European respondents expect global logistics to be disrupted for two years or more as of Q3 2022. The top disruptions for European companies are:

69%
Delays in raw materials causing slowdowns

67%
Inflationary pressure in sourcing countries

65%
Delays in components or finished goods causing slowdowns

65%
Delays in shipping causing slowdowns

This has driven **65% of European retailers and manufacturers** to relocate where they source materials and components from.

European companies are much more settled in where they manufacture than in the global survey population. Nonetheless, **30% of European companies** surveyed expect to change manufacturing locations in the near future.

European organisations are looking at shifting their sourcing primarily as a risk reduction exercise. By **shortening supply chains**, they hope to **introduce flexibility**, have **more secure access to materials** and **extend greater control** over more **nimble and sustainable operations**.

Sustainability is a much higher priority for European companies, with 44% of regional manufacturers and retailers noting it as being behind their current sourcing strategy, compared to 24% for all other regions.

There is a clear trend to bring processes and operations within final markets, or a close as possible. The most chosen option in where companies would relocate to is to the same country as the final market (25%). Europe's core is expected to be the big winner from this process. **Poland (chosen by 23% of qualified respondents)** and **Germany (19%)** lead the pack as attractive near sourcing locations for high value manufacturing capacity.

There is a need to find infrastructure-enabled locations with the right skills mix as production processes become more automated and products more complex, which is why these two countries lead.

The need for **skilled workforces within Europe** also should propel Eastern European economies to become even more important for the region, with **Romania (9%)**, the **Czech Republic (8%)**, **Hungary (7%)** and **Bulgaria (5%)** all within the **top 30 most-selected locations**.

Beyond the EU, other countries that can expect Foreign Direct Investment from European firms looking to changing their sourcing locations are:

- Around the European periphery, such as **Turkey (12%)**, **Morocco (4%)** and **Egypt (2%)**
- In growing/established Asian hubs, such as **Vietnam (10%)**, **India (8%)** and **China (7%)**.
- In the **US (10%)** or **Mexico (6%)** to access the former's market.

Companies with skilled workforces situated close to, or in, European markets stand to win big, as European companies face an increasingly competitive space to find new partners and workers.

This is why the most attractive countries in our survey also top global lists for manufacturing workforce sizes, overall productivity and competitiveness, with Germany, Poland and the Czech Republic scoring high in these areas.

Key terms:

- **Reshoring:** The practice of moving organisational productive capacity into the same market as where the final product(s) is utilised or sold.
- **Near-sourcing:** The practice of sourcing productive capacity from a third party near to where the final product(s) is utilised or sold.
- **Nearshoring:** The practice of moving organisational productive capacity near to where the final product(s) is utilised or sold.

The global outlook

A seismic shift in supply chain strategy

We are entering an era of profound change in supply chains, with a critical shift underway in where companies look to source products, components and materials. This is a direct consequence of the deficiencies shown up so prominently by recent disruption.

That evolution is shown clearly in our results. Already 67% of retailers and manufacturers in our 2022 near-sourcing and nearshoring survey say that they have changed where they source materials and components from because of the recent supply chain disruptions (see Methodology for more on how this survey was conducted).

Reinforcing the strategic swing, an even higher 77% of logistics and technology services providers for the supply chain sector say that the disruptions have changed their clients' sourcing strategies.

Furthermore, retailers and manufacturers are putting near-sourcing and -shoring at the heart of their strategic outlook and planning according to our results. Just 4% of those who have made changes to their sourcing outlook say that it is a low priority for their business, compared to the 58% who say that is a high priority or the very top priority for their organisation.

> "If you talk about launching a consumer product, and you don't know exactly how it is going to pan out … then it makes so much more sense to produce part of that volume, which is very vulnerable and very volatile in nature, in a location that is closer.
>
> "This is where agility is really paramount. That's where you see companies moving."
>
> **Patrick Haex, Managing Partner, BCI Global**

Figure 1: Have global supply chain disruptions changed where you source materials and components from?

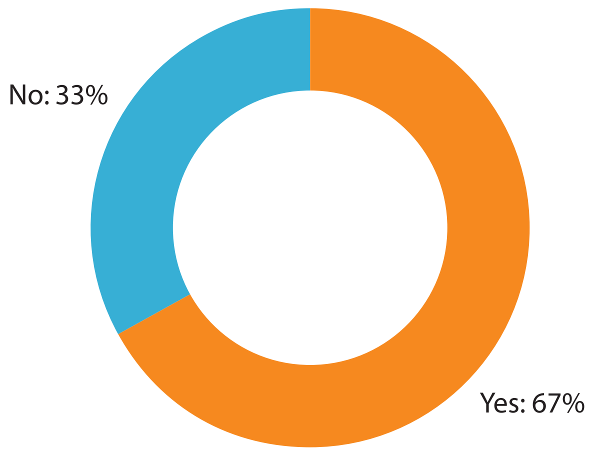


Figure 2: Have global supply chain disruptions changed your clients' sourcing strategy? (Logistics and technology service providers only)

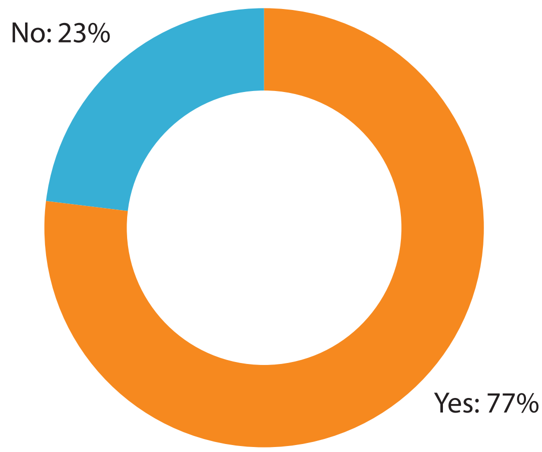
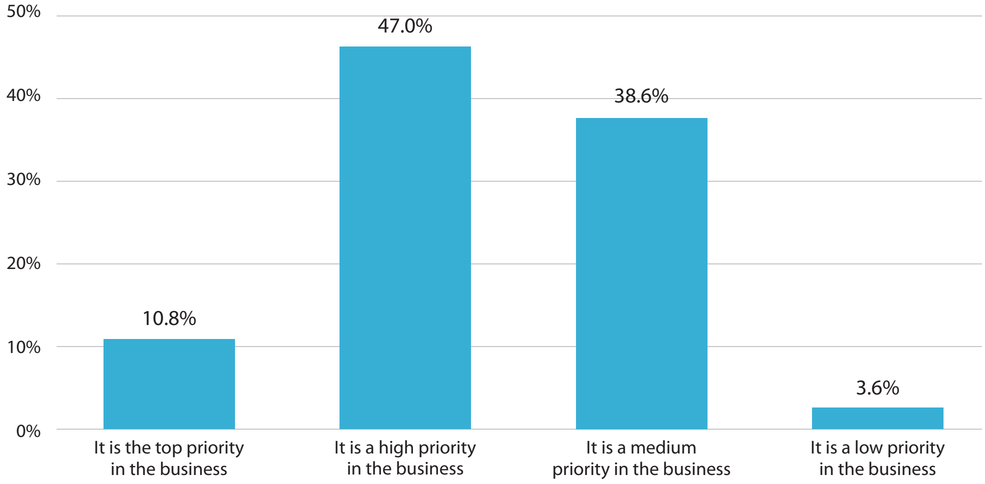


Figure 3: How high a priority is shifting your sourcing locations?



Changing manufacturing operations is a much lower priority, but is still on plenty of radars and there will be longer term shifts in directly owned manufacturing locations long-term.

In our survey, 38% of retailers and manufacturers said that they expect to change where they manufacture in the near future.

Among the element actively looking to move, 55% said that doing so is a low or medium priority, which contrasts starkly with the priority level allocated to sourcing.

The greater financial and time burden of changing manufacturing facilities, as compared to sourcing partners, is why there is less urgency around moving directly owned production lines.

> "The previous business case for reshoring used to be around cost … I think what's driving it now is more supply security. Supply security has a much bigger impact on any business' EBITDA, because cost is only part of that P&L, but if you don't have product on the shelf, or you're not able to sell the product, you've got a massive hit straightaway on revenues. So, the urgency has never been greater."
>
> **Sushank Agarwal, Managing Director, INVERTO, a Boston Consulting Group company**

Figure 4: Do you expect to change where you manufacture in the near future?

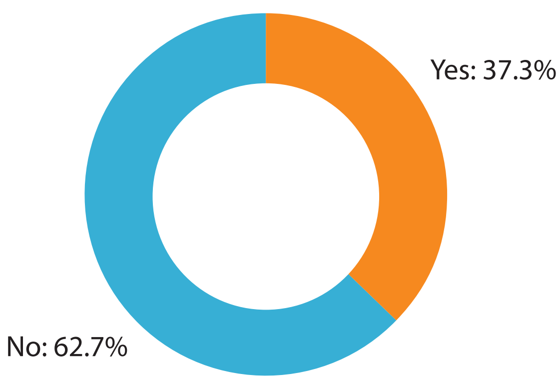
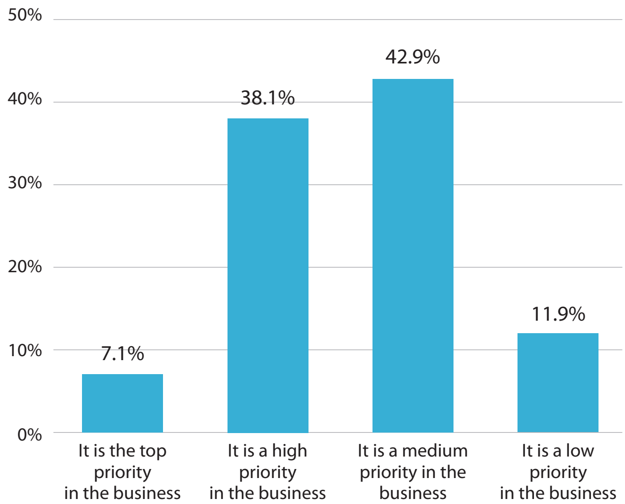


Figure 5: How high a priority is shifting your manufacturing locations?



The trend found in our results to reassess and reposition sourcing locations, and to a much lesser extent manufacturing facilities, is also presenting itself in other research, emphasising this is part of a wider change across the complete supply chain space.

> "The classical, old world of globalisation and free movement of private goods, I think that is something we need to leave behind us."
>
> **Patrick Haex, Managing Partner, BCI Global**

Consultancy firm BCI Global found that 61% of respondents to a survey conducted at the end of 2021 were considering onshoring or reshoring in the next three years. McKinsey research found that 71% of 38 fashion and textile Chief Purchasing Officers were aiming to increase the amount of product coming from nearshored locations in the near future. A June 2022 survey from quality control and inspection company Qima found that 67% global respondents reported buying more from suppliers in their own countries or home regions over the course of the year to that point. Finally, Reshoring Initiative's IH 2022 Data Report projected that 350,000 US-based jobs will be announced as a result of reshoring and Foreign Direct Investment (FDI) across the year, an estimated 6,000% increase from the 2010 rate.

The direction from the research is a clear indication that planners and executives are making moves to reinforce their supply chains by looking closer to home in a fundamental shift that truly marks the end of the period of globalisation that defined the end of the last century and the start of this.

> "It is no longer a lean model. It is a reliable model."
>
> **Karel Stransky, Head of Corporate Industrial Advisory, Occupier Services EMEA, Colliers**

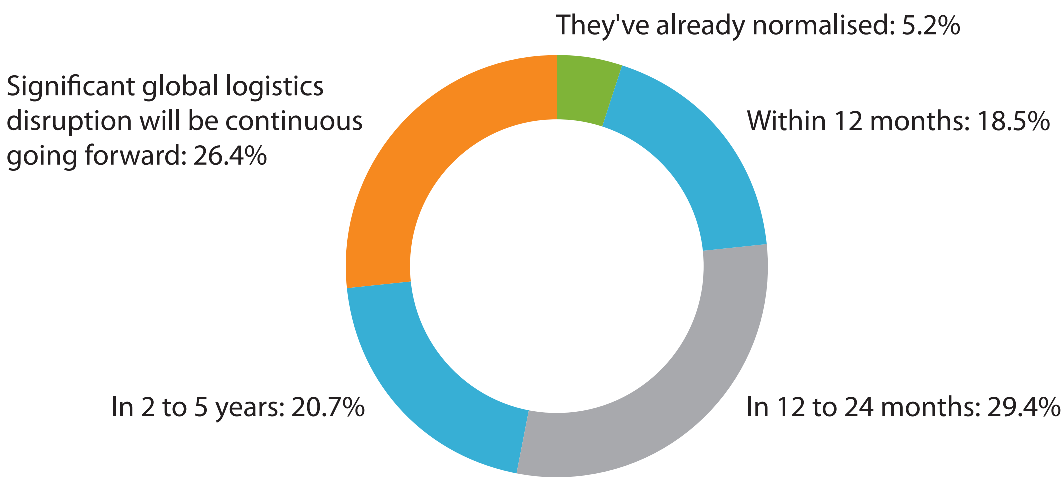
Disruption the driving force for change

What is driving this huge trend?

Put simply, it is an ongoing environment of supply chain disruption that has raised costs, added complexity and cut capacity. Companies have been left with the headaches of less reliable shipping schedules, lower consistency in working out landed costs and often shortfalls of goods being brought to market.

While the worst phase of the pandemic has ended, easing some of the most problematic imbalances in

Figure 6: When do you expect the global logistics network to normalise?



supply chains, the environment is far from benign and represents continued challenges that are helping to push the near-sourcing and nearshoring discussion.

At the time this research was conducted in Q3 2022, 95% of respondents think that global logistics networks have yet to normalise, and while 48% expect a return to some normality within two years from this point, a near equal 47% believe it will take more than two years at minimum, or in the case of 26%, will not stabilise at all.

> "My personal view is, in some industries, this will be the new normal and they have to adapt. This is an opportunity for the leaders who have already started making shifts in their supply chain by collaborating with their strategic suppliers and finding alternatives materials."
>
> **Sushank Agarwal, Managing Director, INVERTO, a Boston Consulting Group company**

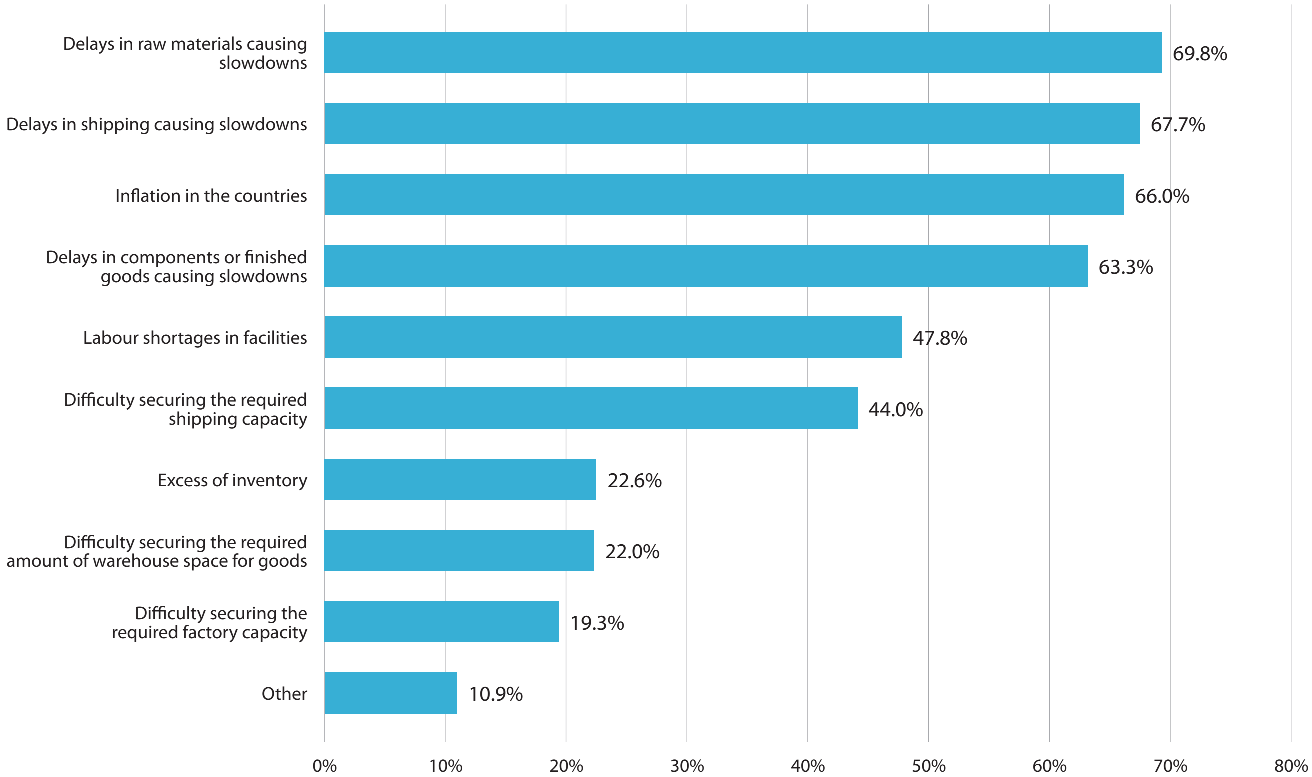
At the heart of this disruption are delays that continue to reverberate around supply chains. These delays lie across supply chains, ranging from initial raw materials (70%), to the shipping process (68%) to final components and finished goods (66%).

