



RESHORING TO EUROPE:

CASES, REASONS, ISSUES AND CHALLENGES

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Agenda

- 1 Introduction**
Reshoring in a Global Context
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Snapshot of Concurrent “Shoring” Activities
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1. INTRODUCTION

Reshoring in a Global Context



What is “... shoring” ?

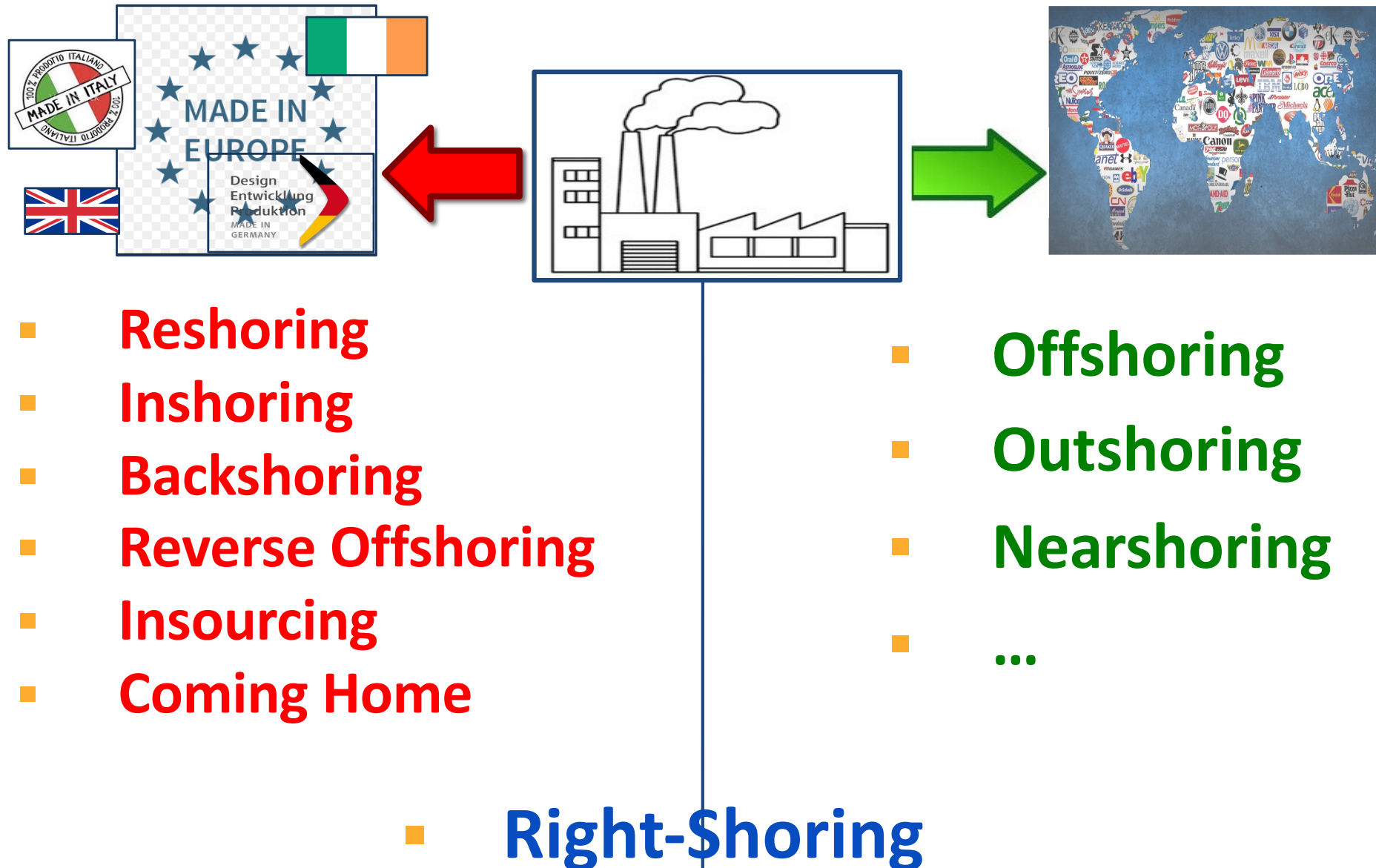
- The **relocation** of *whole or parts* of **Business Processes** from one continent/country to another.
- Typically: operational Business Processes, like manufacturing, and their related technical and administrative services.

What is “Reshoring” ?

- **“*Partial or total* return of Business Processes which had been *offshored and/or outsourced* mostly to low-wage countries back to the home country(region).”**

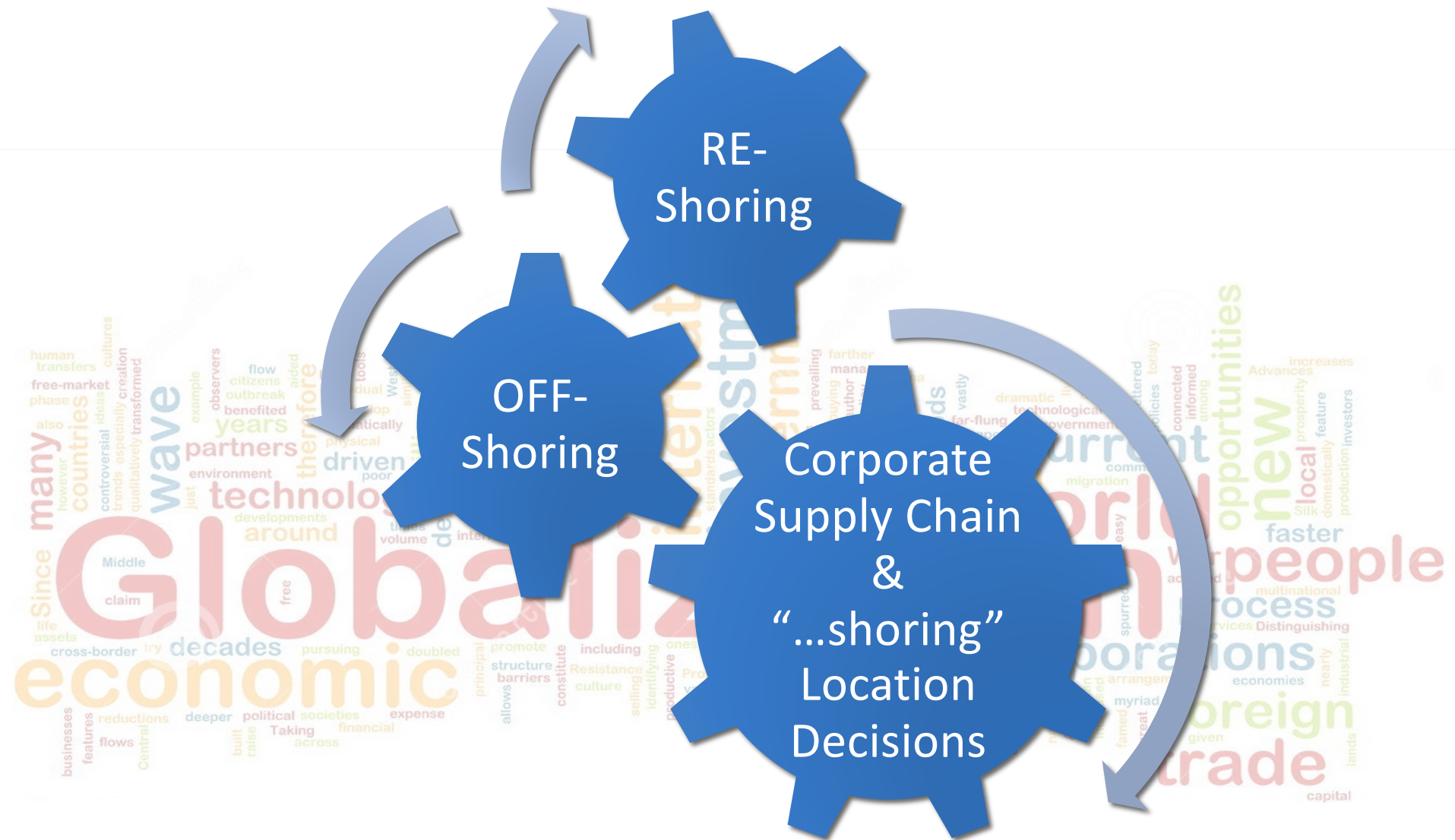
(Needham, European Parliamentary Research Service, 2014)

