

# Next-Shoring: A Customer-First Manufacturing Approach

As technology continues to disrupt the world of commerce, production has become more efficient, supply chains more responsive, and customers more intelligent. Innovations are impacting the supply chain ecosystem. There is a growing demand from new markets as well as an increasing need for regional adaptation. Customers are seeking greater personalization and faster fulfillment. The solution to all these problems: next-shoring.

As wages in emerging economies began to rise and domestic regulations became more enticing, manufacturers started re-shoring, or bringing their production units back home. As a strategy, re-shoring has been quite effective for many manufacturers, especially for those who spotted an upward trend in local wages in their off-shore production facilities.

However, re-shoring doesn't significantly help manufacturers who cater to several markets, spread across different countries and continents. Not only do logistics and inventory costs add up, but companies also risk losing customers arising from inability to meet the changing demand in local markets.

To make operations profitable, organizations need to strategically position their production facilities next to the markets where there is a demand for their products. Non-standardized processes and disparate systems need to be integrated to enable seamless translation of business decisions to operational execution. Leveraging the digital forces, the unification and consolidation of operations becomes smooth and loss-less. Existing IT infrastructure, if robust enough should be able to absorb new functions when production facilities are moved without hampering the business.

This paper explores the foundations of next-shoring, outlines its key benefits, and provides useful real-world examples. For those considering next-shoring as a viable strategy, this paper also sets the stage for meaningful conversations with specialists who can help with evaluation and implementation.

## What is Next-Shoring and How do Manufacturers Gain From it?

Nissan, a well-known Japanese automotive giant moved production from Japan to China to be closer to the buyer market, benefit from the economies of scale, and leverage the large local workforce.

Next-shoring augments customer value and helps satisfy new or unstated needs, by pursuing localized innovation. This helps reduce costs, and improve quality, get rid of slow moving or obsolete inventory, and even tailor products to local need. Next-shoring provides manufacturers an opportunity to make sure they can deliver the right products, at the right time, at the right place, and at the right cost.

Here are a few ways in which manufacturers can gain significantly by implementing a next-shoring strategy for their business:

1. **More Competitiveness and Brand Value in the Local Market:** Reports and studies suggest that global manufacturing primarily takes place in industries that locate close to demand. Further, in view of the increasing share of global demand from emerging markets, manufacturers using a next-shoring strategy can boost sales by showcasing their products more often in local markets.
2. **Increased Customer Base:** Next-shoring increases product and brand awareness in pre-established markets, which helps manufacturers **acquire new customers.**

3. **Innovation Agility:** Localized manufacturing facilitated by next-shoring strategies tend to be more agile and better equipped to interpret customer preferences.
4. **Improved Quality Checks:** Manufacturers find that being closer to demand reduces rejection rates and improves quality control.
5. **Just-in-time Inventory:** Fundamental to next-shoring, suppliers are close to where demand is generated. As a result, inventories can be pegged to incoming orders.
6. **Local Taxation Benefits and Rebates:** In many regions, domestic laws allow for subsidized duties, tax holidays, and other incentives for local manufacturing.

## Logistics and Fulfillment in Next-Shoring

Next-shoring requires an overhaul of the current logistics and fulfillment processes. New patterns of demand and inventory consumption, and several new nodes and points added to the network will require a re-assessment of the logistics and fulfillment areas. Core elements like network design will need re-modeling to adjust and optimize material movements. Tighter internal controls and better warehouse and transportation management systems will be needed.

## Next Shoring in Action around the World

Leading sportswear brand Adidas has changed its global production strategy. It intends to do away with its large manufacturing centers servicing various markets, in favor of numerous smaller facilities serving individual markets. For instance, the company's Speedfactories at Ansbach, Germany and Atlanta, Georgia aim to bring local customization in production faster.<sup>1</sup> This next-shoring strategy will enhance its capability to respond to sudden demand changes that are characteristic of the industry it operates in.

The local retail operations of the shoe manufacturer Bata at China were franchise based and supplied to a large number of stores. The company believed it would be ideal to adopt a next shoring strategy and bring production closer to demand. Moreover, it developed a fully integrated order-flow IT system that made reviewing and ordering simpler and synchronized, available on the web and via mobile applications. Doing so bridged the gap between demand and source and helped the company reap significant benefits such as allowing buyers to view, select, and order shoes in real-time, reducing the turnaround time to make the desired modifications in the shoe styles, and helped supplier's clamp down on data leaks and showcase their range, manufacturing capabilities, manpower resource availability, and governance policies better.

## Identifying and Overcoming Challenges to Next-shoring

Each business is different. For some, off-shoring was a good strategy twenty years ago and continues to be a good strategy – especially if costs remain low and relocating facilities offer no particular advantage to customers. On the other hand, some manufacturers might find that next-shoring, even without an intrinsic study and evaluation, provides far more benefits to the brand and its customers, and hence warrants the necessary investments required to pursue such a strategy.

In any circumstance, choosing to adopt next-shoring is an expensive proposition and can interrupt the business if implemented haphazardly. To avoid such disruption of business as usual, organizations must engage with specialists to carefully evaluate several factors such as employment costs, employee skillsets, volume of demand, tax implications, transit times, and room for expansion at the proposed locations.

Additionally, organizations must explore the prevailing environmental laws and evaluate the expected market size, frequency of change in market signals, and customer service levels. We would suggest that organizations build scenario-based models to identify the patterns, trends, and trade-offs associated with the options. This ensures that projections match results when next-shoring is finally implemented and seamlessly integrated into the organization's business model.

Forward-looking businesses appreciate that tailoring manufacturing and marketing strategies for specific local markets is the next big thing, and next-shoring provides a method and roadmap to achieve this. Popular in North America and parts of Europe, next-shoring is still a relatively new concept in other parts of the world. However, given its benefits and demonstrated success, it is expected to soon become a global phenomenon. Manufacturers who want to stay ahead of the curve and gain a competitive edge must explore this strategy and engage in conversations with the right experts, specialists, and consultants now.

## References

- [1] The Economist, Adidas's high-tech factory brings production back to Germany, published January 14, 2017, accessed September 1, 2017, <http://www.areadevelopment.com/newsItems/8-10-2016/adidas-choke-county-atlanta-georgia.shtml>

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