How the great supply chain reset is infolding

(PART 2)

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Companies are making their supply chains more cost-efficient, resilient and sustainable in an increasingly uncertain world.

(CONTINUED FROM PREVIOUS EDITION)

Large, international companies are also collaborating to support the circular supply chain. For example, an international drinks conglomerate launched a global incubator program designed to address supply chain challenges across water stewardship, circular economy, sustainable agriculture, and climate action.

Nearshoring

53%

of respondents to an EY study are considering nearshoring.

Packaging is increasingly under the consumer and regulatory spotlight, with plastic taxes driving companies to build recycling capabilities and source recycled plastics. A consumer giant recently announced that 97% of its product packaging in Italy is now recyclable and that it is investing significantly in innovative packaging solutions. Workers' rights must also be respected in the shift to sustainability. In another example, also from Italy, instead of just closing down a factory, the same company repurposed it as a dedicated plastic recycling facility, helping to minimize redundancies and creating much needed recycling capability.

CHAPTER 3

Segmented supply footprint and challenging traditional management hubs

Chief supply chain officers now balance multiple conflicting needs of cost, service, sustainability, agility, and resilience. Growing international trade complexity, and the need to manage a widening range of risks, makes it even harder to determine where products should be manufactured and sold. The onshoring vs. offshoring vs. "friendshoring" debate remains, but is further complicated by issues such as sustainability, trade wars, agility and, increasingly, visibility. The Carbon Border Adjustment Mechanism is a proposed EU tariff on carbon-intensive products like cement and steel,2 which could make these goods less attractive to import and encourage companies to build recycling capabilities and source recycled plastics.

In the era of mass offshoring, manufacturers have enjoyed the huge scale efficiencies of large manufacturing centers in low-wage countries. For a wide range of products, there is a now a pronounced shift to get closer to the end customer, to ensure a faster response to changing consumer demands, while avoiding tariffs, cutting logistics costs and reducing carbon footprint.

An early example of this trend is "China plus one," where companies avoid concentrating all their sourcing in a single market. However, even this may not be sufficient in the face of continued price inflation coupled with trade policy and rule changes aimed at improving national level supply chain resilience that encourages re-shoring or near shoring. Technology is starting to make such decisions easier, with advances in 3D printing and robotics, making it possible to transform manufacturing conversion costs. 3D printing allows highly personalized and increasingly sophisticated parts and finished goods to be produced locally – often to order, while robotics enables factories and warehouses to operate at or near "lights out."

There are already clear signs of a shift to more localized manufacturing. According to the 2022 EY European Attractiveness Survey of global investors, 53% of respondents are considering "nearshoring" to bring operations closer to customers – more than double the previous year's figures. And a further 43% are thinking of "reshoring" to take activity back to their domestic market – compared with 20% in 2021. More specifically, 79% plan to establish or expand operations in Europe. The war in Ukraine may have temporarily slowed some of these trends, but the overall direction is pronounced.

Reshoring

43%

of respondents are thinking of reshoring to take activity back to their domestic market.

Given concerns over geopolitical tension and national security, friendshoring is a further option for companies, forming economic-trade partnerships based on shared values and mutual interests between countries, potentially offering greater stability.

Another key factor in choosing supplier strategy is the use of supply chain management hubs. It is important for companies to actively re-assess functionality, labor intensity and the physical location of their international footprint of management and control hubs.

In recent decades, we have seen multinationals establish "hub" structures to house "above market" supply chain teams, often co-located with commercial, sales, marketing and product management functions. Many of these hubs were established in jurisdictions attractive for fiscal reasons, as well as the ability to attract and retain talent pools. With improved visibility tools and larger supply networks, these central supply chain management teams were able to extract significant value from procurement right down to manufacturing logistics and return flows, whilst benefitting from competitive cooperate tax treatment.

Fast forward to the post-pandemic age of the future of work, digitization of routine processes, talent shortages, labor cost increases, international tax reform and protectionism and the evolution of hub structures is subject to a growing set of new set of questions:

1. What is the practical geographic span of control of these hubs?
2. Can a distributed workforce still provide "co-located hub" functionality through technology?
3. Have some traditional hub locations become too expensive in terms of labor cost? Or have they actually become more attractive due to their inherent geopolitical stability and strong talent pools?
4. Can the hub team size be reduced through the use of AI? Or through offshoring secondary hubs?
5. Can a multi-hub structure reduce the risk of a single point of operational and fiscal failure?
6. Is the "work from anywhere" credo in certain sectors fundamentally challenging any form of physical co-location, and thus requiring fully distributed no-hub design? ■

(CONTINUED IN NEXT EDITION)

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