The many “... shoring” varieties reflect the complex scenario



[illegible]

Globalization - an ever moving environment



2. CASES: COMING HOME

Snapshot of Current “...shoring” Activities

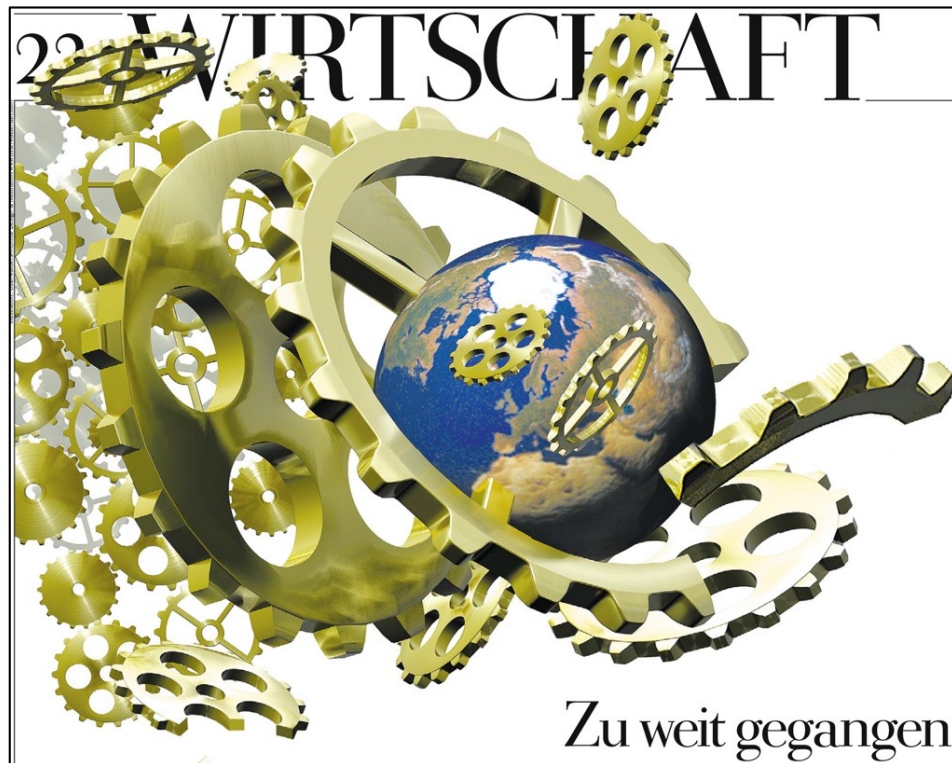
It all started with an Offshoring Hype

– Trendy and Fashionable in 1990s –

- China opens its door in late 1970s
- 1980s – early 2000s: manufacturing rushing into China
 - “unlimited” cheap labor
 - enormous domestic market
 - generous incentives from the government, encouraging foreign investment
 - advantageous exchange rate



Gone too far?



WPP Italia



Quellen:
The Economist,
19.01.2013,;
ADVISORY BOARD
WPP 2015;
Die ZEIT,
Nr. 16, 15.04.2010,
European
Parliamentary
Research Service



Steiff



Steiff Group

Giengen a.d. Brenz

- Locations worldwide
- Plush Toys, Teddy Bear, Children's Clothing, Lifestyle

Business Challenges

- Production Quality
 - “Uncanny Valley” phenomenon
- Reaction Time

Steiff – Case 1 – Made in Germany – Shipped to China





Varta Consumer Batteries Ellwangen

- Locations worldwide
- Batteries, Accus, Chargers, Portable Power, Special Batteries

Business Challenges

- *(No public comments)*
- *Most applicable causes*

... Piracy, Quality...

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Zentrale GMBH + CO. KG

Hersbruck, Aichach,
Benshausen

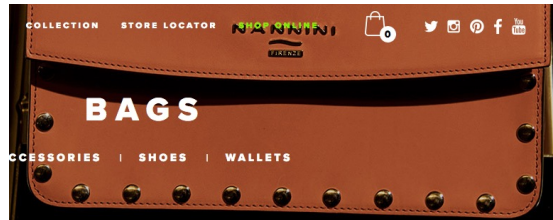
- Locations worldwide
- Household and Professional Kitchen Helpers, Goods, and Bathroom Furniture

Business Challenges

- Costs of Labor
- Costs Logistics
- Environmental Costs

Gone too far? – Case 3





Nannini

Florence, Italy

- Producer of high-end leather bags and accessories, a brand for the quality leather goods market
- Since 2014, reshored 100% production back to Italy (Advisory Board WPP, 2015)

Business Challenges

- Availability of the distinctive skills in Italy
- Recouping the characteristics of quality and craftsmanship



Azimut Benetti Group

Avigliana, Italy

- The world's leading manufacture of luxury and mega yachts
- Since 2012, closure of the offshore Turkish production site
- Refocus on 3 production sites in Italy with one small site in Brazil just for the South American Market

Business Challenges

- Best skilled workforce and Know-how
- Quality
- Sustainability



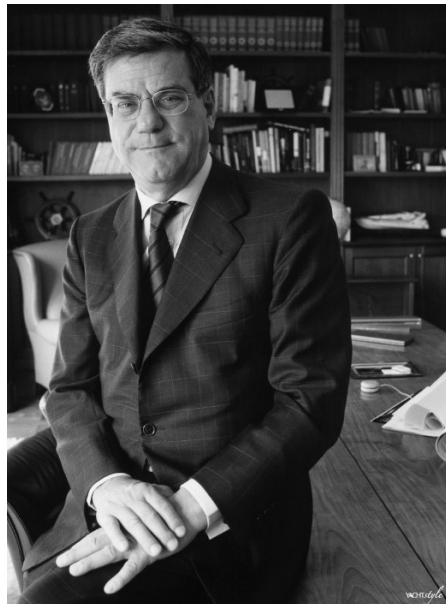
Gone too far? – Case 5



*“It is not said that we have to grow,
it is not said that we have to acquire companies in order to grow.”*

*“We take opportunities to enter new segments of the market
primarily to give stability to our group”*