Other key issues noted come from a high inflationary environment (66%), labour shortages (48%) and low availability of shipping capacity (44%).

Similarly, BCI's survey found that the top three challenges being encountered are shortages of components, raw materials and commodities, which are followed by securing transport capacity, and low labour availability.

These ongoing issues prevalent in supply chains today make complex logistics processes running across multiple geographies hard to coordinate and execute, which can be seen in our data.

Figure 7: What disruptions have yours or your clients' supply chains experienced recently?

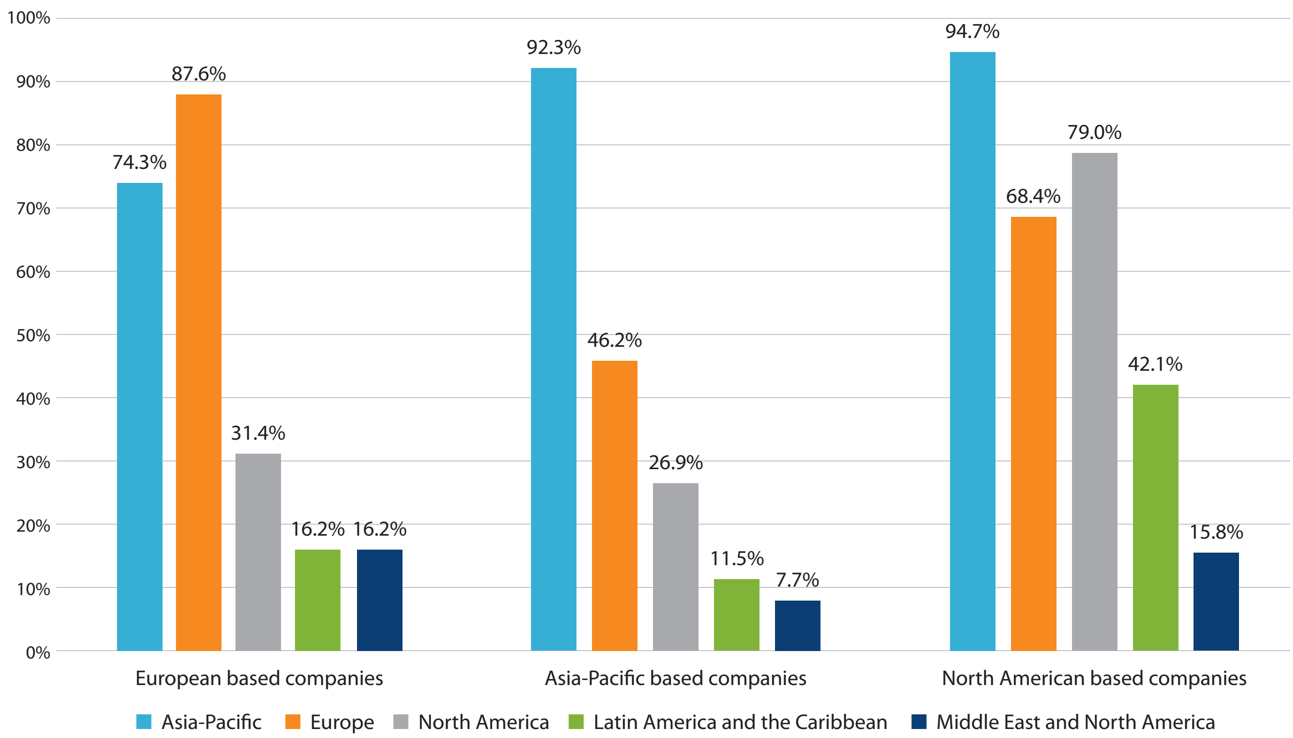


"Supply chain redesign can be difficult. Schneider Electric's glocal (global and local) approach has been our strategy for many years — well before the current situation. The reality is that while the current situation won't last forever, supply chains are going to continue to face ongoing challenges and crises. Supply chain leaders need to design their supply chain for more agility and resilience in anticipation of the future risks, both known and unknown."

Mourad Tamoud, Chief Supply Chain Officer, Schneider Electric

Breaking down where different regions source from, we can see how internationalised they now are, with companies in all regions reporting a wide sourcing base outside of the continent in which they are primarily based. This is particularly so for North American firms, with 95% of companies here reporting that they source from Asia-Pacific and 21% noting that they source all of their goods from continents outside North America. Asia-Pacific is at the other end of the scale, with the lowest rate of sourcing from other continents, befitting its status as the low-cost manufacturing centre of gravity for the world.

Figure 8: Sourcing destinations by primary geographic base of organisation

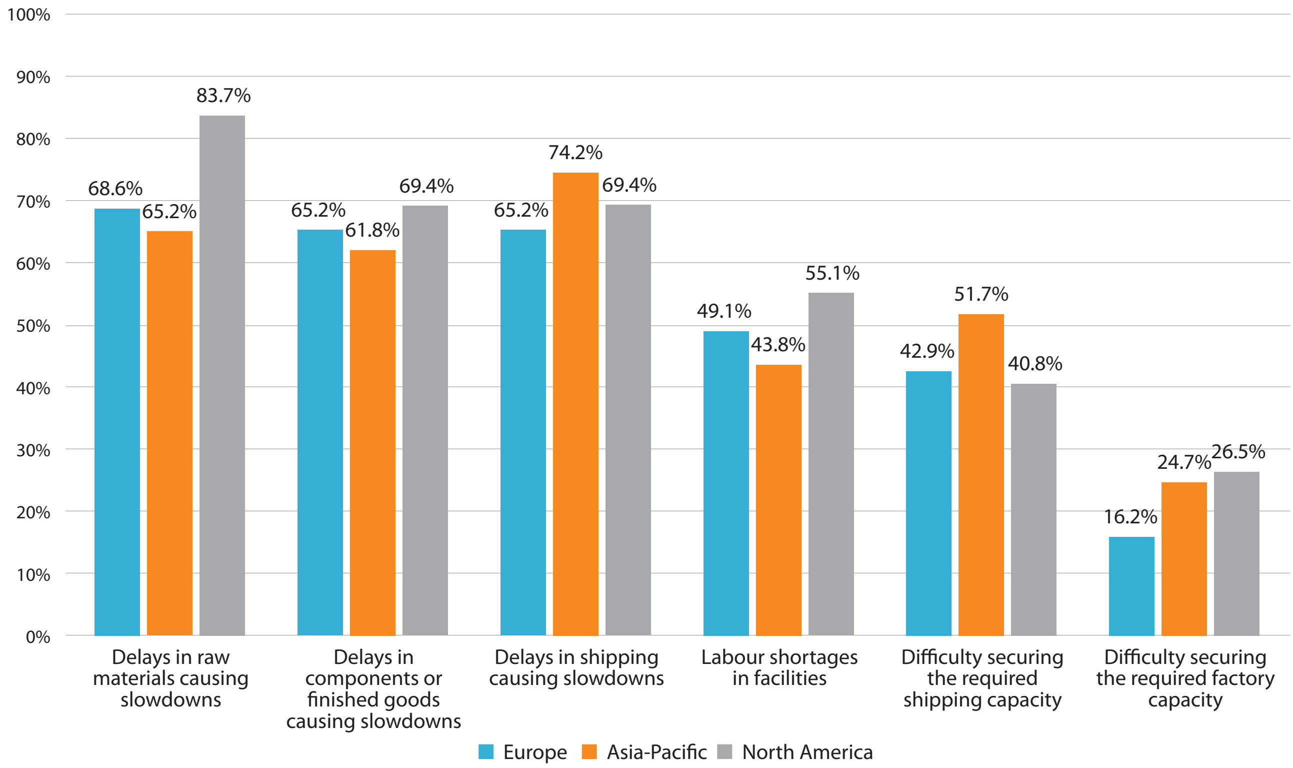


This helps to explain why North American companies report the highest rates of delays in raw materials, components and finished goods, particularly in the case of raw materials, where 84% of those based in North America report delays, compared to 69% in Europe and 65% in Asia-Pacific. For North American companies, moving goods in from Asia has been a particular problem in the recent past as congestion in ports around the Pacific, but especially on the West Coast of the US, have been encountering bottlenecks moving materials and goods inland due to trucking shortages and busy railroads reaching the limit of their capacity.

Those trucking shortages are strongly related to a net outflow of truckers combining with a tight labour market. We can see the effects of North America's high employment rates feed into other areas of disruption as well, with the region reporting the highest rate of issues with attracting workers to facilities (55%), and managers more frequently encountering constricted factory capacity (27%) than elsewhere.

Asia-Pacific on the other hand has been hardest hit by shipping complications, reflecting COVID shutdowns, particularly to the region's most important economy, China. Here key ports have faced continuous backlogs and the surge in demand from Western consumers, particularly in the US, has meant many shippers have prioritised keeping trans-Pacific shipping running at the cost of other routes, often leaving with ships not fully laden for the return leg back to Asia-Pacific. This has left those seeking capacity in Asian countries struggling to compete and therefore to secure capacity (52%) and consequently facing the highest reported delays due to shipping (74%).

Figure 9: Supply chain disruptions experienced by primary geographic base of organisation



The impact of a global footprint

The risks of a widespread sourcing system can also be seen when breaking down results by company size. Here too complexity and distance of supply chains is correlating with disruption to supply chains, which is then pushing a higher interest in reconfiguring them.

Larger companies are distinctly more cross-border in how they source their materials and components, with the share of supply chain operations conducted in multiple geographies rising rapidly with revenue.

With the exception of Asia-Pacific and its prominent position as sourcing magnet for all types and sizes of economies, there is a clear and distinct rise in the percentage of companies using different geographies as their revenues increase. There is a particularly pronounced leap when revenues cross the $1 billion threshold. At this point the share sourcing from a region doubles or trebles in the case of sourcing from North America, Latin America and the Caribbean, and the Middle East and North Africa.

That differential in international exposure is why a greater proportion of companies with revenues under $1 billion have seen supply chains stabilise or expect them to within the next 12 months. Twenty-one percent of those with revenues under $250 million and 37% with revenues between $250 million to $1 billion expect this, compared to 15% among $1 billion+ revenue companies.

Figure 10: Regions sourced from by company revenue

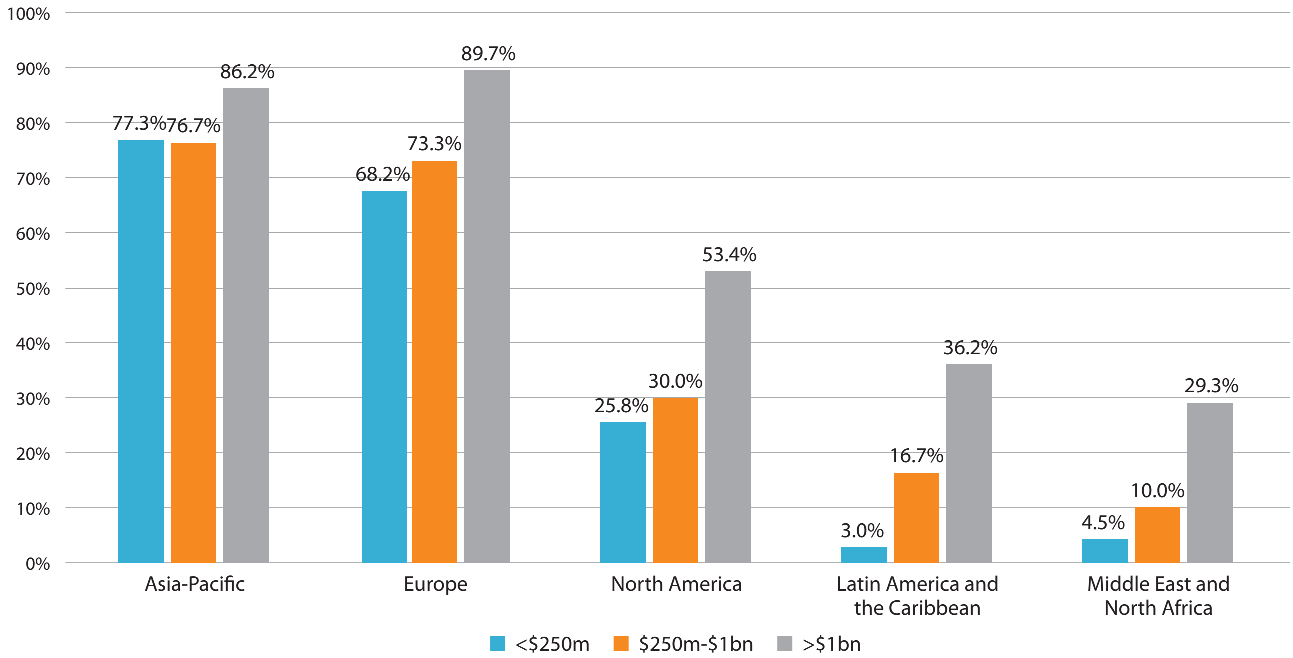
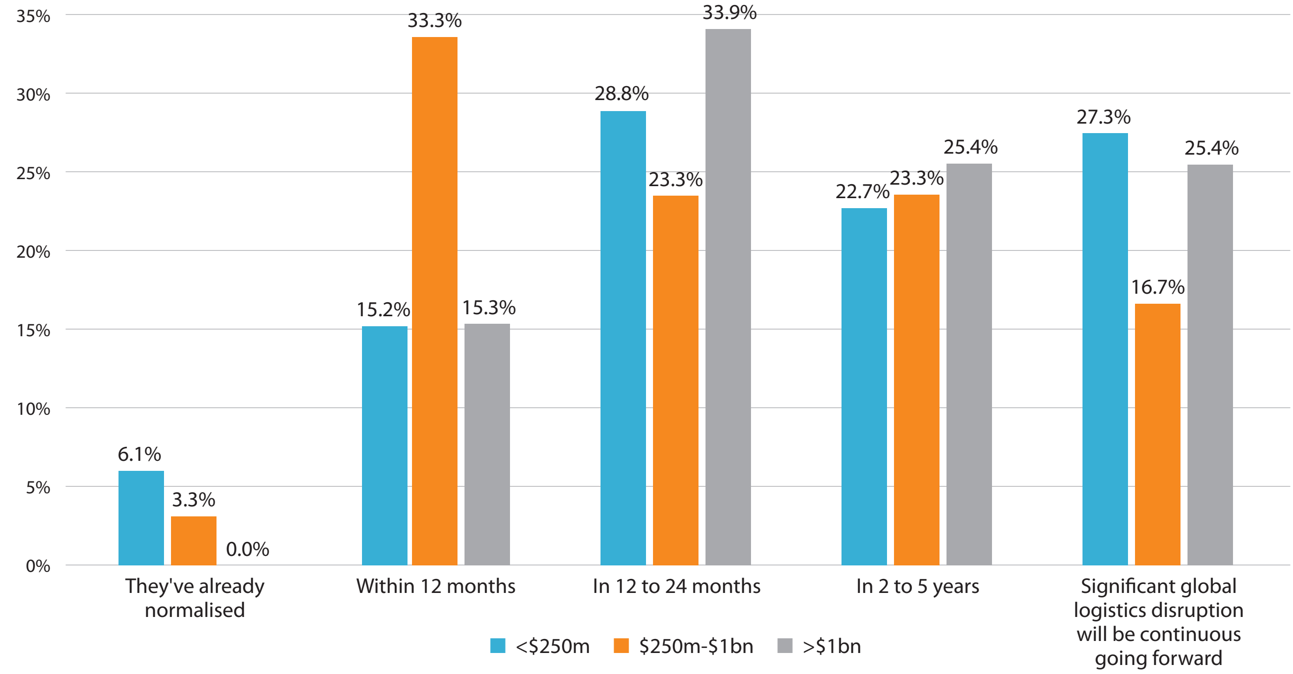


