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Onshoring, Nearshoring, Offshoring, and Now Reshoring

Are you Reshoring? Cost advantages are not what they used to be.

In the 1980s, before globalization began in earnest, most companies in the U.S. had corporate goals to make more than 50% of their revenues in non-U.S. markets. Business with Canada and Europe was always significant but remained less than half of revenues for most companies.

As Asian markets began opening up in the 1990s to U.S. and European companies, and Asian companies became large enough to compete globally, a tumultuous period of change began for corporations around the globe that has gone on for 30 years. A partial reversal of that wave is now beginning.

Onshoring: For the first 100 years of the Industrial Revolution, NIH (Not Invented Here) ruled. Corporations would strive to handle every aspect of a product's design and be vertically integrated in how they manufactured components and assembled the product. There were certainly exceptions, but that was the mainstream approach: design and manufacture in-house.

Company Philosophy Change: Goals today are nearly the opposite of vertical integration. Corporations now strive to see how little they can make in-house. Why? A hard lesson was learned in the U.S. when globalization was in its infancy. As the 1990s began, the U.S. had just experienced a 30% layoff of all manufacturing workers. Japanese productivity/quality techniques, 20 years of PLC advances, and 10 years of personal/mini-computing, had raised factory automation to such levels that a third of workers were no longer needed. Recession pressures from Wall Street forced corporate leaders admit that they were being loyal to workers to the point it lowered profits.

Worker Philosophy Change: The magnitude of that recession layoff also changed workers' thinking regarding employers. If their employer wasn't loyal through hard or changing times, why should they be? This subject is for another article, but both company and worker trauma were catalysts that fueled the outsourcing revolution—not just globalization alone.

Outsourcing: Outsourcing, which is not in the title of this article, is a broad word. It simply means not in-house. Of course, companies can outsource domestically within their own country. And that was the question. If outsourcing was the next big thing, then where was the best place to do it: Domestically, Nearshore, or Offshore? The answer depended on a lot of things, but mostly on manufacturing labor costs and shipping costs. Companies never really got the answer to that question as the countries involved in globalization were consistently increasing their demands for local content, both production and design.

Nearshoring & Offshoring: It didn't make sense to purely optimize around cost or speed any more. There was a political element, local content. So, companies began weaving a complex fabric of achieving globalization optimized by a blend of new revenues, lower company-wide costs, and complying with local content constraints. Where possible, U.S. companies would look to Mexico, Canada, and Central America to Nearshore components and assemblies for Domestic and Nearshore markets. Otherwise, they would Offshore operations to meet Asian local-content rules and when costs were clearly less than any Onshore or Nearshore alternatives.

Economic Advancement & Trust: The reasons to Onshore or Nearshore haven't changed much. Labor rates continue to rise in Mexico and Central America as expected, which might push some decisions these days to Onshore or Offshore. What has changed is Offshoring. Labor rates in India, China, and Pacific Rim countries have been rising steadily over three decades, as have shipping costs. By 2014, the "landed cost" of many Asian offshored products was now within a few cents of making it Onshore. Add in the "non-costed" factors of overseas complexity, non-conforming material substitutions, quality/safety, and IP rights, and the advantage now often tips to Onshoring or Reshoring.

Reshoring: Enter Reshoring, which is bringing operations that had been Nearshored or Offshored back Onshore. While some might argue that Reshoring has political overtones, it really doesn't. Local content rules aside, companies will now Reshore for the same economic reasons companies originally Nearshored or Offshored. And, more new products that would have been Nearshored or Offshored in the past will now be sourced Onshore at the onset. md

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