Paolo Vitelli, CEO and founder of Azimut Benetti Group, a luxury yachting group





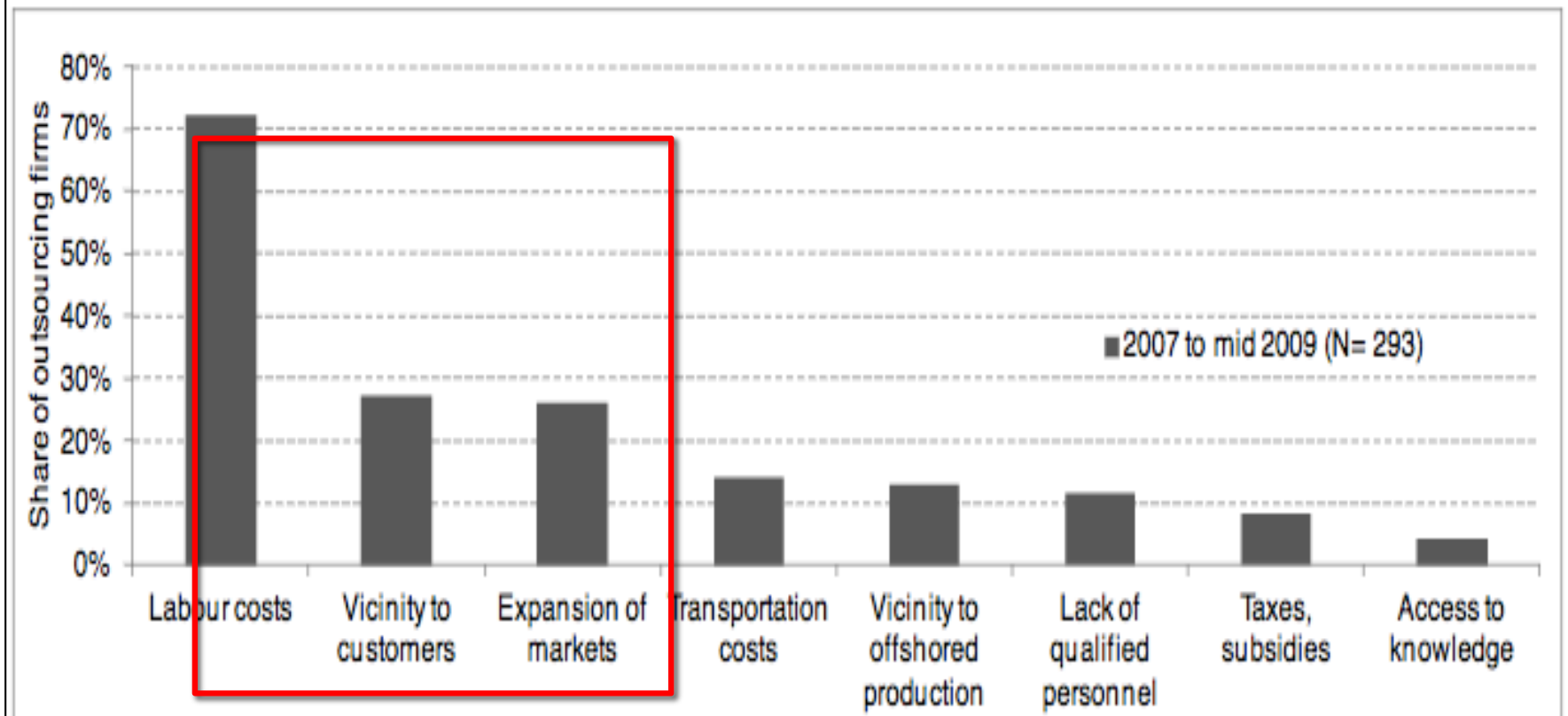
3. REASONS: DECISION FOR RESHORING

The Motivating Drivers



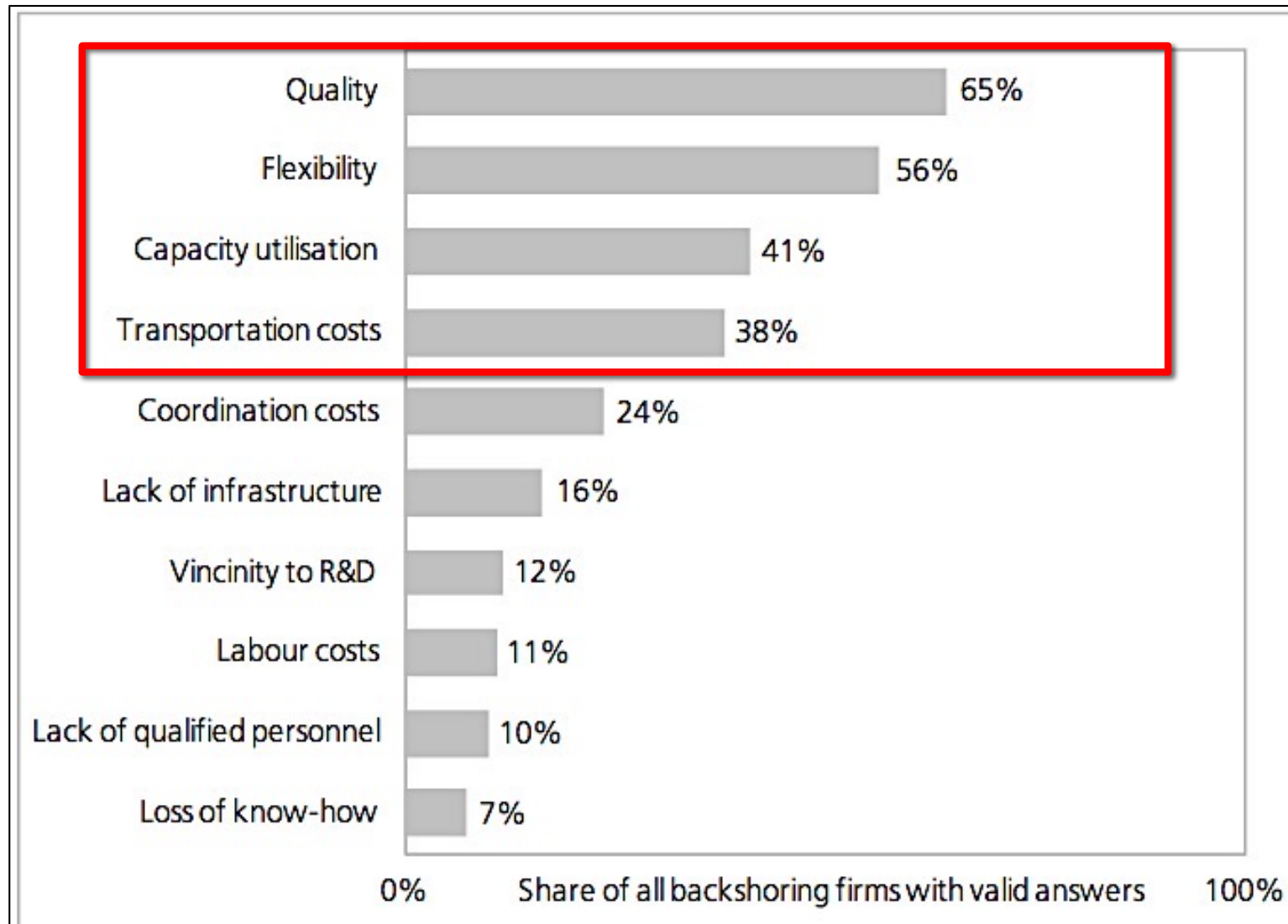
Offshoring Motivation Drivers – The European Perspective

Figure 7 - Main motives for production offshoring



AIT Austrian Institute of Technology
Fraunhofer Institute for Systems and Innovation Research ISI