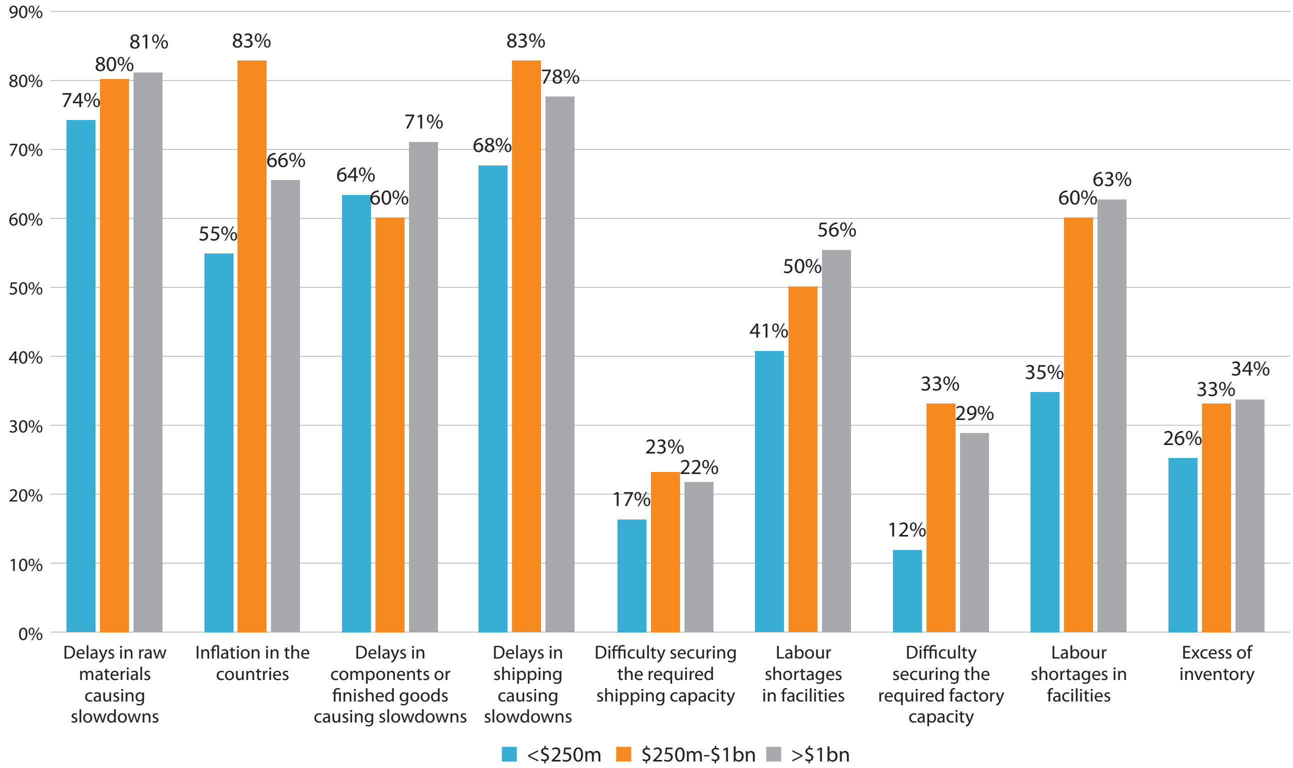
Figure 11: Timeframe of global logistics network normalisation by company revenue



It is also why disruptions have been typically lower for smaller companies and their more condensed logistical footprints. Companies with revenues under $250 million reported less disruption from delays of all kinds, from labour shortages, to securing capacity, to holding excess inventory, underlining that smaller, nimbler and more local supply chains have been less impacted by recent disruption.

The already-present flexibility and lower international exposure has led to a noticeably lower share of small and medium-sized enterprises seeking to change where they source materials and components from. There is a double-digit leap in the share of companies shifting when comparing those with revenues under $250 million (58%), to those with revenues of $250 million to $1 billion (77%) and over $1 billion (72%).

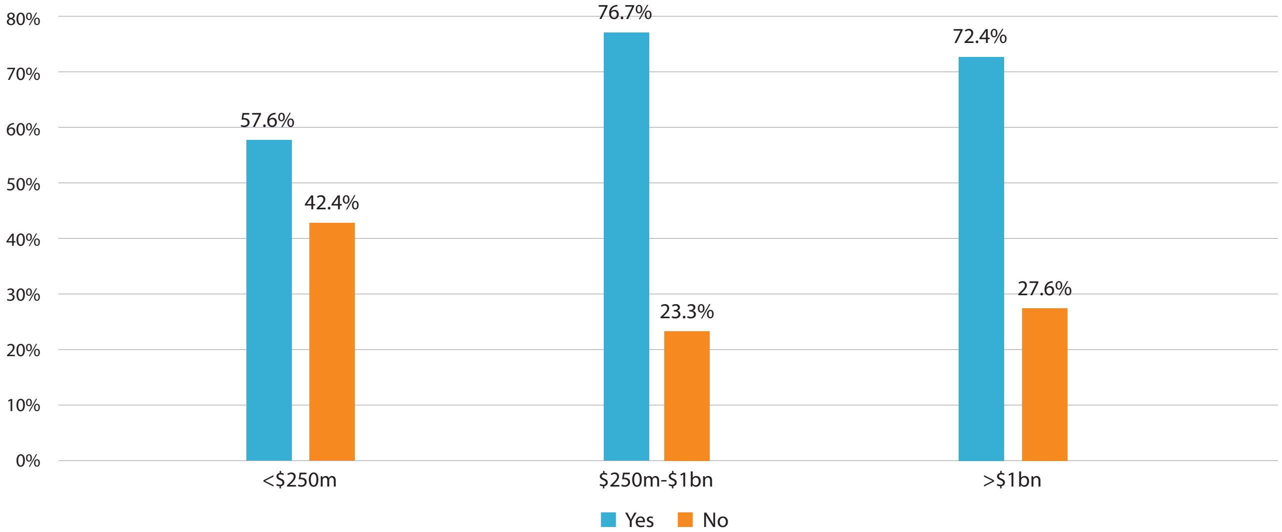
Figure 12: Supply chain disruptions experienced by company revenue



"Those that have larger investments need to stick around longer, and those who have got the agility, and can source rather than produce, are going to try and continue to find marginal advantages."

Kim Nigel Overman, Regional Head of Lead Logistics, Europe, A.P. Moller, Maersk

Figure 13: Changes to sourcing strategy as a result of disruption by company revenue



The death of low cost at all costs

The consistent pressure on supply chains has pushed the dynamic away from sourcing from the cheapest points to a wider view. That emerging perspective does not simply seek where production costs are lowest, but instead prioritises flexibility, reliability, proximity, visibility and sustainability over cost.

When we look at what are the primary reasons for changing sourcing strategy among retailers and manufacturers, it is not until the seventh most popular option that we find a reason directly related to cost, in this case shortening supply chains to reduce cost of transit (38%).

> "When it comes to fast fashion … we try to source more closely … in order to be able to move the product quicker. Now we are also collaborating with some start-ups to be able to predict items that are going to move fast, to be able to split the purchase quantity into smaller batches, and then also as soon as the sales pick up, place the right order quantity."
>
> **Michael Skobierski, Manager, International Supply Chain and Projects, Desigual**

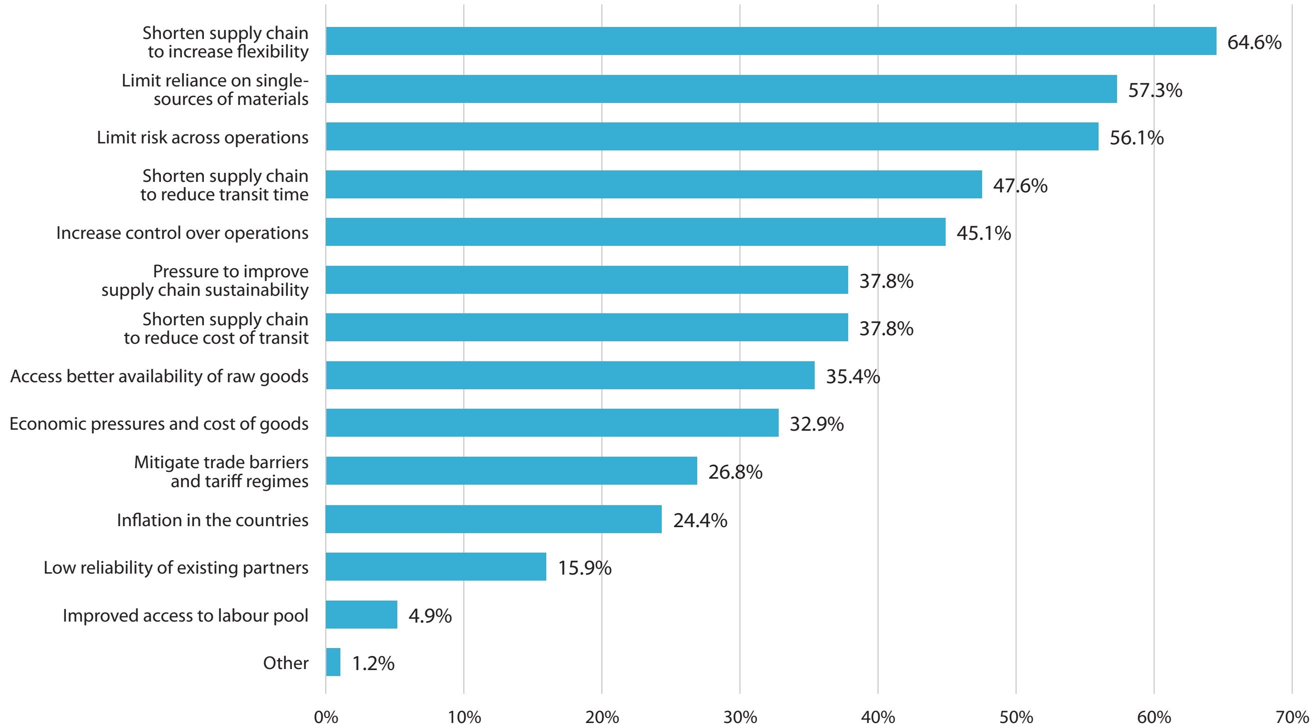
Ahead of this are a variety of reasons focused around the themes mentioned above, with flexibility the top strategic priority, firstly through shorter supply chains (65%), but also through reducing reliance on single sources of materials (57%) and shortening supply chains to cut transit times (48%).

Risk mitigation and control are the next most important reasons, with 56% saying they are looking to limit risk and 45% wanting to increase control over operations.

Sustainability was another important goal, chosen by 38% of retailers and manufacturers.

> "Companies, whilst having already implemented sourcing changes as a result of COVID disruptions, are now looking strategically at their sourcing and manufacturing locations to design for resilience, agility and cost competitiveness in their supply chains. To date companies have adapted to the recent disruptions mostly through the lever of increasing inventory and are now pivoting to the strategic design of their future supply chains. The key drivers behind this shift are the increasing need for market intimacy and agility to respond to customers, while also building resilience into supply chains to [counter] the ongoing disruptors of volatility, such as sea freight rates and geopolitical tensions. The Ukraine conflict and inflationary pressures are further reinforcing the need for companies to re-evaluate how and where they source. We see this continuing to be a top focus area for companies in the next twelve months."
>
> **Gustav Mauer, Partner, Supply Chain Leader, Ernst & Young LLP**

Figure 14: Why are you considering changing your sourcing strategy?



For those shifting manufacturing, the goals are broadly similar, with a shorter, more flexible supply chain seen as key (69%). However, there is more emphasis on speedier transit (64%), sustainability (48%) and reducing the impact of trade policies (36%).

The subtle shifts in priorities between the two emphasises how company-owned facilities have been snarled up when key components are in short supply or missing. This is leading them to focus on shortening the line between factory gate and inputs when they consider changing manufacturing locations.

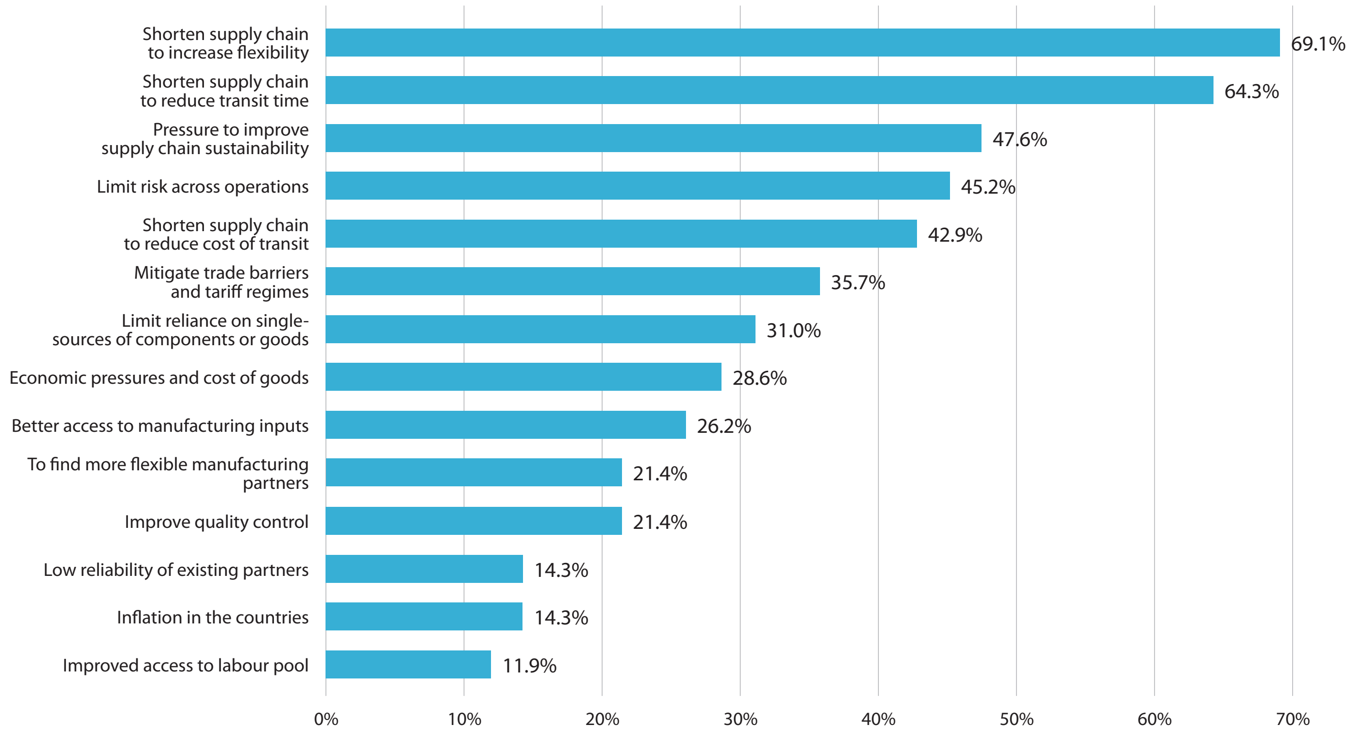
"There's always going to be reliance on different countries, but the question is how do you hedge that risk? How do you develop, innovate, and change to different product types or change to different raw materials?

"One of our client's recently conducted a detailed risk assessment across the supply chain for selected product components, because not all product components are high risk. Typically, we find 5% to 10% of those supply chains are super critical from a risk perspective and could shut down the entire factory operations if there's a material shortage.

"There are different strategies you can deploy, but the first question is about transparency of those highly critical supply chains or components at an appropriate level of detail. A lot of businesses out there are struggling to understand [these], and they're learning as and when these shortages happen."

Sushank Agarwal, Managing Director, INVERTO, a Boston Consulting Group company

Figure 15: What are the main reasons driving your business to consider changing your manufacturing location(s)?

