



OFFSHORING? RESHORING? NEARSHORING?

HOW WILL GLOBAL MOBILITY CHANGE IN THE NEXT 10 YEARS?

For years, companies have looked to offshoring as a means of saving money. Labor costs in developing nations have provided companies with the opportunity to find employees who are able to work for lower wages and fewer benefits. These cost-saving measures have proved especially beneficial to manufacturing and business services such as inbound and outbound customer service call centers.



The global economy, political climates in foreign countries, security concerns, and the influential rise of social media as an information distribution source have caused some companies to rethink their strategies. As a result, the offshoring trend – which began in earnest in the late 1970s¹ – may see a reversal.

RESHORING

In the past, countries like China and India offered companies low-cost labor, materials, and real estate. Sending manufacturing jobs from the U.S. to these areas seemed like a no-brainer.

Now many of these manufacturers are realizing that offshoring production or business services may not be as cost-effective as previously thought. In a study conducted by The Hackett Group, a global strategic business advisory, operations consulting, and finance strategy firm, U.S.-based companies reported that they are exploring bringing 20-percent of their offshore manufacturing capacity back home between now and 2014.²

For the first time since the 1990s, manufacturers added jobs in the U.S. in 2011.³ Companies have begun bringing back jobs from China or have decided not to send them overseas at all. Some of the sectors that have seen increases in jobs include durable goods, machinery, and fabricated metal products.⁴ More than 50-percent of the major metropolitan markets added manufacturing jobs in 2011, with Detroit, Houston, Seattle, Cincinnati, and San Jose seeing the most gains.⁵

¹ "Where America's jobs went." *The Week*, March 18, 2011.

² "The cost gap and reshoring of Chinese manufacturing jobs." *Manufacturing.net*, May 25, 2012.

³ "Re-shoring: Manufacturers Make a U-Turn." *CNBC.com*, May 23, 2012.

⁴ U.S. Bureau of Labor Statistics.

⁵ G. Scott Thomas. "More than half of U.S. cities see rise in manufacturing employment." *The Business Journals*, February 10, 2012.

THE BENEFITS OF RESHORING

While labor, materials, and real estate remain at lower costs in developing nations than in the U.S., other expenses must be included in the cost of doing business. The rising cost of oil has impacted shipping costs for cargo traveling via air or sea. This in turn has caused steamship companies and airlines to reduce or eliminate less profitable routes, which can cause costly delays, as previously reported by Graebel.

Additionally, companies that operate overseas facilities or have product manufactured elsewhere have to account for duties and customs charges and time delays as these items clear ports of entry.

Long shipping times can add stress to cash flow and alternatively increase the cost of goods for consumers, businesses, and second- or third-step manufacturers. As prices rise, demand may decrease, causing a vicious slowdown cycle for imported items.

Overseas production facilities have longer lead times, which can prevent companies from being innovative and flexible. Distance, time differences, and communication issues hinder the ability to quickly modify products or customize an order based on customer requests.⁶

When lead times are long, companies may struggle with getting their products into the hands of consumers quickly. This problem is especially troublesome today, as economic uncertainty across the globe has forced many companies to lower inventories to decrease their risk.⁷

Along with lead times and shipping costs, quality control can play a role in why companies may choose to reshore. Overseeing quality control is harder when the plant is half a world away, and language and cultural

barriers exist between expatriates and the workforce. This difficulty is exacerbated when a revolving door syndrome exists, when expatriates cannot complete their tours of duty, or when short-term assignments provide too little time to foster cohesive direction and effective management relationships.

Additionally, foreign manufacturing operations can open companies to the risk of counterfeiting and intellectual property concerns.⁸ Plus, recent recalls of inferior goods or products with high levels of toxic substances have created public relations nightmares for U.S. companies, as well as put them at risk for losing customers and their trust.

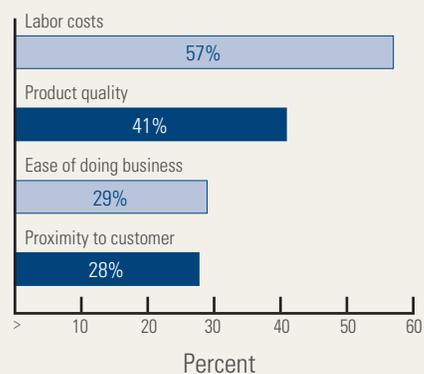
Industries with the greatest likelihood of reshoring to the U.S. are:⁹

- > Transportation-related goods (e.g., automobile and aircraft parts)
- > Appliances and electrical equipment
- > Furniture
- > Plastic and rubber products
- > Machinery
- > Computers and electronics
- > Fabricated metal products

RESHORING ON THE RISE

According to a survey by global management consulting firm and business strategy advisor The Boston Consulting Group, more than a third of U.S.-based manufacturing companies with annual sales of more than \$1 billion either plan to return, or are considering returning, some production to the U.S. from China.¹⁰ Seventy-percent of the executives surveyed admitted that offshoring operations to China is more costly than it appears.¹¹ Chart 1 identifies the top two considerations for production location decisions.

CHART 1. WHAT DRIVES PRODUCTION LOCATION DECISIONS?¹²



The Chinese have seen their wages and benefits increase 15- to 20-percent a year, which cuts the cost advantage China currently has over labor from the U.S. and other developed nations.¹³ And of those surveyed by The Boston Consulting Group, 92-percent believe that labor costs will continue to increase.¹⁴

Additionally, as first reported in the Graebel ReloTRENDSSM dated January 26, 2012, foreign workers must now participate in China's social insurance system. Workers and their employers must contribute up to 40-percent of salaries into the funds. Though exact fees vary greatly from city to city, total annual employer and expatriate contribution could amount to nearly \$10,000 a year per employee. Not to mention, administration for companies with offices in different locations throughout the country is cumbersome and fraught with paperwork.