Reshoring Reasons/Drivers - The Pan-European Perspectives

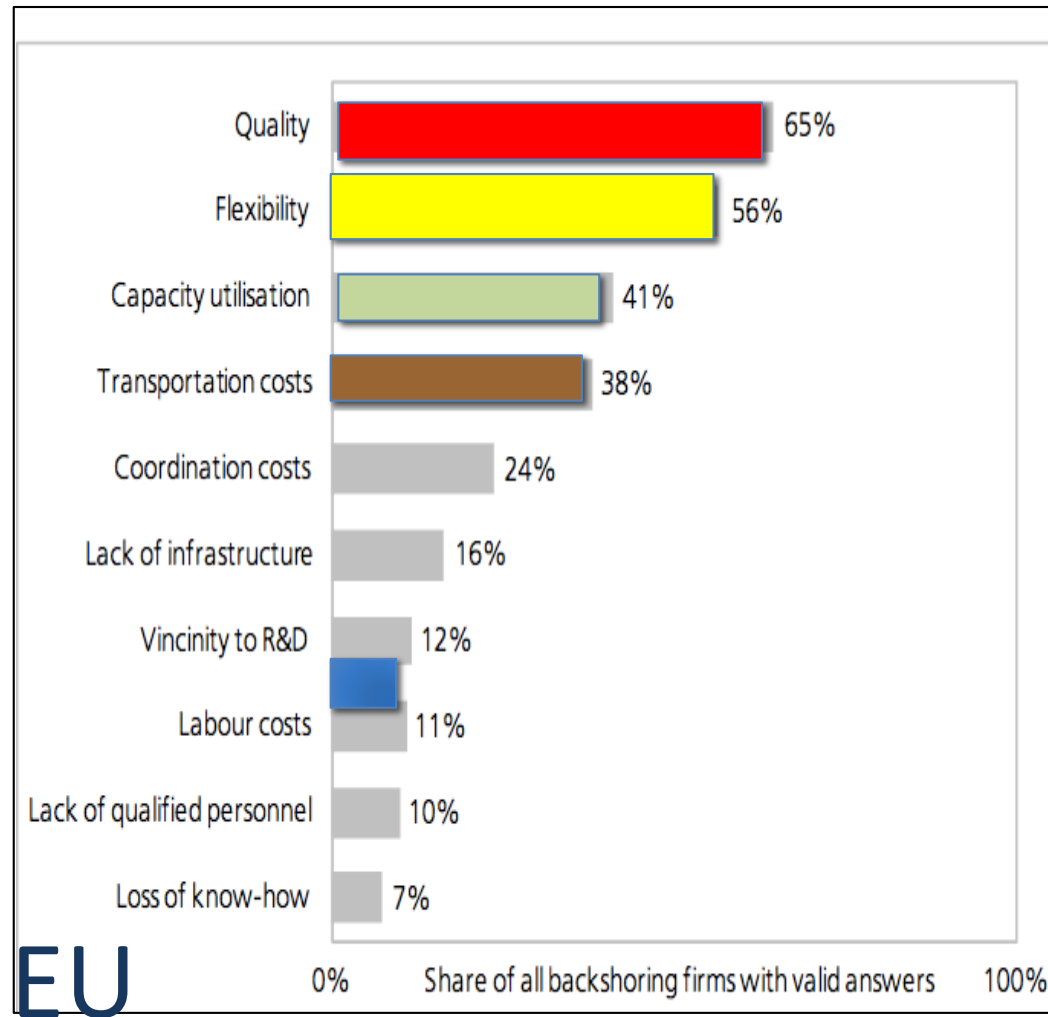


Source: Fraunhofer Institute for Systems and Innovation Research ISI

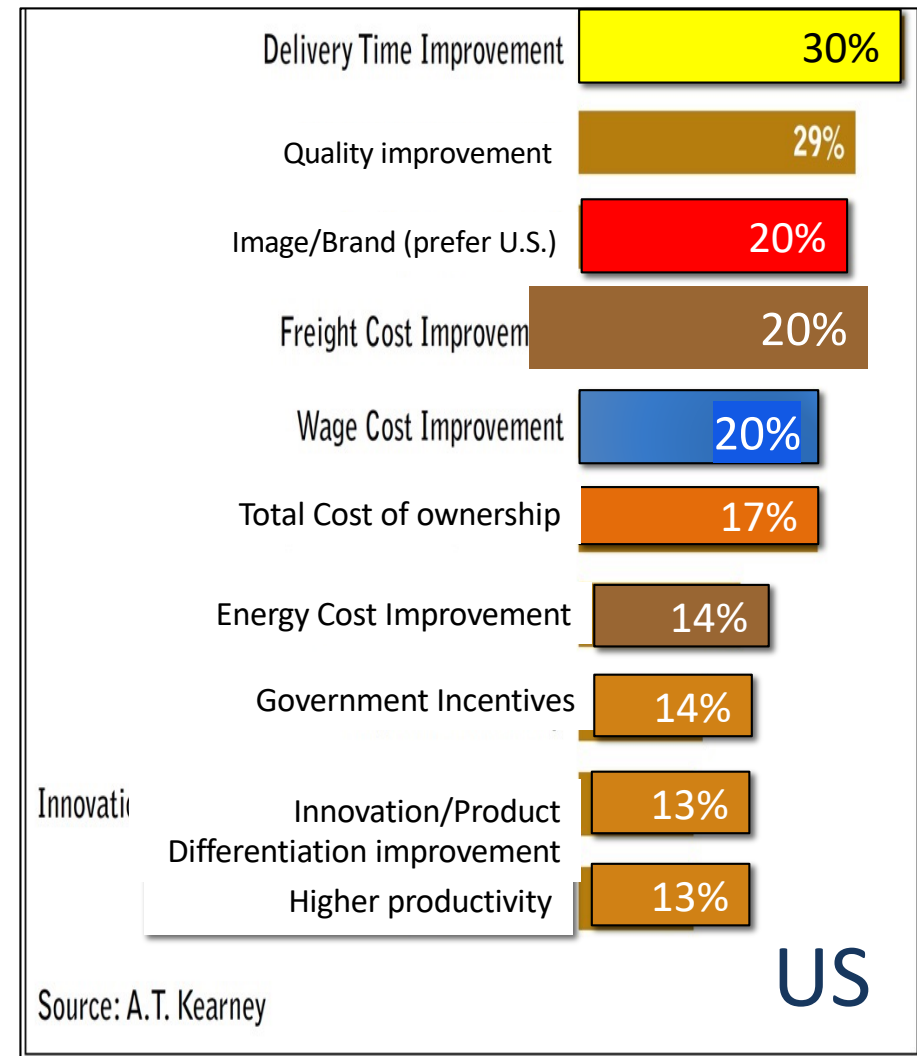
Ambivalence of “Quality”: MADE IN GERMANY



Reshoring Reasons: Comparison EU-Priorities vs. US-Priorities



Source: Fraunhofer Institute for Systems and Innovation Research ISI



Source: A.T. Kearney

Ambivalence of “Quality”: MADE IN CHINA



“Reduced Carbon Footprint” became first time the reason of reshoring since late 1990s

Which of the following factors would positively contribute to a decision to reshore manufacturing operations to the United States? (Top five factors)

	Small companies	Medium-size companies	Large companies
1	Quality of goods	Quality of goods	Labor costs
2	Delivery lead times	Labor costs	Logistics costs
3	Logistics costs	Reduced carbon footprint	Labor availability
4	Ease of conducting business	Delivery lead times	Delivery lead times
5	Quality of goods	Logistics costs	Reduced carbon footprint

● Factor appears once in top five factors across company sizes.
 ● Factor appears twice in top five factors across company sizes.
 ● Factor appears three times in top five factors across company sizes.

Note: Small = less than \$250 million, medium = \$250 million to \$5 billion, large = more than \$5 billion

Source: Kearney analysis

Reason for reshoring

- delivery lead times
- logistics costs
- labour cost (labour availability)
- reduced carbon footprint

Reason obstructs reshoring

- labour shortage at the US market
- automation and robots
- lack of domestic supply chain build-up to support reshoring activities
- Lack of investment in transportation infrastructure (road, bridges, ports, digital, etc.)