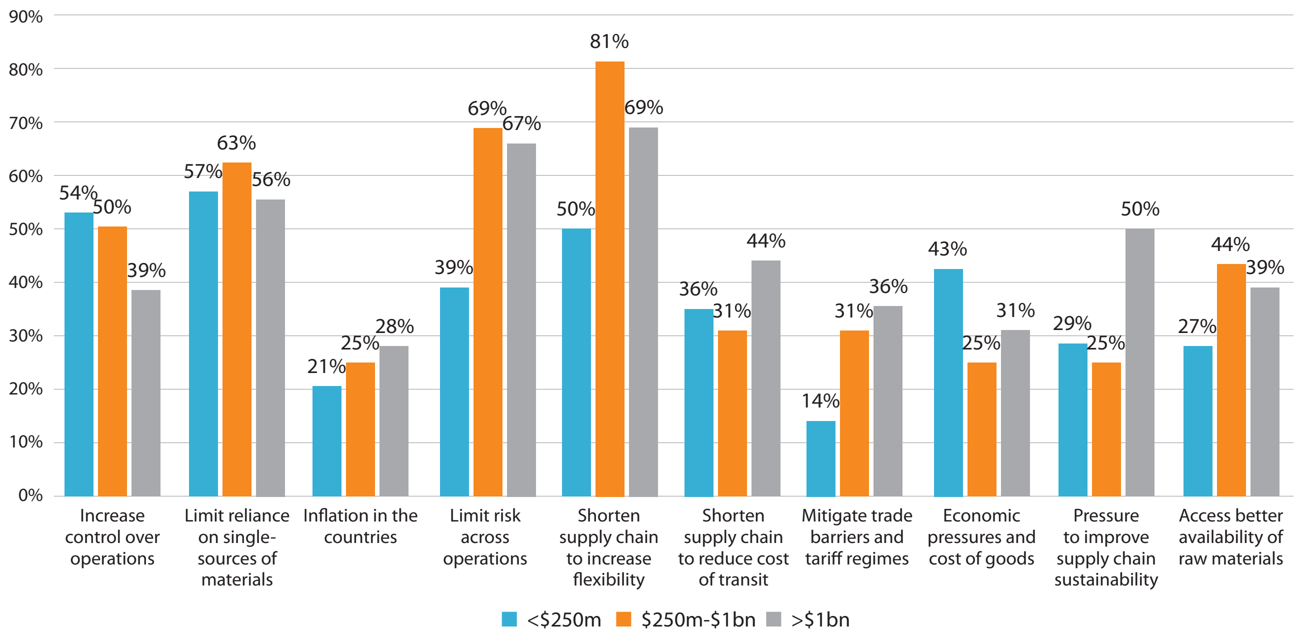


Priorities also change depending on company size. Smaller companies are keen to have more direct control over operations as their balance sheets often have less wriggle room, which is why smaller companies are more likely to be adapting sourcing due to economic pressures and input costs.

Larger companies were more likely to report that risk reduction through increased flexibility and better access to materials and components is driving their approach.

Reflecting the way in which supply chains become more diffuse as companies grow larger, there is also a relationship between company size and how important trade barriers and tariffs were in deciding strategy, rising from 14% for companies making under $250 million to 36% of those with earnings north of $1 billion.

Figure 16: Reasons for shifting sourcing strategy by company revenue



The big winners in the battle for near-sourcing, near-shoring and reshoring

The shift to re-evaluate, diversify and de-risk sourcing and means that where companies look and contract globally is going to change, in many cases heading much closer to the final market. However, it is worth emphasising that this doesn't mean that we can call an end to the concept of outsourcing and a sudden, dramatic shift away from Asia-Pacific as a globally competitive region.

This was emphasised by where our panel chose as attractive destinations for sourcing going forward.

While the most popular choice was that sourcing operations would be moved into the same country as the final market, Asian countries came top for individual country choices.

Vietnam and India seem likely to be the biggest winners from shifts in sourcing, with 21% of respondents choosing these locations as one of three potential non-ranked country choices they could make, the highest level seen in our survey for individual countries.

Both of these countries are experiencing strong growth in the electronics, automotive, industrial machinery, and textiles verticals and look set to continue to be highly competitive sourcing locations in these sectors. Additionally, India already has already well-established chemical and pharmaceutical industries, with the former in particular set to expand in the medium term.

Indonesia came in tenth place, with 7%, and Bangladesh was selected by 5%, underlining that South Asia and Indonesia are going to attract significant FDI over the next decade in low-cost labour dependent sectors, such as textiles and consumer goods.

> "Our supply chain works hand in hand with the regional sales and marketing organisation. If you take India as an example, today 60% to 70% of the products that we are selling in India have been designed in India. And 90% of what we sold there has been produced there. Our multi-hub approach allows us to adapt to the requirements of the market at pace, work very closely with all the stakeholders in the market, and be as sustainable as possible."
>
> **Mourad Tamoud, Chief Supply Chain Officer, Schneider Electric**

Some of this is undoubtedly going to come at the expense of China, but the latter is not suddenly going to fade away as a destination for outsourced functions. Nine percent still selected it as a strong location for sourcing, putting it in the top ten countries and showing that there remain important clusters of production for many verticals within China that will be extremely hard to shift.

For example, although governmental bodies in multiple geographies have identified key areas, such as rare earths, as strategic priorities to shift in order to reduce dependency on China, this will be a multi-year effort before it comes to even partial fruition. Even for easier to shift materials and products, China's extremely strong infrastructure helps to offset a substantial part of the rapidly rising wage bill in the country and keep it competitive on a total costs basis.

> "From our factories, we're still mainly sourcing in China – around 60% - and, at the moment, we don't see any obstacles on that side from our perspective."
>
> **Michael Skobierski, Manager, International Supply Chain and Projects, Desigual**

This is not to say that it will remain the absolute go-to for companies looking to source remotely as it was in prior decades. China's COVID policies, opaque political decision-making processes and growing labour costs have been noticed by the global business community, making it less attractive for investment.

Those factors must be taken into account on top of added trade barriers introduced in recent years.

However, any change will be measured and long-term, as opposed to a sudden flood away from China, with the electronics assembly industry leading the charge, especially when it comes to moving to Vietnam.

Figure 17: Globally attractive sourcing locations

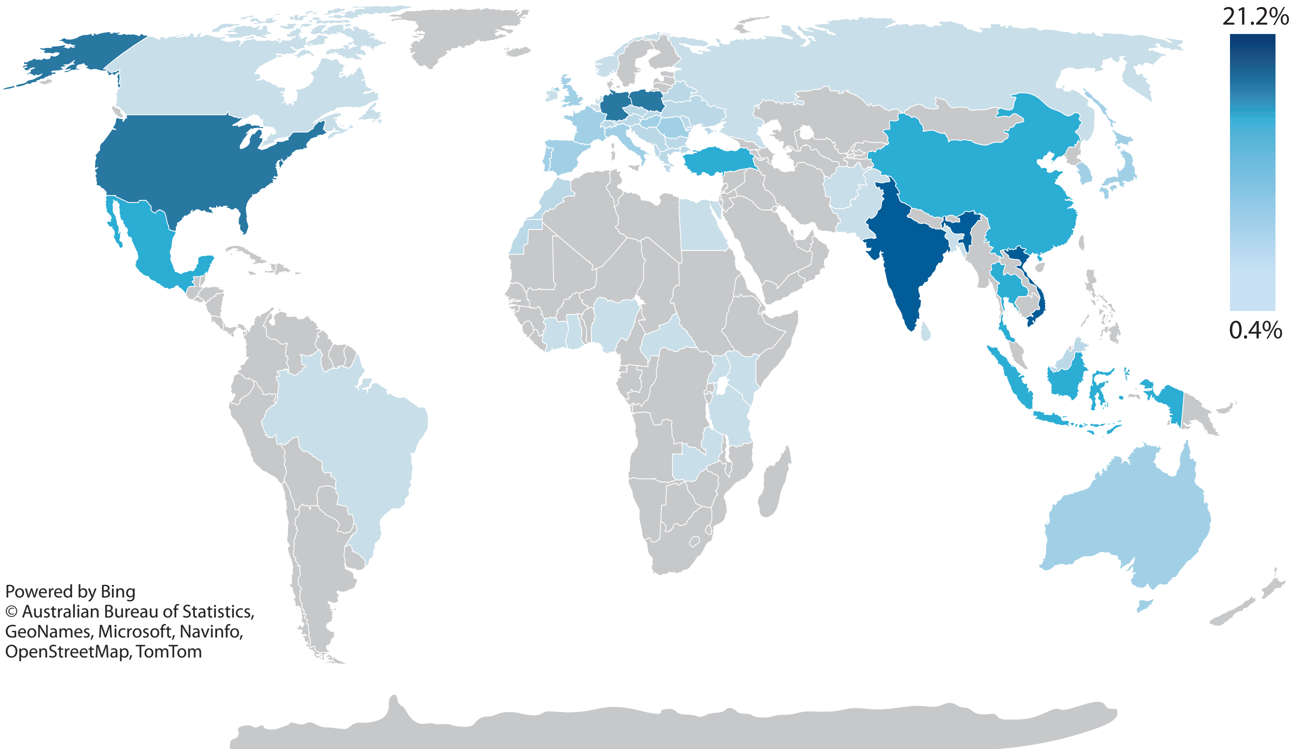


Table 1: Most popular sourcing, nearshoring and reshoring locations globally

Country rank	Country	Percentage of respondents	Country rank	Country	Percentage of respondents
	Operations will move to the same country as the final market				27.4%
1	Vietnam	21.2%	16	Czech Republic	4.1%
2	India	20.7%	17	Spain	3.7%
3	Germany	13.7%	18	Thailand	3.7%
4	Poland	13.3%	19	Bulgaria	2.9%
5	United States	12.4%	20	Malaysia	2.9%
6	China	9.1%	21	Netherlands	2.9%
7	Mexico	9.1%	22	South Korea	2.9%
8	Turkey	9.1%	23	Australia	2.5%
9	United Kingdom	7.5%	24	Austria	2.5%
10	Indonesia	7.1%	25	Belgium	2.5%
11	Romania	5.8%	26	Morocco	2.5%
12	France	5.4%	27	Portugal	2.5%
13	Bangladesh	4.6%	28	Albania	2.1%
14	Hungary	4.6%	29	Brazil	2.1%
15	Italy	4.6%	30	Cambodia	1.7%

The biggest story overall is the move to bring sourcing closer to home. This trend will give major boosts to what were once seen as destinations too expensive and that often bled manufacturing jobs. It will also continue to push up the popularity of competitive middle-income economies that have the skills set and proximity to major markets to draw in companies itching to move.

In the former case, many high-income, highly-developed Western economies were selected in the top 30, or even top 10 most attractive countries, including Germany (14%), the US (12%), the UK (8%), France (5%), Italy (5%) and Spain (4%). These will see productive capacity in high-value, high-tech and strategically important production processes expand, as well as final assembly, boosting industries such as electronics, aerospace, automotive, medical equipment and chemical products.

An obvious example comes in the major influx of investment from chipmakers in the above locations in 2022. In Q1 2022, Intel announced a new major factory in Germany, a design and research facility in France, and a packaging and assembly site in Italy, alongside more capacity at an existing facility in Ireland. STMicroelectronics likewise announced plans for a major semi-conductor factory in France and a wafer plant in Italy in the year.

> "Developed countries, such as the US and the UK, are seeking to attract companies and further incentivise onshoring of manufacturing through tailored government policies within key industries, such as fast-moving consumer goods and high-tech. This is providing additional impetus to re-assess their sourcing and manufacturing locations."
>
> **Gustav Mauer, Partner, Supply Chain Leader Ernst & Young LLP**

In the case of middle-income countries, major winners sit in the North American and European periphery, with Poland (13%), Mexico (9%), Turkey (9%), Romania (6%), Hungary (5%) and the Czech Republic (4%) all well considered among respondents. These locations are favourably positioned in terms of transportation costs, time to market and trade bloc membership. These factors, combined with lower labour costs than in high-income countries, will push up growth in sectors where competitive advantages exist, such as machinery and transport equipment, consumer goods and electronics.

Together, these trends show that a major re-evaluation is underway amongst companies. They are now looking more closely at complete landed costs, but also what the impact is of not being able to meet their market demand.

The recent period has underlined that stability is not a given and having a spider's web of production and sourcing across the globe comes with attached risk. When that risk is realised, as it has been regularly over the last half decade, it can wipe out the cost savings made from a low-cost, but distant location. In these scenarios empty shelves and suspended production lines have enormous financial implications that create months, or even years, of drag for a firm from not only sales lost in that moment of shortage, but from longer-term brand damage.

For example, Wolfgang Weber, Chairman of the electronics industry body ZVEI, estimated that production bottlenecks cost the global electrical and digital industry up to 10% of its total sales in 2021.

We can therefore expect a consistent move to bring sourcing for complex, mission-critical and time sensitive resources back closer to the end market, particularly for larger, highly exposed companies with a global footprint. While low-cost production in Asia will remain a factor, companies will want to be less geographically condensed in single countries or regional clusters and more able to source from a variety of locations where possible.

Sources of difficulty in the quest for change

Change will be gradual, however, as there are multiple and substantial hurdles that have to be overcome when finding new sourcing partners.

Chief among these is the search for a reliable partnership, which is by far and away the biggest barrier to changing sourcing strategy in the survey, being selected by two-thirds of our panel.

Familiarity is clearly the biggest enemy to making changes and the burden of due diligence, alongside the possibility of being let down by a new supplier at a time when reliability is at a premium, is weighing heavily on supply chain professionals' minds.

It is worth noting that 29% also said that they are finding it difficult to reduce existing partnerships and a quarter are facing stakeholder resistance, reinforcing the deep concern of leaping into a relative unknown.

Of course, associated costs also form a critical issue when looking at sourcing options, coming in as the second most significant barrier and chosen by 47% of retailers and manufacturers.

Figure 18: What are currently the biggest barriers to changing your sourcing strategy?

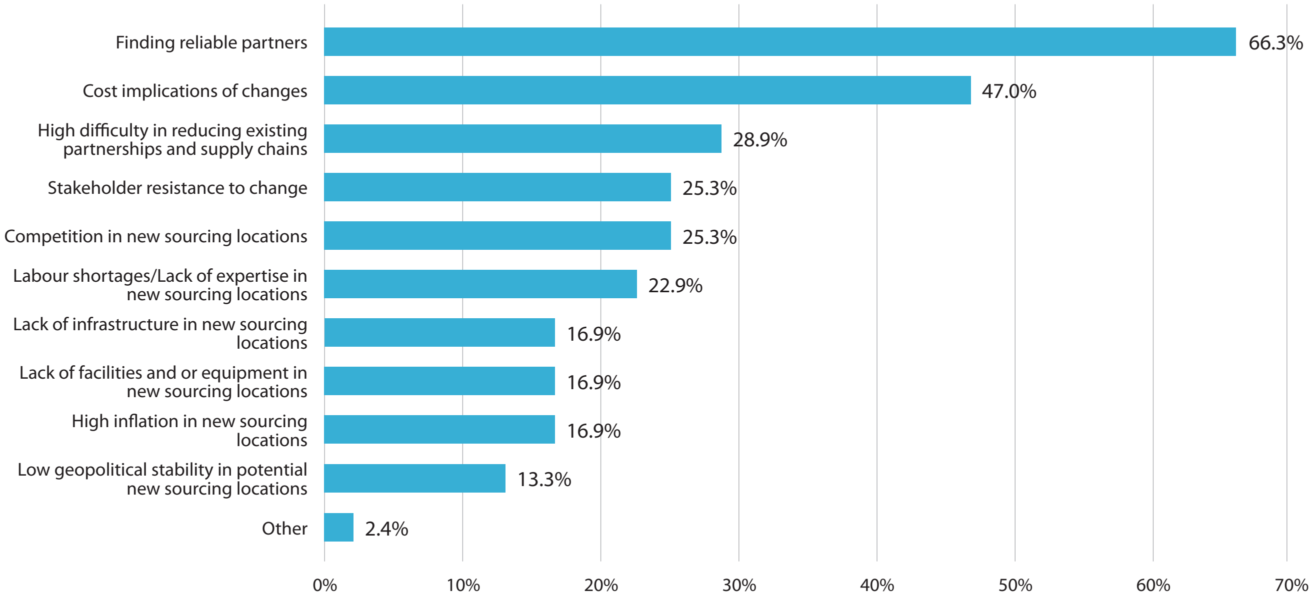
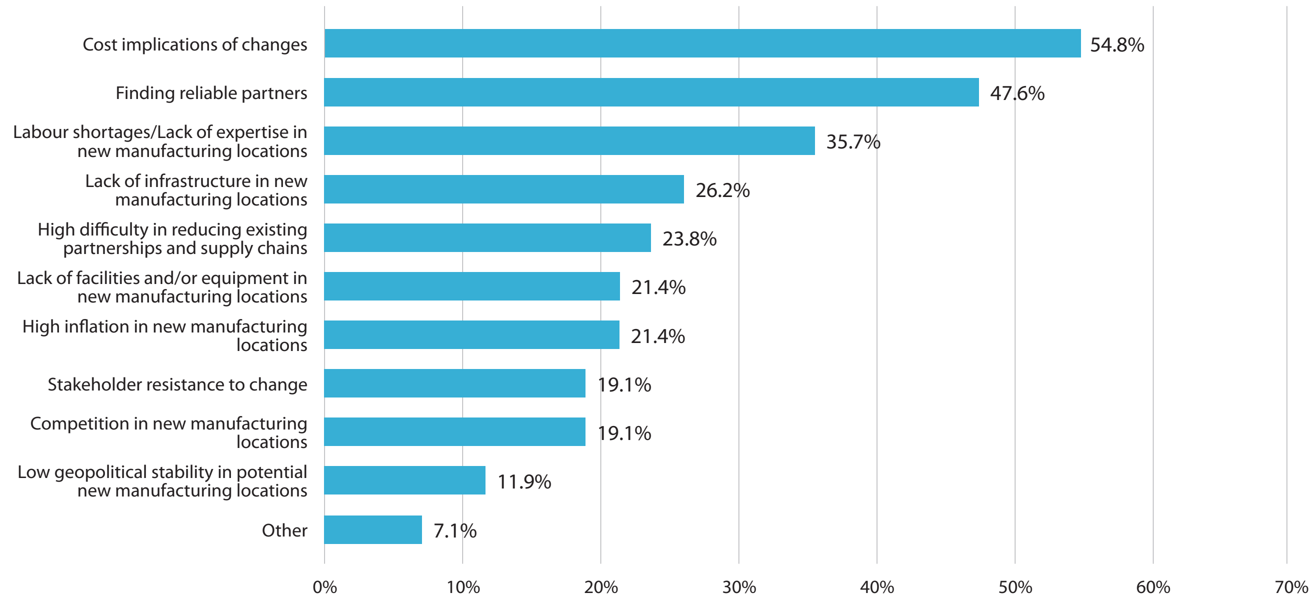


Figure 19: What are the biggest barriers to changing your manufacturing strategy?



