

SUPPLY CHAIN

Is Off-Shoring Crippling your Supply Chain?

By Audere Team

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In our earlier article, [“Supply Chain Risks that Could Easily Cripple a Company,”](#) we discussed various risks that have significantly moved higher on the danger list due to the severe disruptions presented in the last year. In summary, we encouraged readers to continually evaluate and update their Supply Chain Risk Management (SRM) metrics, processes and plans to improve the identification and reaction times to events as they unfold. Risks related to the critical decision(s) of where stuff is sourced proved to be the primary form of disruption; conceivably, it is the reason in many factories, production has been severely impacted, leaving demand unsatisfied. Under these circumstances, consumer and supplier loyalty will be tested, and recovering lost customers or suppliers will be difficult.

The pandemic-related supply disruption may have masked some of the emerging Supply Chain drivers, including sustainability, climate change, emerging transportation issues, and increased political instability (leading to Tariffs). Anyone associated with the Electrical Vehicle (EV) industry knows that these drivers are continuing to have an increasing impact on SRM.

The fundamental question remains, “Where did our Supply Chain Strategy and supporting SRM fail?” A year into the pandemic, we would hope that companies have undertaken a serious review of their Supply Chain Strategy (SCS), supporting scorecards and the Management Operating System (MOS) that binds it all together. Our experience shows that similar reviews create several investigations with resulting initiatives to revitalize the overall Supply Chain strategy, making it more predictive and more proactive.

A question that we continually get asked, and one that companies are asking themselves, is “Could I have

avoided most, if not all, of this disruption with the use of local suppliers?” The simple answer is “Yes,” but nothing is ever that easy.

In working with our clients, we find that the first question should be: “Why were these products off-shored in the first place?” Though cost, quality, multi-supplier sourcing, and capacity are valid reasons why products are sourced off-shore, we question whether this thesis is still applicable given the lessons learned from recent disruptions. These questions can best be answered by conducting a thorough, in-depth, objective review of your company’s Supply Chain and Operating Strategies from the perspective of the SRM portfolio, something that is likely unique to your company. Before exploring valid, current drivers for off-shoring, it would be good to look at how we arrived at the current state. The massive push for off-shoring was driven by US and British Government policy changes in the late 1970s. US Government policy switched from a more-restrictive tariff-based system to one pushing for unrestricted free trade. This systematic and seismic shift to “Free Trade” and reducing trade barriers led to an almost immediate dislocation of jobs from the Developed world to 2nd and 3rd world countries, in particular China. Cost reduction was the predominant factor, and issues, including labor safety, environmental concerns, fair pay, and sustainability, were all but ignored in this move. A brief reflection on today’s environment shows that besides a partial reversal in global trade policies, previously ignored issues are now beginning to have a significant impact on supply chains.

If the results of your company’s supply chain investigations are that on-shore options should indeed be explored, there are several challenges to consider with local supply:

Are the products/materials I need even made here?

If yes:

- How unique are the products/materials?
- What is the cost, and does it meet my market needs?
- Are they capable of making MY product to quality standards?
- Do they have the capacity to meet my needs on a reliable schedule?
- Do I have, or can I build a successful relationship with them?

If no:

- Can any of my existing suppliers retool to make these products?
- Are there assets capable of making the product that have been idled by demand being previously driven off-shore?
- Can I use my company's financial power/credit strength to partner with suppliers or Private Equity to build this capability?
- Was this product made in-house before moving it off-shore for reasons that now may not be as applicable?

These are all traditional business questions that companies have dealt with daily for many years. Indeed, to be included in a review of this type are the more recent socio-political issues of sustainability, projected trade policy, environmental, worker's rights. Social media postings of claimed poor working conditions and environmental destruction, or insensitivity, can cause instant disruption to the supply chain and production process, and longer-term damage to brand, image and market demand.

Structuring, executing, and implementing the resulting recommendations of a review is a daunting task. If organized and managed correctly, it will move the business to a more prepared state. Some necessary recommendations steps could and will include:

- **Create/Update your Supplier Risk Management Assessment (as discussed in our previous article)**
- **Create a cross-functional team of sales, procurement, logistics, operations and finance, and charter it with clear objectives, timelines and necessary accountability**
- **Identify which products/materials/components were disrupted or have the potential to be disrupted in the future**

- **Prioritize those items for individual (or product family) review based on the economic impact on the business**
- **Use structured analysis tools (Fishbone, Five Whys, etc.) to delineate:**
 - root cause(s)
 - weaknesses of the SCM
 - how SRM failed to provide early warning
 - why the MOS failed the organization
- **Develop a robust set of change recommendations with resource and calendar requirements prioritized by business value**
- **Present for executive review, selection and implementation authorization**
- **Update your Supply Chain Risk Assessment and Supplier Maps**

A critical step in any vendor review and selection due-diligence process is "eyes on the ground." With the current pandemic, travel restrictions or cautions and staff resistance to potential exposure can present a gap in decision data. There are alternatives available, such as outside organizations that happen to be local to the potential supplier or have decided to continue to travel to provide client services. These findings can be summarized and reported back remotely, reducing your staff's exposure to your company's travel restrictions and guidelines.

These most recent supply chain disruptions driven by the pandemic are unlikely to be a one-time black swan event, but a likely indicator of potentially recurring events. Disruptions due to climate change, political instability (Tariffs/trade restrictions), workforce issues (pay-equity/safety), environmental, customer expectations, and sustainability will continue to become significant factors in Supply Chain Planning and Management. These events will require organizations to develop more robust SRM systems that are "evergreen" and rapidly adaptive to sudden (expected or otherwise) changes in the environment.

The possibility of "On-Shoring" should play an ever more critical role in this future system. In future articles, we will discuss and outline what an "evergreen" Supply Chain system should look like.



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