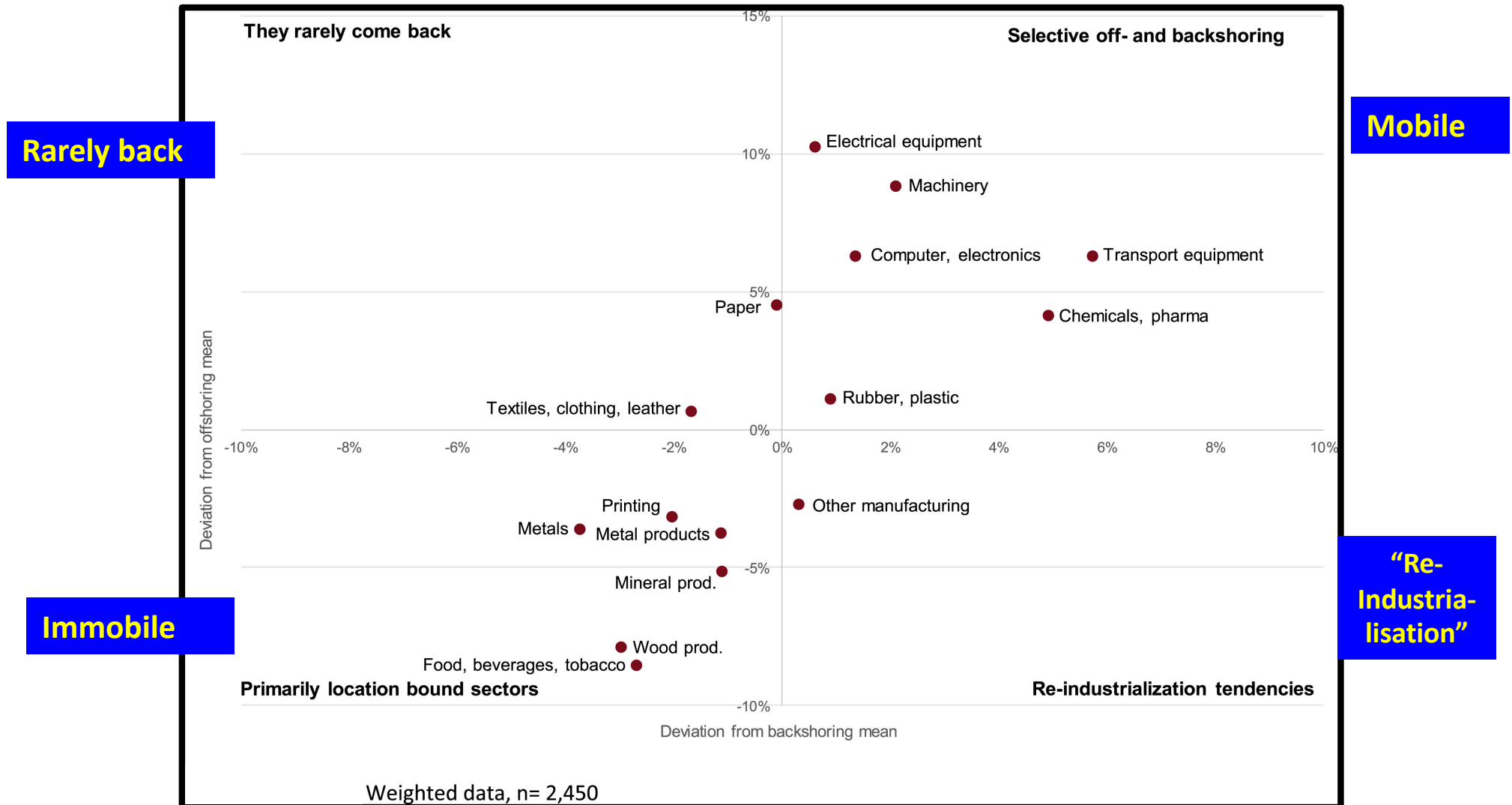
4. ISSUES AND CHALLENGES: RESHORING EVOLUTION AND PROCESS

Recent Development and Planning the Reshoring Process



Issues and Challenges:

Defined by Industry Sectors - Propensity of Offshoring vs. Reshoring Activities

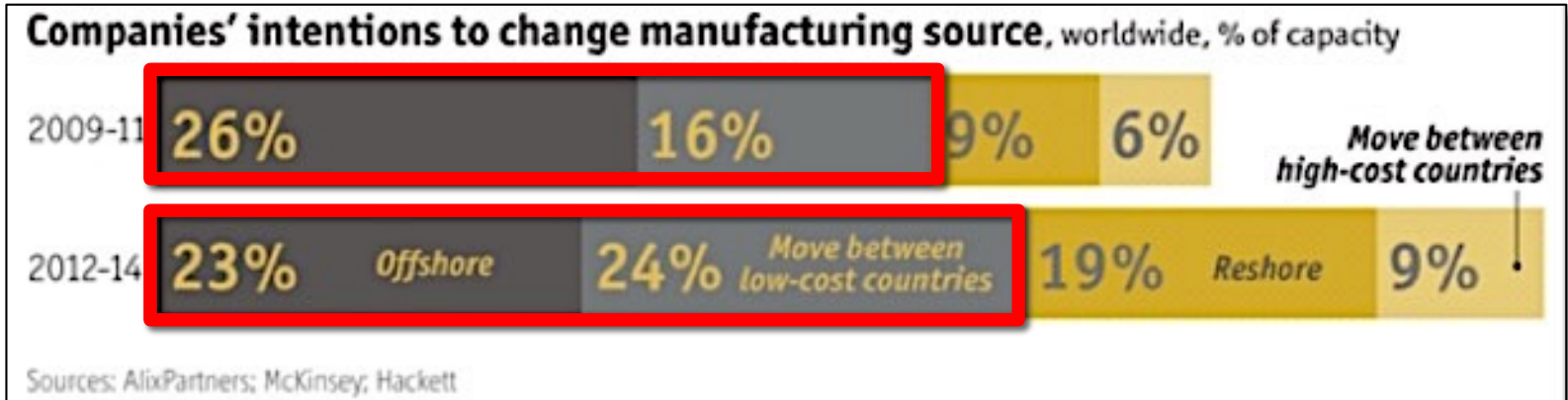


Fraunhofer Institute for Systems and Innovation Research ISI

- Historical data -

Off- and Reshoring Activities World Wide vs. Eurozone

World Wide



Eurozone

2013
PwC Survey

**Shoring Activities of
384 Eurozone Companies**

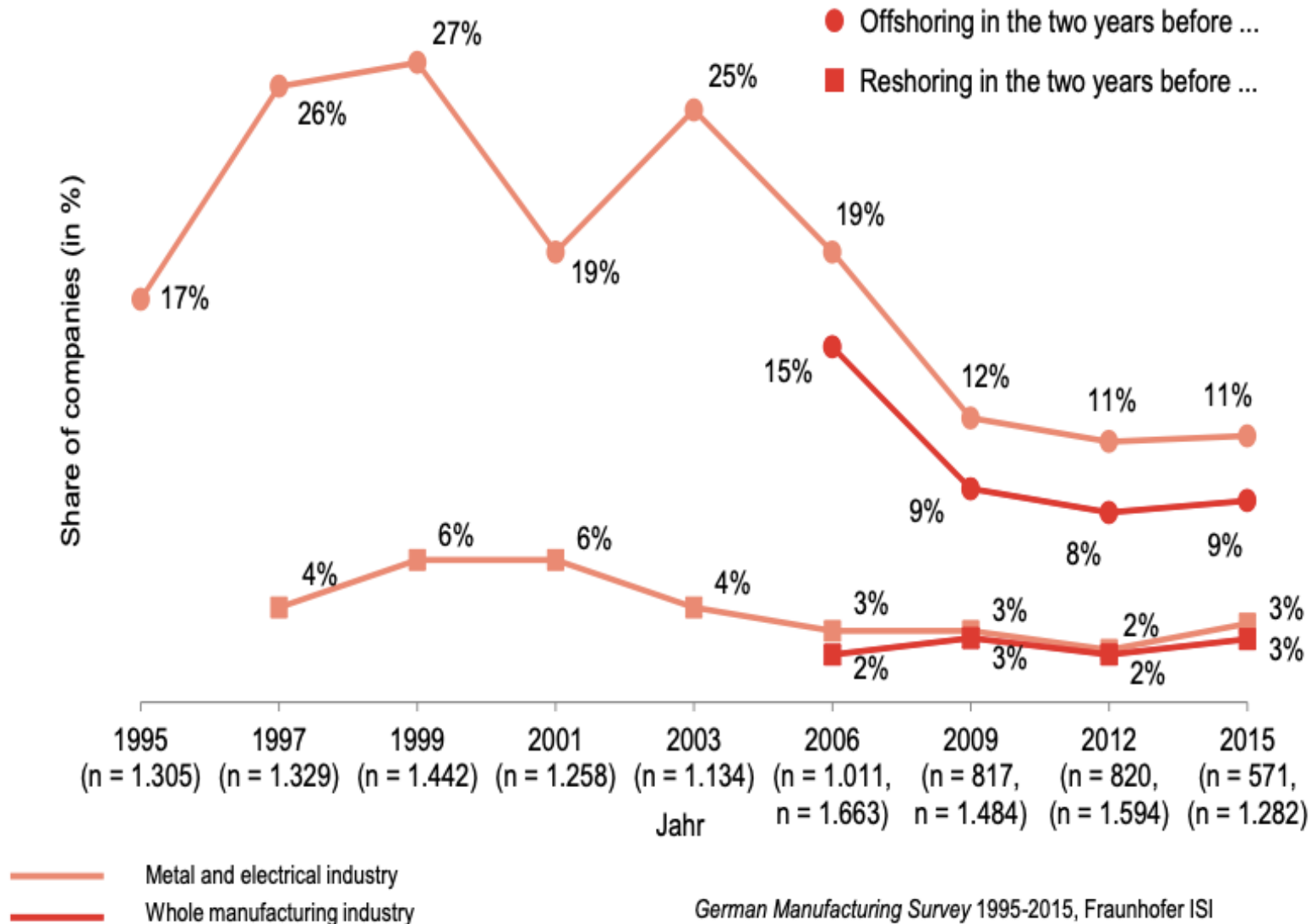
55% Offshoring
60% Reshoring

Be careful !