"The key challenge in changing sourcing is the Capital Expenditure (CAPEX) and restructuring cost associated with the shutting down of existing sources of supply and building these capabilities in new markets. This cost challenge is industry dependent, with Fast-Moving Consumer Goods (FMCGs) able to bring online new capacity relatively easily and quickly, vs. pharma or consumer electronics manufacturing, which require a much higher degree of technical expertise and costly equipment.

"For companies with significant CAPEX associated with manufacturing and sourcing, third party manufacturers can offer an alternative to this upfront investment and often at a lower cost."

Gustav Mauer, Partner, Supply Chain Leader, Ernst & Young LLP

Costs are an even more important impediment to moving manufacturing sites, sitting as the top barrier chosen by 55% of retailers and manufacturers.

This is because the risk and investment are directly borne by the organisation when choosing a new manufacturing site, rather than just onboarding a new partner to provide products or materials.

That change in risk profile comes out clearly in the remainder of the key barriers as well, with labour and talent shortages (36%), infrastructural deficiencies (26%), and a lack of suitable facilities and equipment (21%) rated as more substantial barriers for those moving manufacturing sites as compared to changing sourcing locations.

This helps to explain why manufacturing shifts are more challenging than sourcing, being riskier, more expensive and time consuming, hence why far fewer are considering a change in this direction.

In both cases though we can see a new dynamic growing, where labour and reliable partners are increasingly sought after, as the trend of onshoring and nearshoring grows. With more than a third of those looking at new manufacturing locations encountering a deficit of expert labour, and a quarter of companies that have transitioned sourcing experiencing competition in potential locations, it is clear that a premium on skills is developing that make labour force capacity and educational levels a critical decision-making factor.

"We don't need to be the trendsetters, but we want to be there early, when there is an opportunity. So, if there's already an Inditex or a Mango, that's something that we start looking into, because these companies manage risk very thoroughly. If they move down there's also already [some] infrastructure behind them, and also there's a stable situation."

Michael Skobierski, Manager, International Supply Chain and Projects, Desigual

Industry-specific strategies

Breaking down our survey sector-by-sector, we can see how the last five years – and particularly the period after COVID-19 spread globally – shaped strategic outlooks and decision making for each industry vertical.

Looking at those who have made the greatest moves to reconfigure their sourcing locations, they are the sectors who have faced the most problematic disruption to their supply chains.

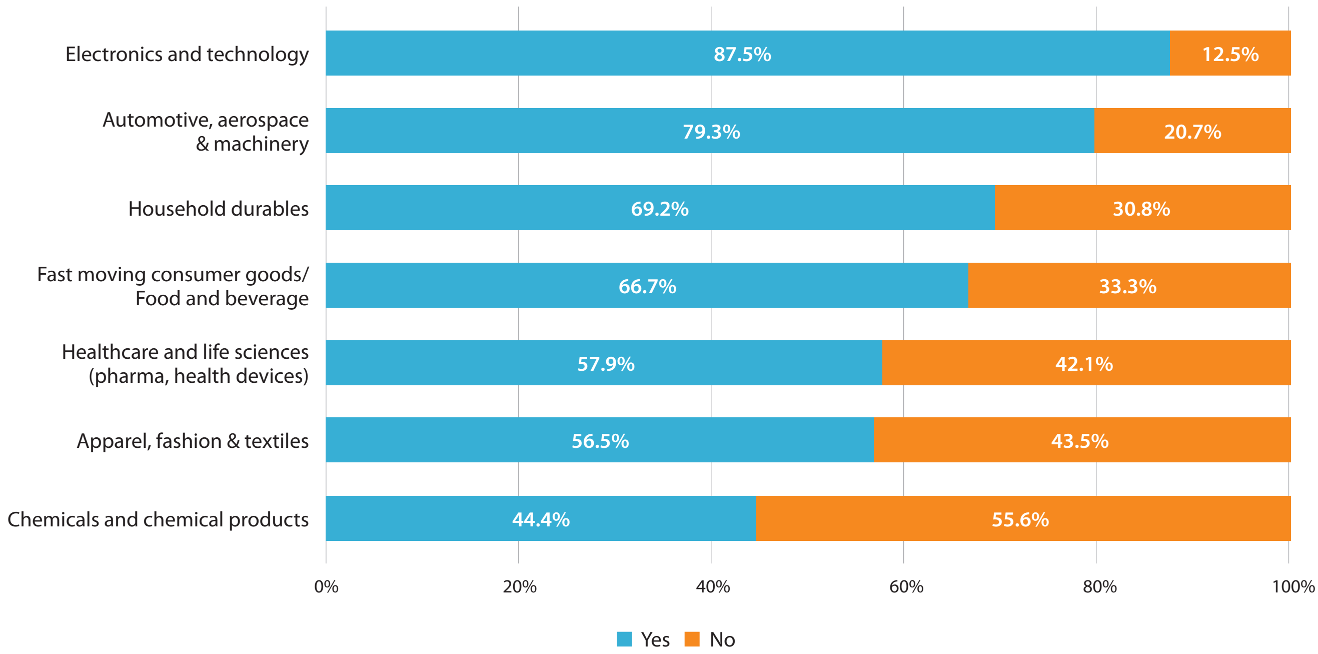
Leading the pack are electronic and technology companies. Companies in this field have faced enormous difficulty in meeting demand for semi-conductors and shipping key components out of hubs in China, which is why 88% of companies in this field say they have made changes to their sourcing strategy.

> "Sectors like automotive desperately need to reshuffle their supply chains, especially for certain product types, like semiconductors, the shortage of which is killing a lot of the business revenues at the moment.
>
> "Some companies have started to identify ways to address it [through] a mixture of nearshoring and reducing product / service complexity. For example, one of our clients is challenging themselves on why they need so many semiconductors going into a car when the actual value add for an end user can be achieved through a small proportion of them? So, there's a big challenge, a big push around simplification without impacting the customer value proposition itself."
>
> **Sushank Agarwal, Managing Director, INVERTO, a Boston Consulting Group company**

Also feeling the impact of the semi-conductor shortage is the automotive sector. Alongside shortfalls of these components, it has been one of the sectors most heavily hit by the conflict between Russia and Ukraine. Many associated companies have left Russia altogether and production of components, particularly wiring harnesses, which were a speciality of Ukrainian industry, has been interrupted. There has been a continuous stream of automotive manufacturers downgrading production totals since the pandemic broke. This has placed the sector as the second most likely to have made changes to where it sources materials and components at 79% of respondents.

At the bottom lie apparel fashion and textile companies (57% shifted sourcing locations) and chemicals and chemical products (44%). These two have experienced less change for opposing reasons. Chemical facilities and the raw materials behind them are extremely difficult to relocate and are often centralised, whereas apparel, fashion and textiles has long been one of the most mobile sectors, with already diversified partner structures, helping to shield them.

Figure 20: Changes to sourcing strategy as a result of disruptions by industry vertical



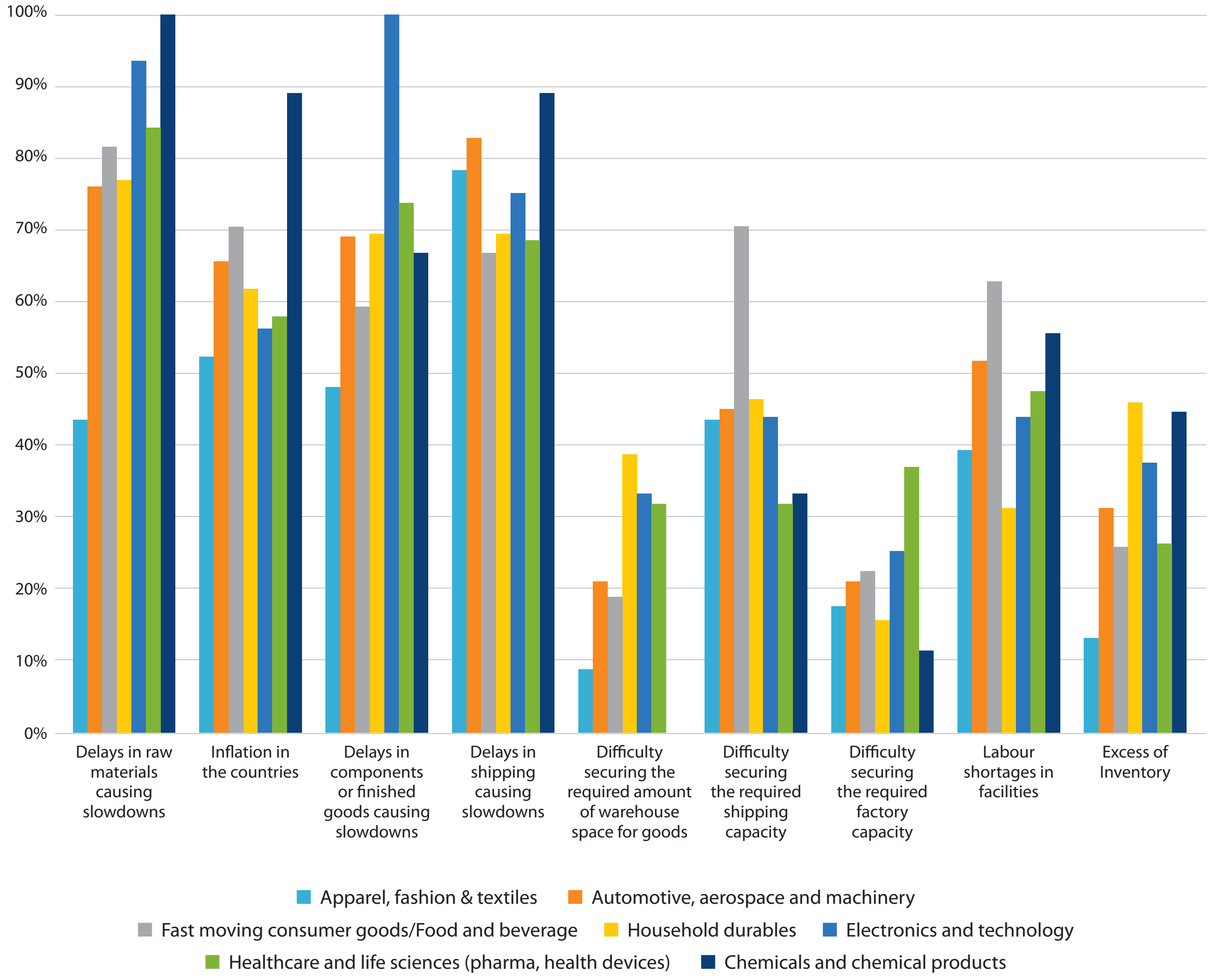
> "Sectors like retail have always had a lot more agility in their supply chain, with dual sourcing strategies and multi-sourcing hubs in place. [They] were less affected, relatively, because they've been able to adapt or switch their volumes more easily to countries that are less affected."
>
> **Sushank Agarwal, Managing Director, INVERTO, a Boston Consulting Group company**

This doesn't mean that these sectors are going to be static, however.

In the survey, the chemicals and chemical products sector has been the most disrupted by delays in raw materials (100%), inflation (89%) and delays in shipping (89%). The impact of the conflict in Ukraine is being felt keenly here, with input materials from the hydrocarbon sector skyrocketing in price and demand for shipping increasing as anxious buyers look to stock up, while pipelines have been shut down. This is leading the field to have the highest percentage noting that they want to shift sourcing to limit reliance on a single source of materials (100%) and to have better access to raw materials (67%).

Apparel fashion and textiles companies are the most likely to be moving to cut transit costs from shorter supply chains (56%), reflecting the growing need to be agile in meeting consumer's fashion demands and that the greatest disruptive influence on their sector lies in shipping delays.

Figure 21: Supply chain disruptions experienced by industry vertical

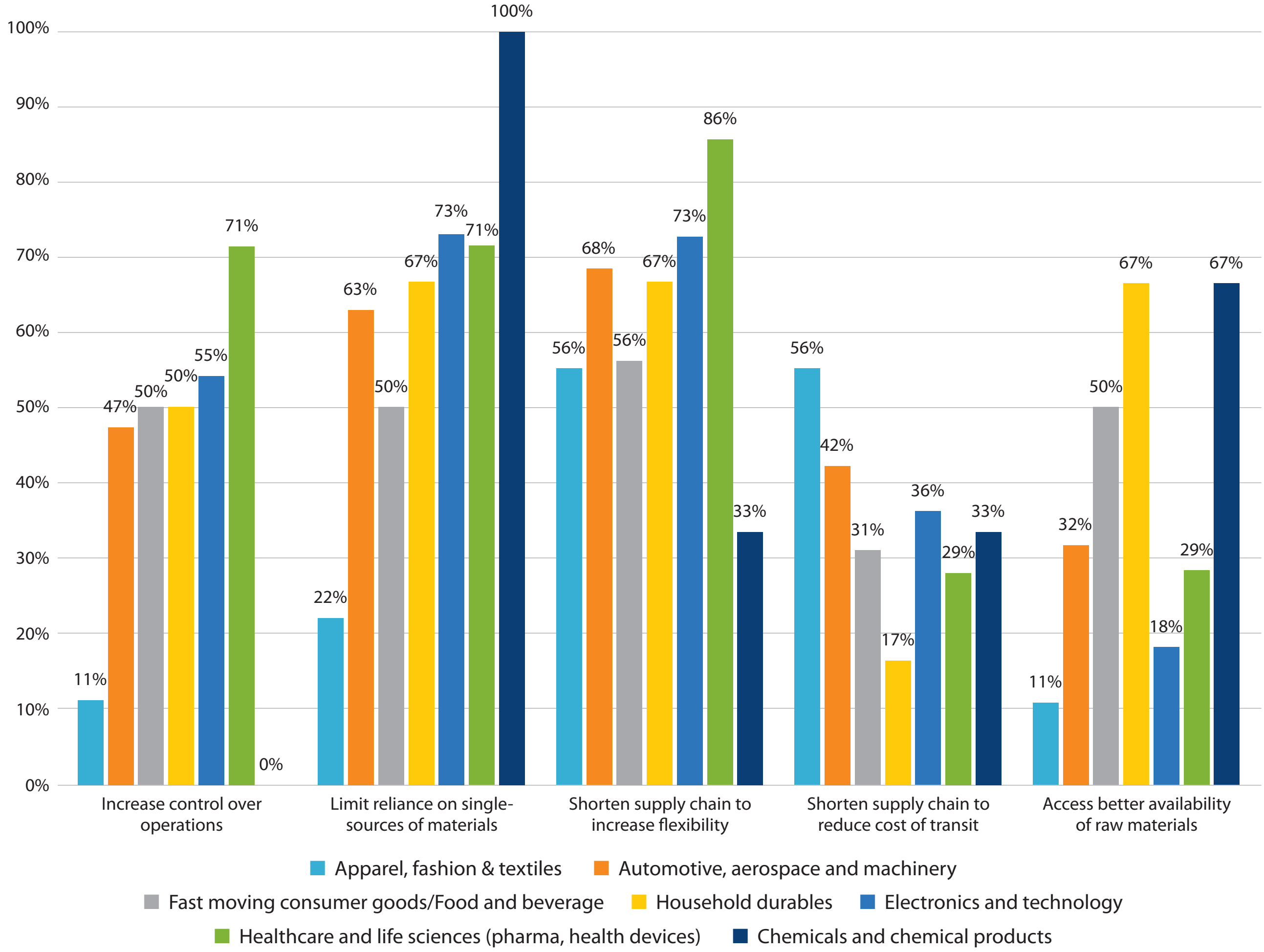


"Working with regional suppliers means we develop innovative solutions that are relevant for the local market, and staying close to the market means we can be agile in responding to it.