Offshoring processes have taken place over decades.

Thus, the 55% is added on top of 20+ years and continuous offshoring processes

Historical trend of Offshoring vs. Reshoring Activities



Data has been accumulated since 1997 to 2015 covering 2800 German companies

- Reshoring activities remains at much lower level compared with offshoring moves since late-1990s
- Reshoring activities are stable; for every three relocations of production, there is **one reshoring**
- Reshoring are a relevant phenomenon in absolute terms; around 500 German industrial companies are active in this area each year.
- The rate of relocation in North Rhine-Westphalia (3.5%) is slightly higher than in Germany as a whole (2.8%).

Impact of Robotics and Digitalization on Reshoring in Europe (Kinkel et al., 2017 & 2019)

Process & location

- The investment in robotics has no effect on reshoring of production to developed countries, but negative effect on pace of offshoring(De Backer et al., 2018; Jäger et al., 2015).
- Communication technologies promote global value chains (global valuechains-GVCs), which cause less fragmented and shorter value chains (De Backer/Flaig, 2017).
- Digitalization offers regional value chains with more economical regional production/supply chain.
- Digitalization tendency to rebalance the global economy toward developed economies (De Backer/Flaig 2017; Strange/Zucchella2018).

Source: Adapted from Kinkel 2019

Labor and job creation

- Reshoring will not create large numbers of jobs in high-wage countries as production becomes more automated and technology-intensive (De Backer/Menon2015; De Backer et al. 2018; Jäger et al. 2015).
- Low-skilled jobs tend to be substituted, while demand for higher-skilled workers increases (see Strange/Zucchella2018).

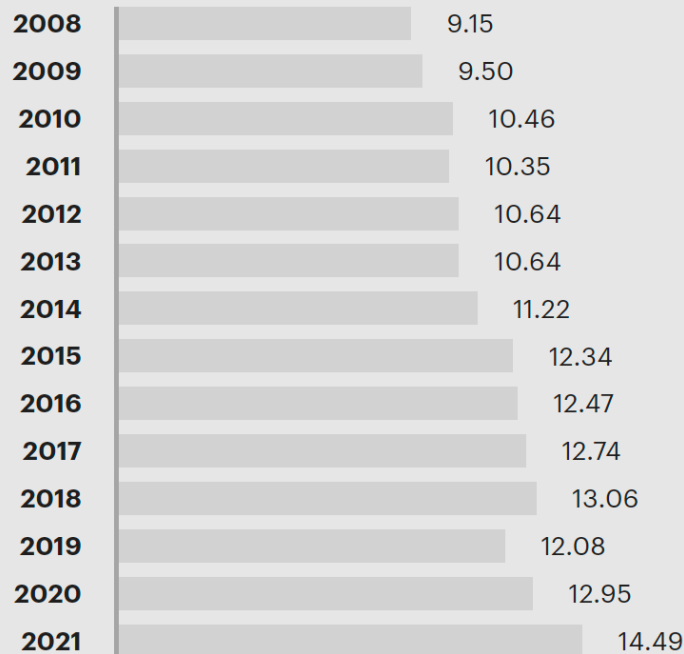
The Dynamics of Reshoring Activities: Trends in the USA - Negative between 2020-21

Figure 1

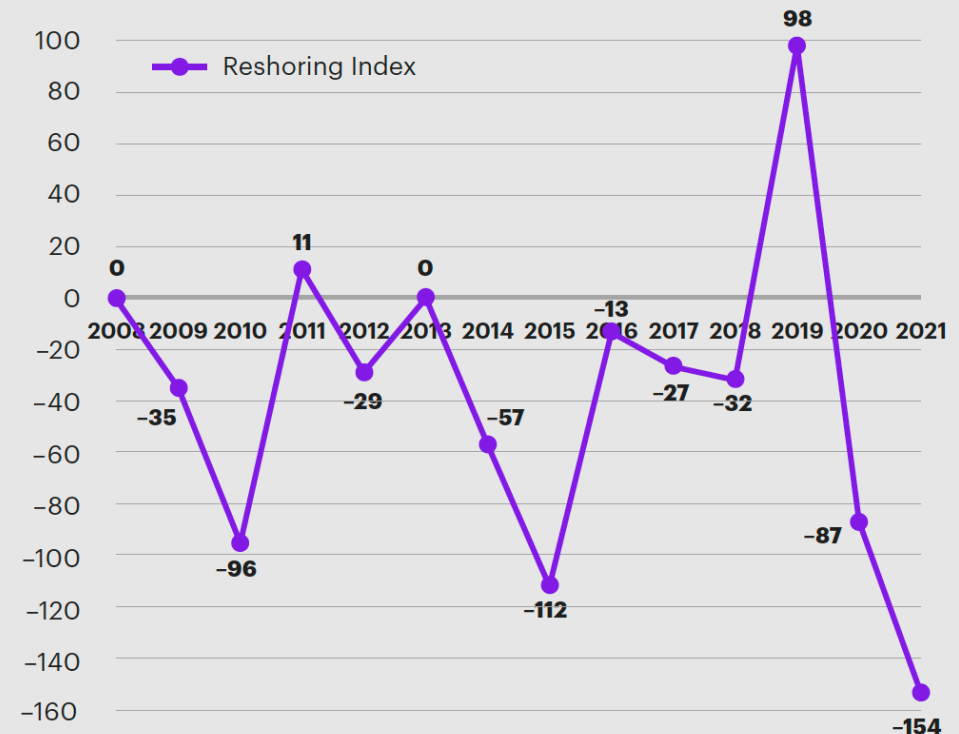
US manufacturing imports from 14 Asian low-cost countries rose in 2021, resulting in a negative score on the Reshoring Index

US manufacturing import ratio (MIR)

MIR = total manufactured goods import
as % of domestic output



Year-over-year change in the US MIR
(Basis points, 2008-2021)



Sources: United States International Trade Commission, Bureau of Economic Analysis; Kearney analysis

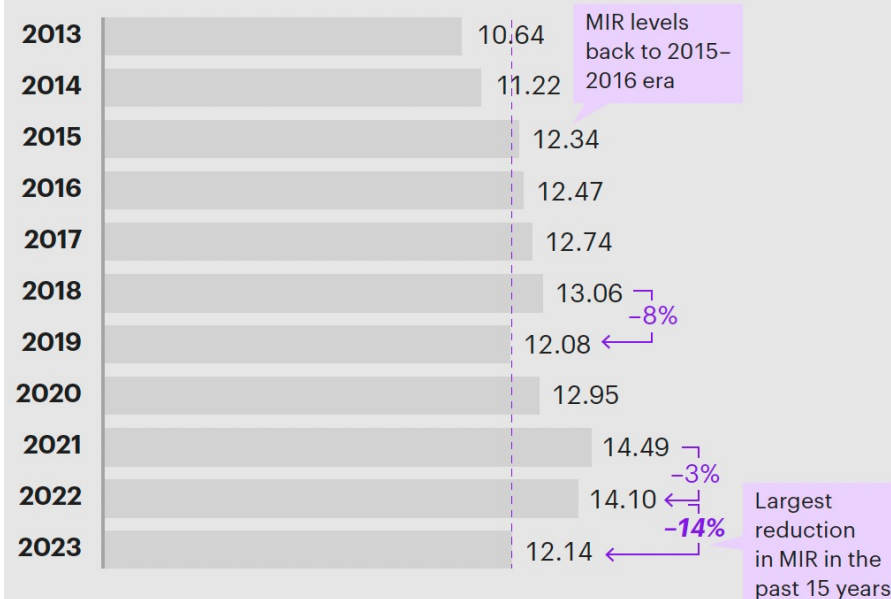
MIR: Manufacture Import Ratio
Asian LCCRs: Low Cost Country and Regions
KRI: Kearney's Reshoring Index

The Dynamics of Reshoring Activities: Trends in the USA – reaching the highest peak in 2023

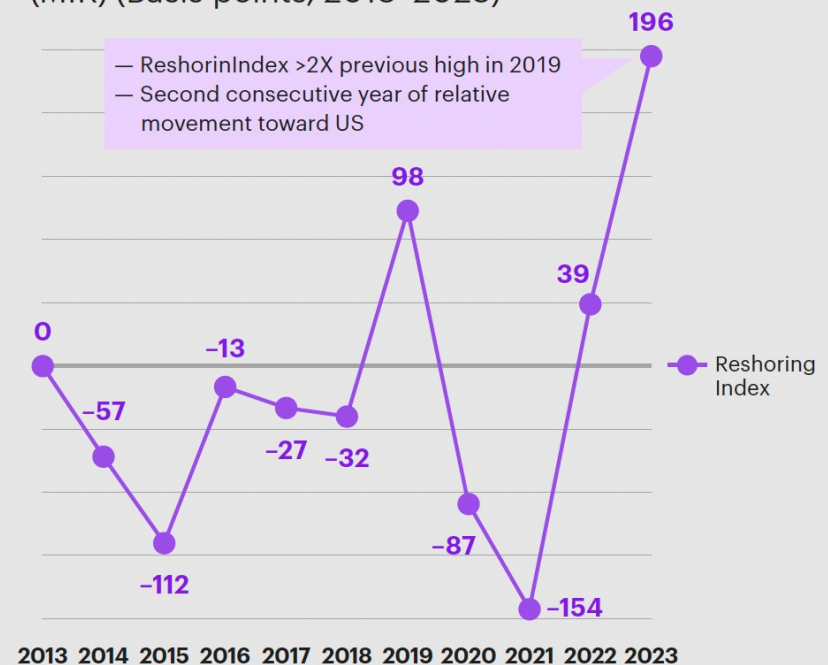
The Reshoring Index reflects an increase of 157 basis points in MIR, the largest jump since Kearney started tracking the metric

US manufacturing import ratio
(MIR) (2013–2023)

MIR = total manufactured goods import from
14 Asian LCCRs as % of domestic output¹



Year-over-year change in the US manufacturing
import ratio
(MIR) (Basis points, 2013–2023)



¹ 14 Asian LCCRs—low-cost countries and regions—including mainland China, Vietnam, India, Philippines, Malaysia, Indonesia, Pakistan, Sri Lanka, Taiwan, Thailand, Bangladesh, Singapore, Hong Kong, Cambodia

Sources: United States International Trade Commission, United States Department of Commerce Bureau of Economic Analysis; Kearney analysis

Trends in the USA: Reshoring landscape (Kearney 2023)

- Reshoring sentiment is on the peak, but many CEOs are search for nearshoring – Canada & Mexico;
- China's share of Asian LLC imports **continues** to decline, 15.4% in 2023 compared to 24.3% in 2018; India, Thailand and Taiwan have limited their decline;
- "Following some of the trends described above, 79 percent of executives who have manufacturing operations in China have either already moved part of their operations to the United States or plan to do so in the next three years, and another 15 percent are evaluating similar moves";

Asian 14 Low-cost countries: China, Taiwan, Malaysia, India, Vietnam, Thailand, Indonesia, Singapore, Philippines, Bangladesh, Pakistan, Hong Kong, Sri Lanka, and Cambodia

Overall, US imports dropped by \$113 billion, with mainland China's imports decreasing by \$105 billion and other Asian LCCRs by \$38 billion

Country of origin mix of manufactured goods imported into the US (2018–2023, \$ billion)

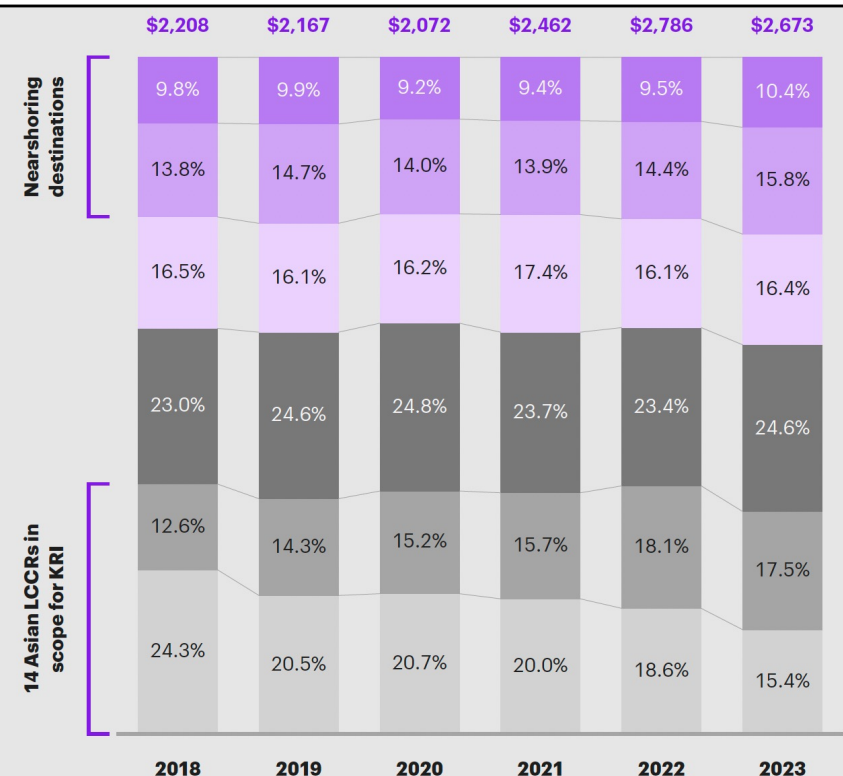
- Mainland China
- Other 13 Asian LCCRs¹
- Europe
- Other countries²
- Mexico
- Canada

¹ Other 13 Asian LCCRs includes Vietnam, Philippines, Malaysia, Indonesia, Pakistan, Sri Lanka, Taiwan, Thailand, Bangladesh, India, Singapore, Hong Kong, Cambodia.

² Other countries include 165 countries.

Note: LCCR is low-cost countries and regions.