"But purely local supply chains have vulnerabilities. Global standards ensure the ability to propose back up in case of local disruption. A global view improves resiliency. And there are some supply markets that are entrenched globally. Electronic components (including semiconductors) and plastic raw materials are good examples. These markets are managed globally, and we do not foresee a significant shift in the short term given the massive capital investment such a shift would require."

Mourad Tamoud, Chief Supply Chain Officer, Schneider Electric

Figure 22: Reasons for shifting sourcing strategy by industry vertical



Similarly, another sector that requires agility and reliability in moving product to market is the Fast-Moving Consumer Goods (FMCG)/food and beverage sector. Respondents working in this area reported that they have been the most disrupted by difficulty in securing shipping capacity (70%) as well as labour shortages (63%) in comparison to other sectors. These are critical factors when meeting what has been very volatile consumer demand over the last two years, with product categories undergoing wild rides – a pattern that is set to continue as consumers feel the bite of inflation and change their spending patterns yet again.

> "The shifting of sourcing and manufacturing locations can bring increased speed to market if located nearer centres of customer demand, as well as reducing the number of touch-points within the supply chain, driving a step change in reducing risk and cost. Nearshoring also can reduce the inventory burden on companies and improve the ability to quickly adapt to changing consumer needs and volatility in demand."
>
> **Gustav Mauer, Partner, Supply Chain Leader, Ernst & Young LLP**

Likewise, healthcare and life sciences have had to respond to the global pandemic in an extremely rapid and decisive manner, but with supplies that cannot be compromised on a qualitative level. The conclusion this sector has therefore drawn is that it needs to increase not only flexibility (86%), but also control over its operations (71%), with the vertical coming out top in these categories.

Finally, that aforementioned inflationary hit to real earnings is leading to cuts in consumer discretionary spend, with signs emerging of shoppers putting off making big purchases, which is why household durables reported the highest percentage facing excess of inventory (46%).

These results underline that the lessons learnt from recent disruption come down to the conditions faced on the ground by each business. Individual companies need to consider their product lines, particular vulnerabilities, customer base and overall supply chain when making any near-sourcing, nearshoring or reshoring decision.

A European deep dive

A core objective of this research is to pull apart the European market within the global context and understand how the continent's industrial base is manoeuvring to better weather any future storms and meet developing demand.

That research shows that Europe's focus when it comes to sourcing goods, components and material is firmly affixed to within and around the continent's borders.

European companies have been just as exposed as any other by recent disruptions, perhaps even more so with the Suez Canal crisis being particularly impactful and now open conflict on the European landmass creating an energy crunch and financial instability.

That is pushing European firms to re-evaluate what is important to them. That process has revealed that flexible supply chains that sit closer to the end market and can deliver expected capacity reliably are of the utmost value, pushing companies towards stable countries with skilled workforces.

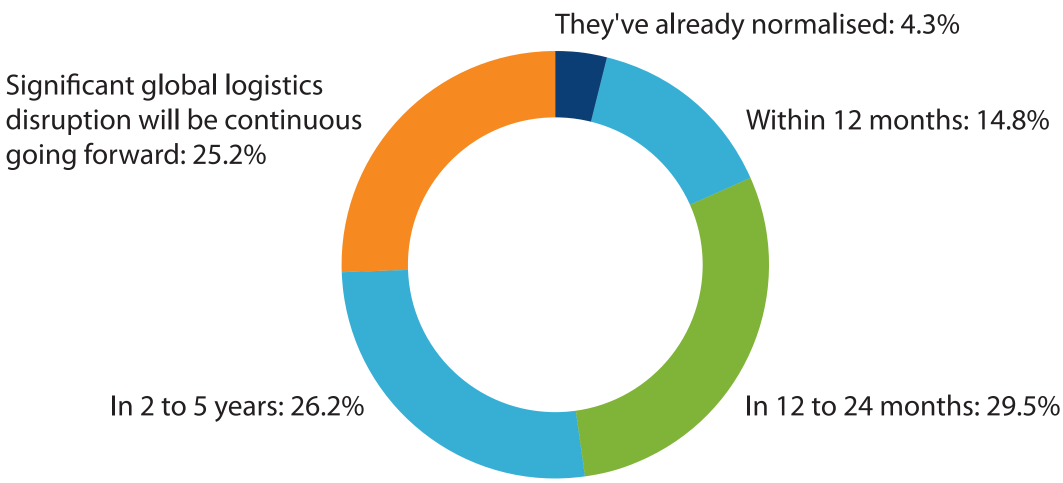
European supply chains shaken and stirred

Just 4% of European companies believe the global logistics network has normalised and the majority don't see it stabilising in 2023 either, illustrating how complex the recent past has been for European-based supply chain professionals.

Some 51% see disruption continuing for two years or more, with a quarter of European respondents expecting logistics turbulence to be a permanent feature of supply chains. This is 10 points higher than the non-European population in our survey, highlighting the difficulties companies on the continent have experienced.

This result is hardly surprising in the ongoing environment, with repeated shocks hitting global supply chains, but some of those have been more severe for Europe. The Suez Canal crisis was most impactful for shipping bound to Europe and the conflict in Ukraine has meant severe energy cost crunches for European manufacturers in particular, with the impact expected to last well into 2023. It has also disrupted regional trade more than other areas around the world.

Figure 23: When do you expect the global logistics network to normalise?

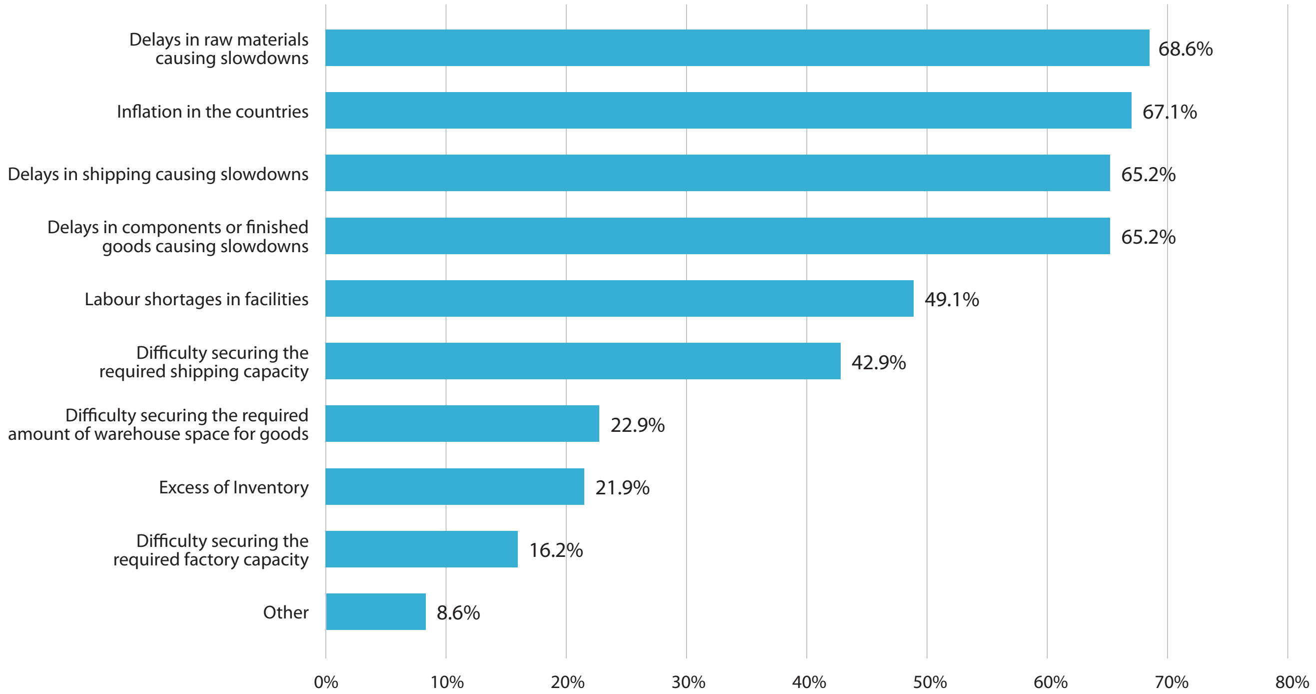


These sit on top of ongoing issues surrounding shipping, with congested ports in Europe, North America and Asia, COVID lockdowns in China, and reduced capacity on some key Europe-related routes, such as the Rhine, where water levels were low through much of 2022, and on the rail route to the Far East.

Those issues are reflected in the major disruptions reported by European respondents. Principally these are delays to either raw materials (69%), components and finished goods (65%) or to shipping schedules (65%), a difficult inflationary environment (67%) and a fight to secure shipping space (43%).

Just under half of respondents (49%) also report that tight labour markets are having an impact on their, or their clients', supply chains.

Figure 24: What disruptions have yours or your clients' supply chains experienced recently?



In this environment it makes sense to step back and evaluate supply chains as to whether they are as robust as possible.

Our survey indicates that the majority of European manufacturers and retailers have concluded that they are not, as 65% have already made changes to where they source from and further adjustments are certain to come down the pipeline.

> "No one knows what the new normal is, so you've got to create agility in your decision making and planning."
>
> **Kim Nigel Overman, Regional Head of Lead Logistics, Europe, A.P. Moller, Maersk**

Manufacturing is more challenging to shift, and with the overarching direction to be to shorten routes to market, European firms are not often looking to shift their manufacturing base, which is typically already focused within the continent. In this context, we see 30% of European companies looking to shift manufacturing locations, which is far below the 55% reported once European-based firms are excluded. This disparity reinforces that European companies are much more comfortable with their existing directly-owned production network than executives elsewhere.

This relative security can also be seen in the fact that while 23% of non-European respondents said that securing factory capacity was an issue, this falls to 16% within Europe, underlining existing stability within European manufacturing.

This share is still substantial, however, and suggests that in the long term view we will see factories being set up in attractive destinations, most likely in Eastern Europe once supply chains stabilise.

Some of the most prominent examples of this trend to have emerged recently come from electric vehicle supply chains, with Volvo in Slovakia, Umicore in Poland and CATL in Hungary all announcing new plants over the course of 2022.

Figure 25: Have global supply chain disruptions changed where you source materials and components from?

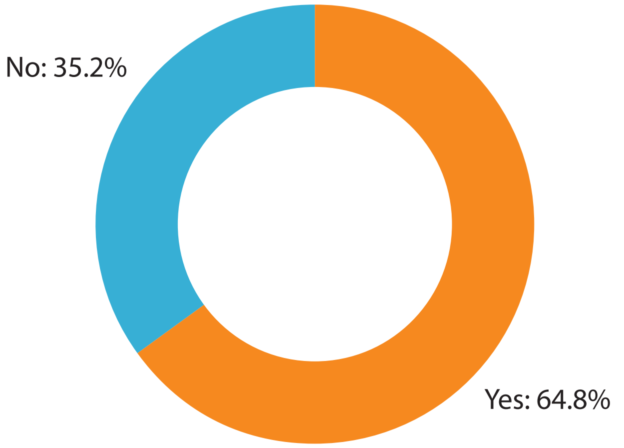
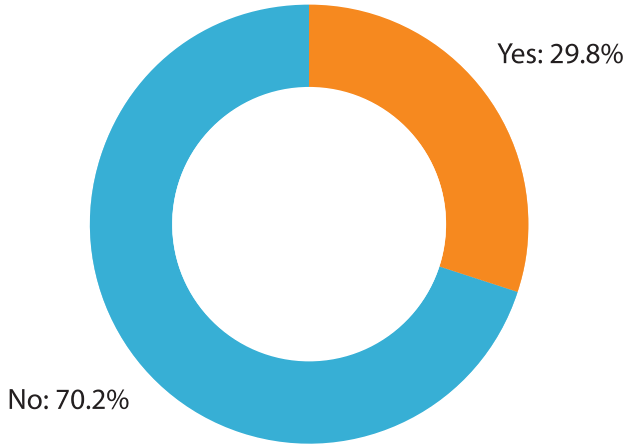


Figure 26: Do you expect to change where you manufacture in the near future?



European companies are searching closer to home

The long list of recent disruptions is creating a powerful impetus among European firms to seek more capacity within, or near to, core markets, rather than having lengthy supply chains stretched across the globe.

This is apparent in the key priorities that sit behind changes in sourcing strategies for firms. Top of that list is improving flexibility, primarily through shortening supply chains (63%), but also to a lesser extent limiting reliance on single sources of materials (58%) and having shorter transit times (40%).

The other driving force is to reduce risk exposure within supply chains and have greater oversight and control. Fifty-eight percent of respondents noted that limiting overall risk is a key factor and 46% want to increase control of their operations. This need, alongside the clear interest in reducing exposure to transportation bottlenecks, are additional factors pushing European sourcing to look inwards and nearby.

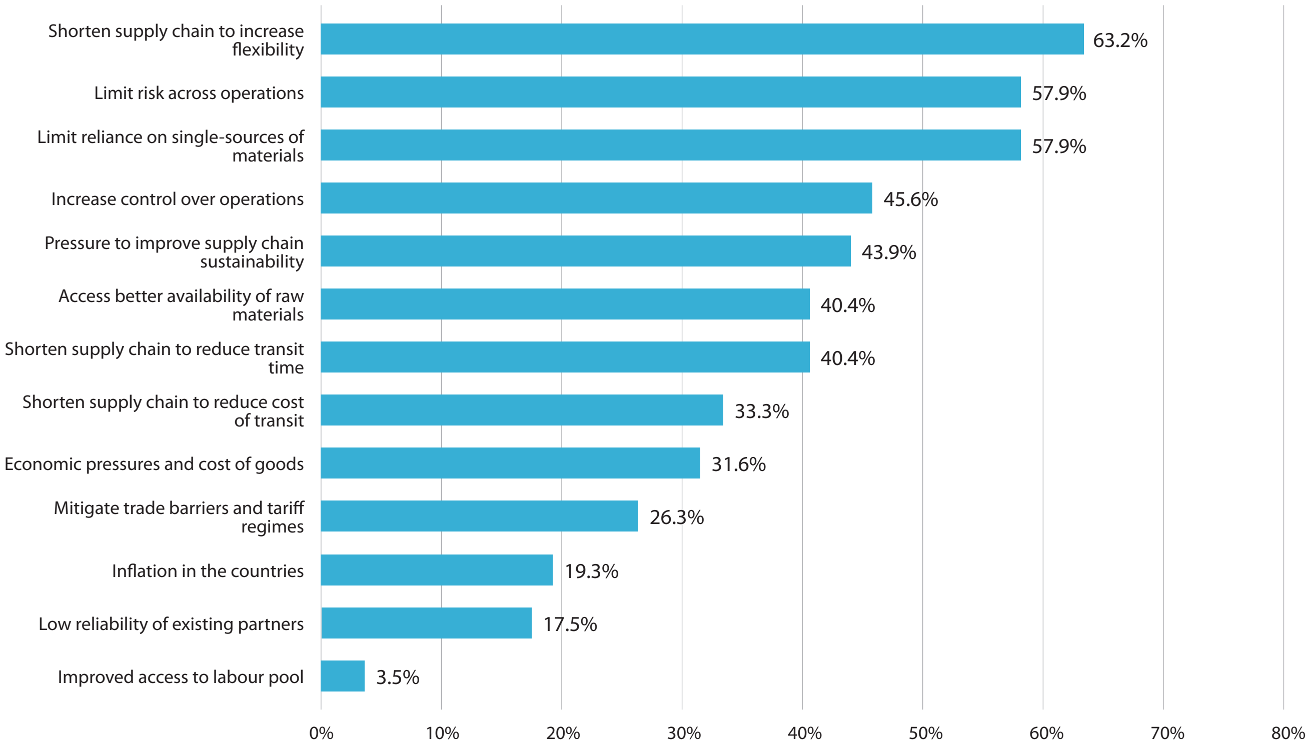
> "Companies are primarily seeking to move sourcing and manufacturing closer to customer demand centres of gravity whilst also considering taxes, duties and other local incentives. We also see labour arbitrage, freight rates and capacity as key decision criteria when assessing new sourcing locations.
>
> "With the ever-increasing importance of sustainability and recent surges in energy prices, companies are now also factoring in the energy cost as well as access to clean energy sources as they seek to reduce their carbon emissions."
>
> **Gustav Mauer, Partner, Supply Chain Leader, Ernst & Young LLP**

Many of the core locations considered most attractive (which we break down in the next section) have reduced risk profiles, provide more flexibility in transport options and have the potential for rapid reconfiguration to meet emerging demand patterns. They are typically relatively stable countries from a socio-economic and political standpoint, they are close to European markets or directly within the common market, and they have the skills base to move towards the highly automated manufacturing processes that can best support the approach that European firms are interested in.

"Pre-COVID, I would say manufacturing nearshoring and best-shoring in Europe was always a dilemma between the gain in labour costs arbitrage, and reasonable distance to market. The further you went east, the less you paid for labour, but the more time and cost it took to bring the product back to your customer."

Karel Stransky, Head of Corporate Industrial Advisory, Occupier Services EMEA, Colliers

Figure 27: Why are you considering changing your sourcing strategy?



"With supply chain impact accounting for more than 80% of greenhouse gas emissions, and more than 90% of the impact on land, water, biodiversity, and geological resources according to McKinsey, business and supply chain leaders have a responsibility to act.

"Proximity to suppliers is as critical as the proximity to our customers for both agility and sustainability.

"Nearshoring and shorter supply chains will reduce carbon emissions, but this alone won't be enough. Businesses need to leverage digital and their supplier and partner networks to reduce their carbon emissions."

Mourad Tamoud, Chief Supply Chain Officer, Schneider Electric

Sustainability will also play a key role in shaping the approaches of European companies. Some 44% of manufacturers and retailers who have shifted sourcing said that this was part of their calculus. This is nearly double the rate reported by respondents from all other regions (24%).

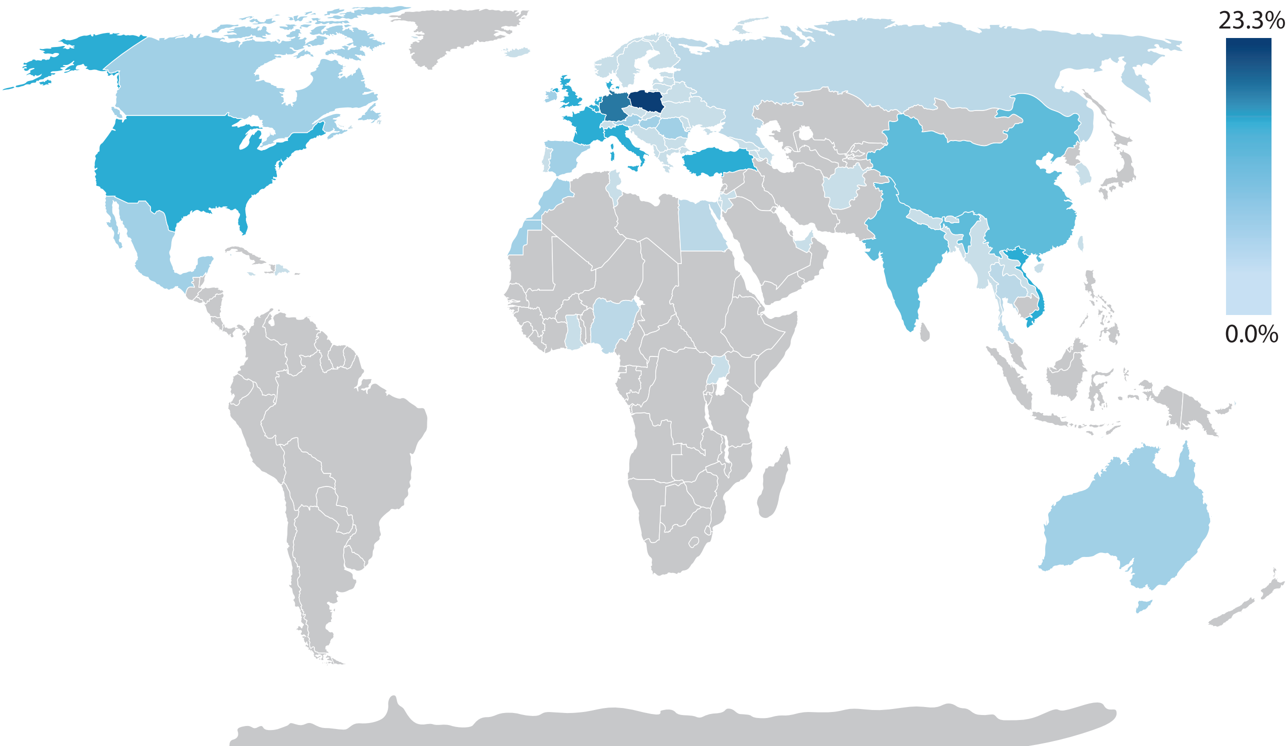
The European Union has been one of the more proactive governing bodies in the world in introducing legislation associated with supply chain sustainability and this is clearly playing into the outlook. The EU has already put in place an emissions trading scheme, is introducing requirements for importers to report embedded carbon, and is putting forward a directive for supply chain sustainability due diligence.

These factors are pushing companies to strengthen sustainability, but there is also a business imperative. Flexibility, risk reduction and cost cutting efforts often align with sustainability in supply chains.

That combination, alongside legislation, strengthens the case for moving sourcing back into countries within Europe or in its periphery, where visibility can be improved and the greenhouse gas burden reduced.

> "A shift in sourcing strategy and network design can support decarbonisation goals, but many factors need to be considered when making those supply chain decisions. Overall, emissions are a function of transport mode emissions intensity (which depends on the drivetrain and the type of energy being used), distance, weight and vehicle utilisation. To ultimately achieve zero emissions (scope 1 or 2), we need to shift to green energy sources.
>
> "Shift of transport mode or reducing distances can have a significant impact as well, but optimisation of emissions impact by distance requires a detailed analysis and consideration of all factors. For instance, goods transported end-to-end by truck can create higher emissions when compared to a longer distance shipment where ocean vessels combine with a short truck move to a final destination."
>
> **Kim Nigel Overman, Regional Head of Lead Logistics, Europe, A.P. Moller, Maersk**

Figure 28: Most popular sourcing and reshoring locations for European companies



A Europe on the lookout for key skills brings sourcing into its core

The recent history of supply chains has zeroed European firms in on a risk reduction pathway. They are now looking for production sites situated in strategically central locations that can give them the right labour force, a relatively stable geopolitical environment, good infrastructure and proximity to markets.

This has left two clear winners in the European space: Germany and Poland. These were chosen as attractive destinations by 23% and 19% of European-based respondents, putting them 11% and 7% ahead of the third most popular country, Turkey, chosen by 12% of respondents, respectively.

That focus, alongside the quarter of respondents who reported that moving sourcing into the same country as the final market is an attractive option, is the clearest indicator yet of the desire to reconfigure Europe's supply chains not just closer to the continent, but to within its borders where possible. It also underlines the continued march of European companies towards more automated production processes, requiring highly skilled workforces.

"I would say [there are] three buckets. It's Germany, the developed Western European countries, but then you simply automate. Then you have the second league of Central Eastern Europe – your Czech Republic, Poland, Hungary – and then you have the outskirts of Europe, where you go into the former Yugoslavian markets, or countries including Romania, Serbia, or to Portugal. In the outskirts is where you benefit from lower labour [costs], but with a higher proximity to markets."

Patrick Haex, Managing Partner, BCI Global

Table 2: Most popular sourcing and reshoring locations for European companies

Country rank	Country	Percentage of respondents	Country rank	Country	Percentage of respondents
Operations will move to the same country as the final market					24.8%
1	Poland	23.3%	16	Austria	4.7%
2	Germany	19.4%	17	Belgium	4.7%
3	Turkey	12.4%	18	Bulgaria	4.7%
4	United Kingdom	10.9%	19	Netherlands	4.7%
5	United States	10.1%	20	Morocco	3.9%
6	Vietnam	10.1%	21	Portugal	3.9%
7	France	8.5%	22	Albania	3.1%
8	Romania	8.5%	23	Slovakia	3.1%
9	Czech Republic	7.8%	24	Australia	2.3%
10	India	7.8%	25	Bangladesh	2.3%
11	China	7.0%	26	Croatia	2.3%
12	Hungary	7.0%	27	Egypt	2.3%
13	Italy	6.2%	28	Greece	2.3%
14	Mexico	6.2%	29	Slovenia	2.3%
15	Spain	5.4%	30	Switzerland	2.3%

That movement is also highlighted by a host of high income Western European countries scattered throughout the top 30 most selected countries, including the UK (11%), France (9%), Italy (6%), Spain (5%), Austria (5%), Belgium (5%), and the Netherlands (5%).

> "I think Eastern Europe is going to be the first winner … The reason I say that is because they have the right mix of skill sets, living wage and capability, combined with significant investment that is going in [to the region]."
>
> **Sushank Agarwal, Managing Director, INVERTO, a Boston Consulting Group company**

Continuing the inward investment trend, Eastern Europe is also heavily present throughout, with the most popular destinations focused primarily to the south-east of Germany and Poland, led by Romania (9%), the Czech Republic (8%) and Hungary (7%). Then, to a much lesser extent, destinations in the Balkans are ascending, albeit from a small base, with Albania (3%), Croatia (2%), and Slovenia (2%) sitting in the low end of the top 30 countries.

Then there is the European periphery, where the clear leader for sourcing inflows is Turkey (12%). While Turkey is something of a compromise, with high inflation and some policy environment questions, its location and workforce competitiveness make it an extremely attractive proposition for European companies across a number of sectors, including textiles, chemicals and automotive.

> "Morocco, Egypt, Turkey, they're all one pool as they've all got similar product profiles in terms of what you can source from there.
>
> "In all three of those, we've got demand on our infrastructure. We need to now build more warehouses to hold more product for customers.
>
> "Our land-side teams are looking to build more infrastructure that is moving product south to north in Europe, as well as seeing the need for trains replacing short sea and to replace trucks. There are definite shifts going on around the transport modes that customers are looking to use."
>
> **Kim Nigel Overman, Regional Head of Lead Logistics, Europe, A.P. Moller, Maersk**

Beyond Turkey, there is interest in North Africa, where the frontrunners are Morocco (4%) and Egypt (2%). This seems set to grow from this modest base, with more complex manufacturing operations shifting into Morocco in particular. Industry in the country is moving up the value chain, with increased investment into the automotive and aerospace components sector. These two countries represent some of the greater oases of stability and decent infrastructure levels, with Morocco home to the largest container port in the African continent.

> "Morocco seems to be the biggest attraction … There is very clear governance. It's a relatively liberal society. There is a strong focus by the government to invest in tomorrow's infrastructure and in ESG, reducing carbon footprint, and self-sufficient energy sources to a certain degree.
>
> "Yes, there is a risk there, with Western Sahara, but, overall, it looks like the best destination [in North Africa]."
>
> **Karel Stransky, Head of Corporate Industrial Advisory, Occupier Services EMEA, Colliers**

Further afield, there is an interest from European-based companies to invest into sourcing locations with closer access into the US market. The US itself was selected by 10% and Mexico by 6%, as firms look to try and take advantage of the USMCA trade bloc and the fact that the US is a huge trade partner for most European states. Research from the German Economic Institute noted that the US's share of value added in domestic final demand and exports of EU member states is more significant than that of China, for example.

That makes gaining favourable terms between the two markets valuable. While the Trump administration marked the starkest shift towards protectionism, the Biden presidency has continued to promote localised manufacturing and has not rolled back all the measures undertaken by his predecessor.

A combination of the diminishing level of wage disparity between the US and previous sourcing hotspots, incentives to add jobs and facilities in the country, increased shipping costs and additional tariff burdens is driving a move to invest in the US and its southern neighbour.

> "For the fashion industry specifically, East Africa is something to definitely look at in terms of labour availability ... In Ethiopia, for instance, or Kenya, this is definitely something that I believe will grow, but maybe not to the extent of a China."
>
> **Michael Skobierski, Manager, International Supply Chain and Projects, Desigual**

Finally, Asia-Pacific hasn't been forgotten, but the interest is concentrated into a small number of countries. In these cases, companies are looking to diversify their sourcing into infrastructure-enabled locations, but still maintain a cost advantage in labour arbitrage.

The primary winner in this regard is Vietnam, which has become a centre for inbound investment into the electronics and automotive sectors. Recent headline-grabbing investments from international firms include key Apple supplier Foxconn upping is stake in the country and Samsung announcing a $920 million new factory in the North of the country.

Beyond this, India (8%) is set to grow as a sourcing centre for European companies, while China, although diminished in attractiveness compared to a decade ago, continues to have numerous centres of excellence across a range of industries and was selected by 7% of respondents.

These results underline that while there is a broad trend to relocate sourcing and production in home and closely situated markets for European companies, this does not mean a wholesale and sudden break with globalised sourcing. Indeed, an ifo research piece estimated that a large scale effort to reshore German industry would cut deep into competitive advantages and reduce German GDP by up to 10%.

> "There used to be a saying for the last 15 years that China is the manufacturing hub of the world. It's not true. We did a search about 10 years ago and it was very obvious that the customers we approached said, 'Well, China is interesting, because there is a huge consumer market there, but when it comes to the cost of labour, and the cost of transport … it's not that attractive anymore. We need to be looking at the different locations.'
>
> "In Europe, when you manufacture for European consumers, don't do it in China, do it somewhere closer."
>
> **Karel Stransky, Head of Corporate Industrial Advisory, Occupier Services EMEA, Colliers**

Nonetheless, sourcing in Asia is a lower priority for European companies than on a global basis. Whereas nine of the top thirty and three of the top 10 countries selected by the global survey population were in Asia-Pacific, this falls to five and one, respectively. This reinforces the drive amongst European firms to head home when it comes to sourcing and to zero in on high-productivity, well-connected locations with strong labour pools.

Looking at wider datasets on industrial and workforce performance reinforces the where and why of this approach.

Considering first purely the overall manufacturing workforce available and how developed that is, European companies are keying in on locations where there is already a high proportion of workers in the manufacturing sector.

International Labour Organisation (ILO) figures show that there is a link between the popular destinations selected by European organisations and the existing workforce in the sector.

Looking at the top 10 countries by this measure, they all have roughly a fifth of their workforce employed in manufacturing roles, and up to a quarter in the case of the Czech Republic and Slovakia. This is comfortably more than the average for Europe and Central Asia (15%) and for high income countries overall (13%). There is noticeable crossover between our survey's top 10 and the ILO's, with six shared countries, and all bar North Macedonia present in our top 30.