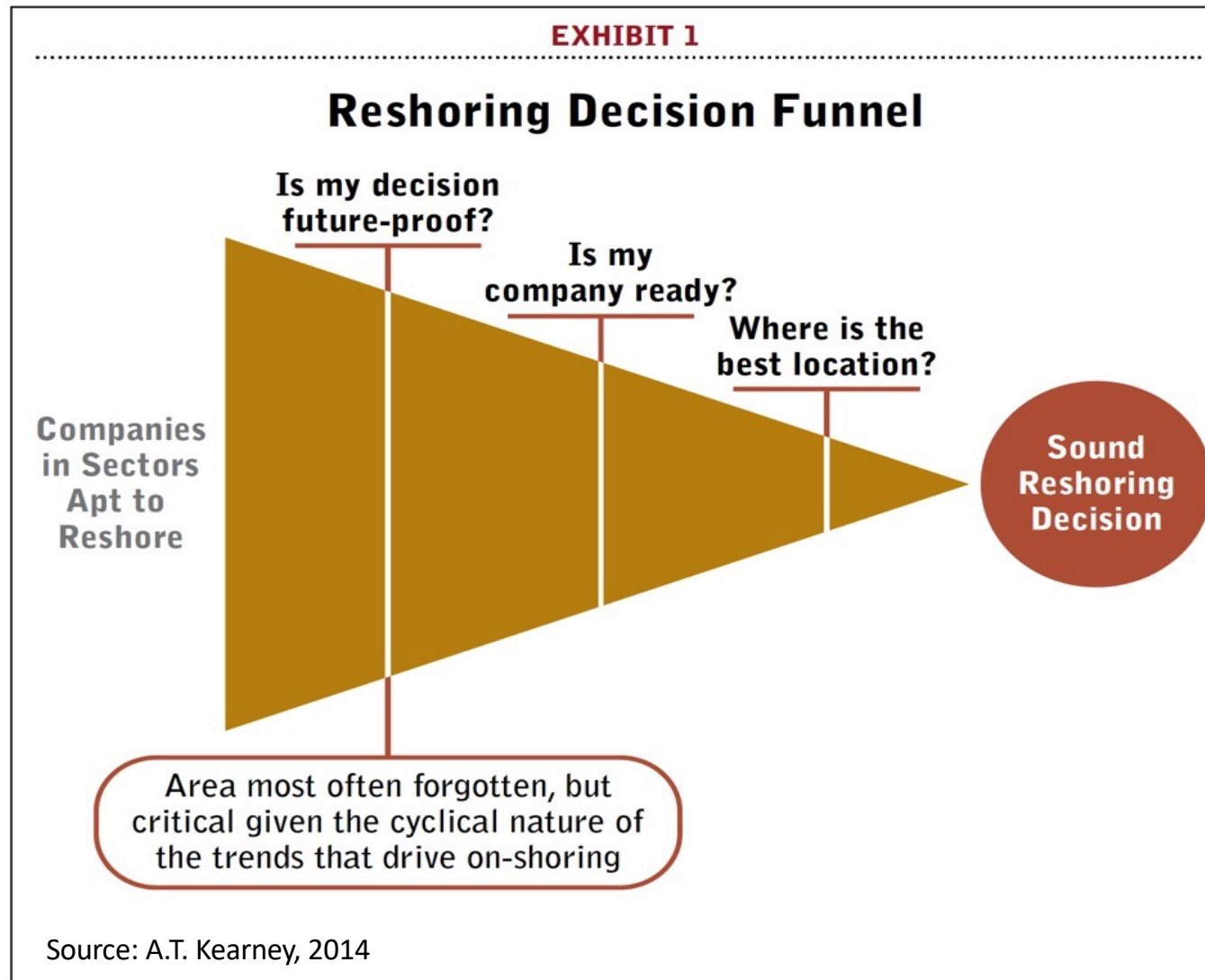
Sources: Unites States International Trade Commission; Kearney analysis



Obstacles to near- or reshoring to the US:

- Lack of raw materials, (only 41% source all parts locally, and only 34% can source all raw materials locally (..asking suppliers to move to closer or alternative places)
- High cost as well as the shortage in skilled labor,
- poor infrastructure, road, bridges, ports, railways, energy efficiency, climate resilience

Issues and Challenges: Planning the Reshoring Process



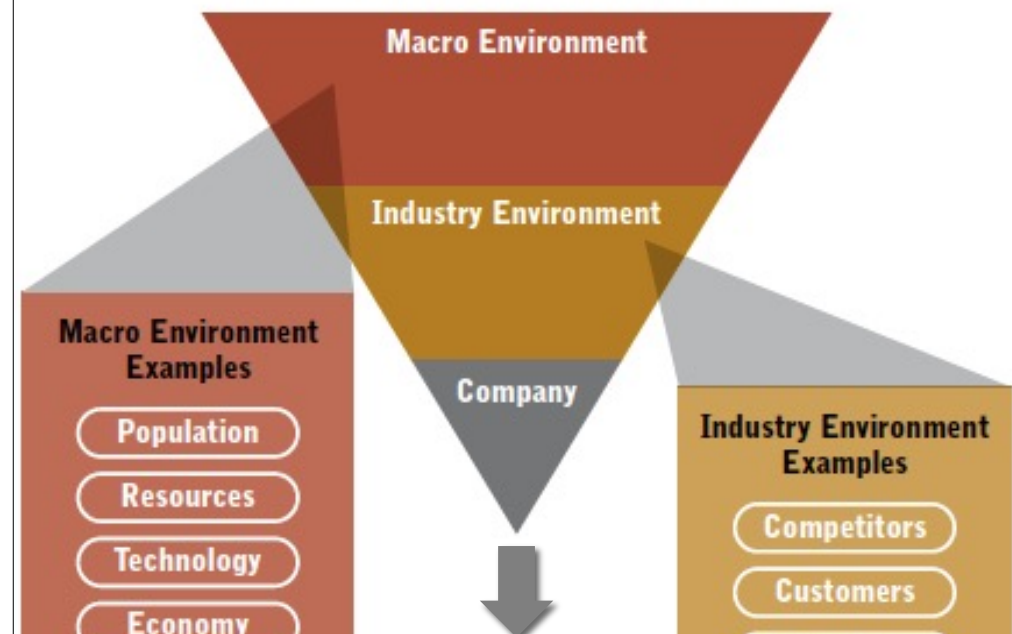
Issues and Challenges: Planning the Reshoring Process

Scenario Planning:

1. **Manpower:** Establish a reshoring evaluation **team**
2. **Time:** Set a **timeline** that covers cost and capital availability
3. **Prioritizing:** “A healthy list of 10-15 factors” including both the macroeconomic and industry trends ” that significantly influence your business
 - A “**2X2**” **pragmatic**, scenario-driven approach
 1. Define top 2 drivers
 2. Make 2 polarizing scenarios for each driver in the given timeline
 3. Exam the probabilities

Scenario Planning–Macro and Industry Trends

The macro environment consists of forces that are beyond the control of any one company



Reshoring Readiness Factors

Capability	Description	Decision
Skills Availability	Degree of functional expertise of current workforce	If capability not at par, consider relocation of experts or local acquisition of capability
Asset Health and Performance	Age and health of machinery, OEE performance	If not in good health or performance, include capability enhancement in business case
Knowledge Transfer	Existing processes and infrastructure to transfer knowledge and experts	If process or infrastructure not in place, include capability enhancement and ramp-up in business case
Project Management	Internal capability to run high stakes projects effectively	If capability not up to task, include capability enhancement or external support in business case

Source: A.T. Kearney

5. SUMMARY

Summary

Reasons of Reshoring

- **Inconsistent production quality** in high-end manufacturing
- Drastically **increased costs** in labor, transportation, coordination, etc.
- **Manufacturing automation** replacing “human hands”
- Close to R&D at home for **faster market reaction**
- Logistics and services **close to markets** of consumption
- Evaluation of best-cost locations vs. “low-cost-high-risk” locations

Reshoring Pitfalls

- Management “Herd Behavior”
- Reshoring does not bring back JOBS! – Digitalization and robotic machines
- Reshoring guarantees superior quality?

The topic “Reshoring to Europe”
together with “The next big trend”

is part of an ever evolving
International manufacturing, supply chain &
services development,

in a spiral,

NOT a single next revolutionary step.

Questions

1. Reshoring basics:
 - a. Definition
 - b. What are the top 4 motives/drivers for reshoring between Europe and the US? What does this difference reveal to you?
2. Which industry sectors are more likely to be reshored? And which industries are “immobile” or “never coming-back” based on the 15+ years research done by the renowned German research institute Fraunhofer ISI?
3. What are the recent reshoring trends from the US based on A.T. Kearney’s report in 2023?
4. How do you plan a reshoring process?
5. What are the pitfalls of reshoring?

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