Table 3: ILO estimates of manufacturing employment as a proportion of total employment

Country	Manufacturing employment as a proportion of total employment
Czech Republic	26.1%
Slovakia	24.9%
Slovenia	22.1%
Hungary	21.2%
Vietnam	21.0%
Germany	19.9%
North Macedonia	19.9%
Turkey	19.7%
Romania	19.7%
Poland	19.4%
Europe and Central Asia	14.7%
World: High income	13.0%

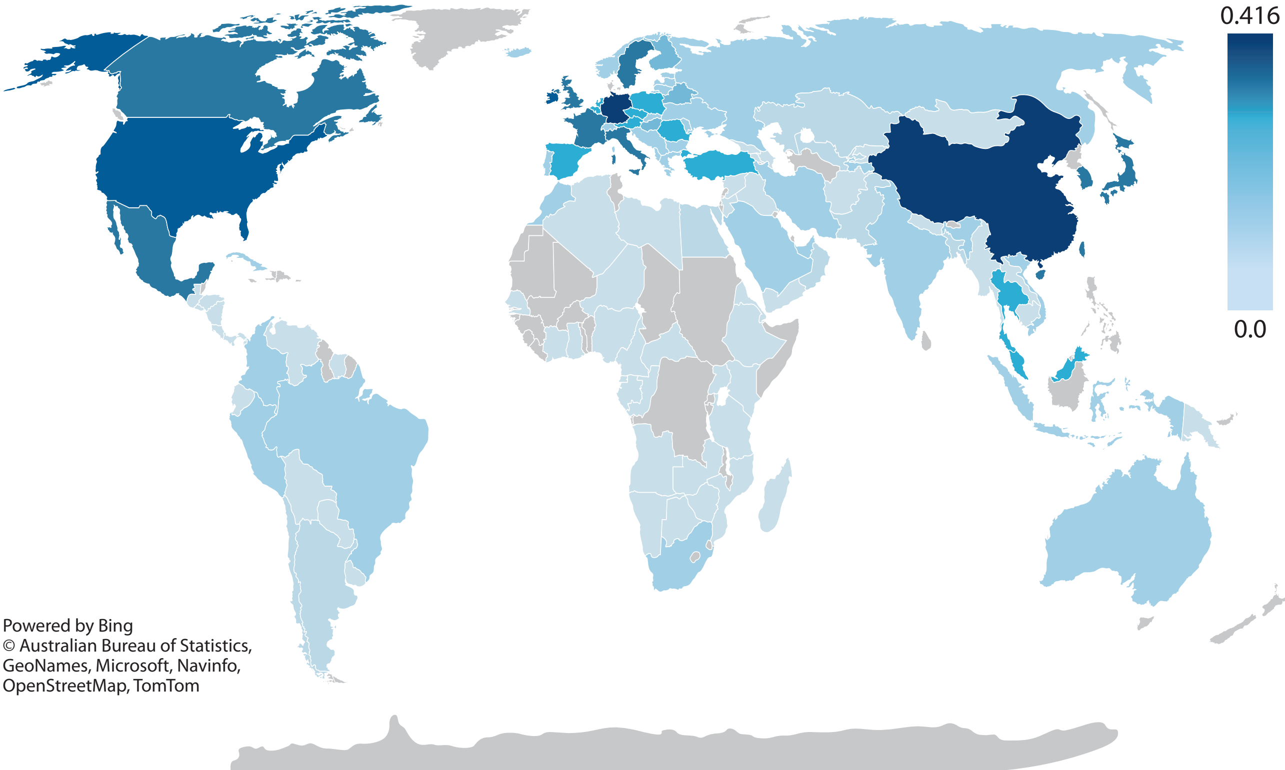
Labour force size is one thing, but its productive capacity is just as, if not more, important. Using the United Nations Industrial Development Organization's Competitive Industrial Performance Index (CIP) as a proxy for how competitive national manufacturing output is, then there is also considerable crossover. Eighteen of the top 30 countries in the UNIDO CIP Index are also on our top 30 most attractive companies for European firms.

"We can say, let's bring production back to the UK, or sourcing back to the UK or Germany, but then we also need to think about what is the labour market [there]? Because it's great to think that it might be best for company, but if the labour market is constrained … the question [becomes] is that doable?

"That's why you see only the ripple effect of companies executing this, because it's much easier said than done in practice."

Patrick Haex, Managing Partner, BCI Global

Figure 29: UNIDO Competitive Industrial Performance Index 2020



Furthermore, the top nation listed in the CIP is Germany, and there is a preponderance of highly developed Western countries, underlining that these countries remain attractive because of how manufacturing and supply chains are developing, despite the high costs to doing business there.

Competition will be high for well-positioned partners

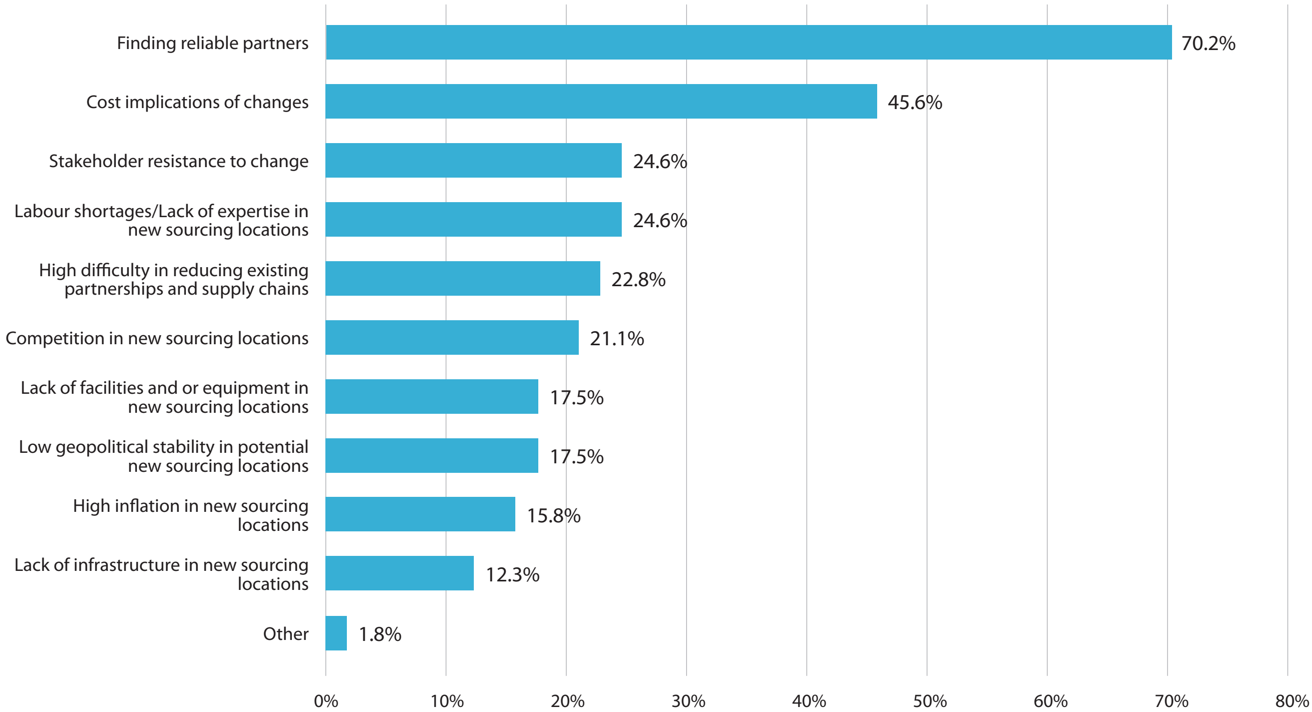
What all of the locations noted in the prior section have in common is that they are home to pools of skilled workers and that they have significant infrastructure that gives them good routes to access virtually all European markets, whether that is by sea, rail or land.

It is clear from the trends outlined in our research that Europe-based firms are no longer prioritising the very lowest cost options, and instead are looking to source either directly in the end market or in a location where this mix is present and nearby.

There are challenges and trade-offs to these decisions, however, with a race on to find the best partners in these locations in an increasingly competitive market space that is putting a premium on reliability, talent, productivity and proximity, while balancing these factors with overall landed costs.

> "If I'm going to a new country, the real priority is to get the required skill set, [which] leverages automation and robotics for lower skilled activities, together with just-in-time delivery lead-times.
>
> "What this crisis has done is accelerated that [robotics-AI] curve, driven by a desperate business need to contain spiralling costs."
>
> **Sushank Agarwal, Managing Director, INVERTO, a Boston Consulting Group company**

Figure 30: What are currently the biggest barriers to changing your sourcing strategy?



With 70% of European organisations noting that pinpointing reliable partners is a major issue currently, 25% encountering shallow labour pools and 21% facing competition to sign on new partners, it is clear that investment is going to be needed to both find and grow productive capacity.

This, alongside the movement to much higher wage bases, is why the second largest barrier is the costs of making such changes (46%), although some of that is recouped from reduced shipping and inventory holdings.

"What you have is geopolitics. That's something that was always there, but we kind of forgot about it for 30 years after the collapse of Soviet Union. We thought it's not going to be relevant anymore. Now it is relevant. It is the biggest risk factor, and when you ask me what my clients want to do, my honest answer is most of them don't know. They are sitting and waiting, evaluating, studying, modelling, and so on.

"So, the leading question today is how to really measure and objectivise the risks associated with geopolitics? That's the key underlying question. All the rest is relatively easy. You have quantitative metrics: You have inflation; you have unemployment; you have education levels; you have taxation rates; you have governance structures. All of that you can quantify to a certain degree. What you cannot quantify that easily is the geopolitical risk. This is really where I'm focusing."

Karel Stransky, Head of Corporate Industrial Advisory, Occupier Services EMEA, Colliers

Further evidence of how the European search for closer sourcing directly influences the barriers being encountered can be seen in the less prominent issues too. While European manufacturers and retailers are more likely to report that low geopolitical stability is an issue in sourcing locations than for all other regions (18% versus 4%), they are less likely to find that infrastructure is an issue (12% versus 27%). This reflects that most searches are taking place in well-developed countries linked closely to European markets.

However, it also shows some European firms are having to sometimes look beyond first choices to secure competitively priced labour and that these countries in the European periphery do often have a less-than-perfect geopolitical environment.

> "The main aspect we look at is stable political environments. For instance, we have been looking into Sri Lanka as a sourcing location, or Myanmar … but in the end these political issues also have an impact on the supply chain and on the shipping operation and getting the goods out of the country. … The manufacturing was not such a big problem on our side, but to get the things out of the region was the main struggle."
>
> **Michael Skobierski, Manager, International Supply Chain and Projects, Desigual**

Overall, though, the trend underlined throughout our results is that European firms are determined to overcome these issues to make their supply chains stronger, more reactive and shorter by sourcing from countries within the common market first, and then to locations where the right mix is present for a reliable stream of products, components and raw materials. That trend has been developing for some time and now seems to be progressing in force, which will require companies to invest into the infrastructure to produce, carry and hold inventory in this revised and more condensed supply chain network.

About Maersk

Maersk is striving to be a true integrator of container logistics, connecting and simplifying our customers' supply chains through global end-to-end solutions – from the farm to your refrigerator, or the factory to your wardrobe. The results of the data-led report 'Re-thinking global supply chains' highlight that sourcing is a growing priority to reduce risk profiles and provide more flexibility. Being active in 130 countries, Maersk – with its extensive global network – is opening new opportunities in terms of entering new markets and also sourcing. We are able to manage the entire product journey, including inland services, warehousing, air freight, customs services, supply chain management and more. Maersk offers a unique value proposition through a combination of connected physical assets, new digital platforms and insights-driven advice.

About Sealand

Sealand – A Maersk company is an integrator division of Maersk. Sealand connects global and regional supply chains, offering the right fit to turn near-sourcing challenges into business opportunities thanks to its fast and agile way of working. Sealand complements the global value propositions of Maersk by applying regional expertise to distribution and last/first-leg supply chain needs. Near-sourcing has elevated the need for full cycle providers that can both move cargo, physically handle cargo and provide instant visibility to flows throughout the supply chain. Sealand offers that unique value proposition as intra-European logistics specialist.

Methodology

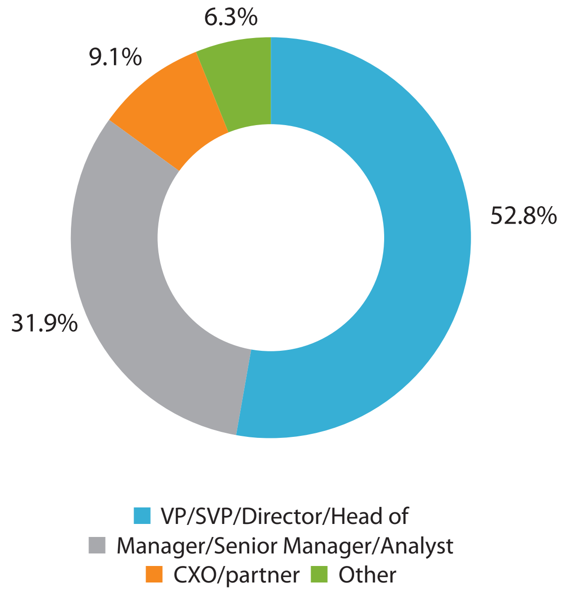
Reuters Events, Supply Chain conducted a survey of supply chain professionals between August 2nd and September 13th 2022.

The majority of respondents were from Reuters' internal database of professionals but select external partners were also used. A total of 368 respondents replied to the survey, 81% of which completed their respective survey paths in to end.

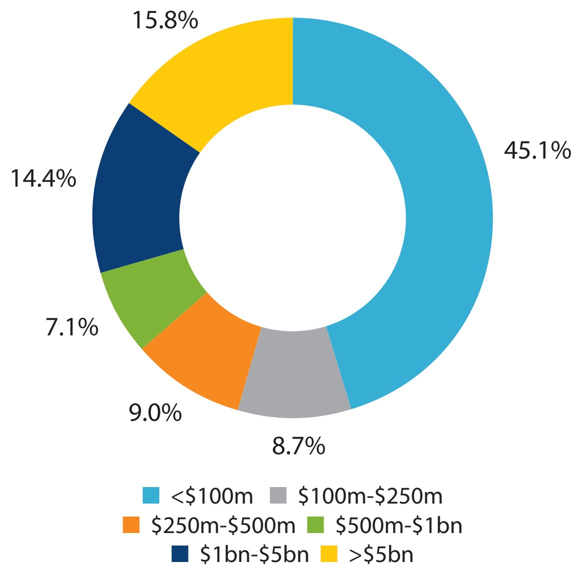
This survey was focused on the European space and targeted European supply chain professionals, but was not closed off to responses from a global audience. This is why respondents are primarily based in Europe at 57.1% of the survey population.

The following is a breakdown of how respondents identified themselves.

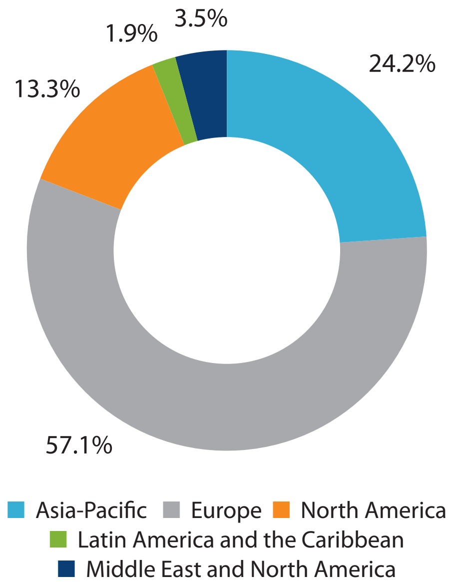
Respondents by seniority of position



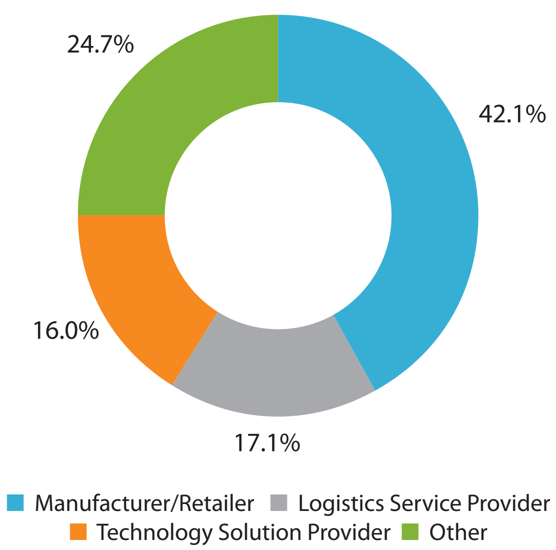
Respondents by company revenue



Respondents by primary geographic base of organisation



Respondents by company type



References

Buck Consultants International (BCI) and Supply Chain Media. Global Reshoring & Footprint Strategy.

International Labour Organisation (ILO). ILOSTAT Explorer, SDG indicator 9.2.2 - Manufacturing employment as a proportion of total employment (%).

McKinsey & Company. Revamping fashion sourcing: Speed and flexibility to the fore.

QIMA. QIMA 2022 Q3 Barometer.

Reshoring Initiative®. IH 2022 Data Report.

United Nations Industrial Development Organisation (UNIDO). CIP - Competitive Industrial Performance Index 2020.