The U.S. also has the opportunity to attract manufacturing operations from companies in Western Europe, Japan, South Korea, and China that want to be closer – and therefore better serve – their markets in the U.S. and Europe.¹⁵

⁶ "U.S. manufacturers consider benefits of reshoring." Feeley & Driscoll, P.C.

⁷ "Re-shoring: Manufacturers Make a U-Turn." CNBC.com, May 23, 2012.

⁸ "U.S. manufacturers consider benefits of reshoring." Feeley & Driscoll, P.C.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Mike Newkirk. "All ashore? Reshoring highlights value of analytics to pick best manufacturing sites." Industry Week, June 18, 2012.

¹² Boston Consulting Group. "More than a third of large manufacturers are considering reshoring to the U.S." April 20, 2012.

¹³ Harold L. Sirkin, Michael Zinser, and Douglas Hohner. "Made in America, Again." Boston Consulting Group, August 25, 2011.

¹⁴ Boston Consulting Group. "More than a third of large manufacturers are considering reshoring to the U.S." April 20, 2012.

¹⁵ Harold L. Sirkin, Michael Zinser, Douglas Hohner, and Justin Rose. "U.S. Manufacturing Nears the Tipping Point." Boston Consulting Group, March 22, 2012.

Coming back to the U.S. is not a complete given though. Developing nations throughout the world – including Vietnam, Indonesia, and Mexico – as well as countries in Africa (detailed in the Graebel white paper, “Will Africa Be the Next Hot Spot for Business?”), may attract manufacturing with their low labor costs.

Companies that do choose to offshore work to these and other developing nations will need to absorb the risk associated with inadequate infrastructure, a limited number of skilled workers, domestic supply issues, security threats, and political unrest.¹⁶

NEARSHORING PROVIDES OPPORTUNITY

Rather than reshore services to the U.S., some companies may also consider nearshoring. Nearshoring refers to moving a business function to a country that is closer via geography, time zone, cultural characteristics, or economic structure to the company's home country as a means of cutting costs and improving services. Chart 2 details the top reasons why businesses nearshore their operations.

CHART 2. TOP THREE REASONS FOR NEARSHORING¹⁷

Lower freight costs	37%
Speed-to-market	31%
Lower inventory costs	26%

According to a survey by global business advisory firm AlixPartners, Mexico is a highly attractive location for businesses looking to site manufacturing operations close to the U.S.¹⁸

Latin American countries may prove to be big players in nearshoring in the future. Global outsourcing research and advisory firm Tholons comprises an annual list of the top 100 outsourcing locations, and nearly a quarter of all the countries included in the 2012 list are located

in Latin America.¹⁹ Among the up-in-comers are Costa Rica, Columbia, and Chile. To keep momentum, Mexico, Brazil, and Argentina – well-established nations in the outsourcing market – must address social, economic, and political risks that could threaten business.²⁰

Latin America's time zone and proximity to the U.S. offers businesses extensive opportunities including lower freight costs, greater speed-to-market, and ease of doing business (e.g., shorter travel times, no early or late work hours). For companies looking to market “made in Latin America” or provide support to Hispanic customers, outsourcing to Latin America makes more sense than moving services to India or China.²¹ With the Hispanic population in the U.S. surpassing 50 million and growing steadily,²² Latin America may prove to be a shrewd business move.

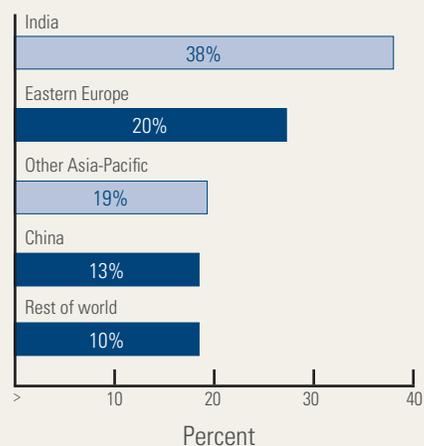
OFFSHORING OF SERVICES TO SLOW

Manufacturing is not the only thing businesses choose to send overseas. Corporate business functions, namely IT, finance, human resources, customer service call centers, and procurement, offer opportunities for cost savings through offshoring. As indicated in Chart 3, India is a top destination for these types of jobs.

By 2016, corporations in the U.S. and Europe are expected to move an additional 750,000 business services jobs to low-cost geographies.²³ This would bring the total of offshored jobs in finance, procurement, HR, and IT to 2.3 million – or one third of all jobs in these areas.²⁴

While nearly three-quarters of a million jobs is significant, the speed at which these jobs leave the U.S. will begin to level off in 2014 and slow considerably after 2016. According to the Hackett Group, “of the 5.1 million business services jobs remaining onshore at U.S. and European companies in 2012, only 1.8 million could be moved offshore – and 750,000 of those will be gone by 2016.”²⁵

CHART 3. WHERE ARE NEW BUSINESS SERVICES JOBS MOVING?²⁶



The types of business services jobs that are typically offshored are in areas that can be eliminated with productivity improvements. New jobs created in business services will be less suitable for offshoring, for example areas of analysis and controlling (individuals in charge of budgeting, fiduciary responsibility, etc.).²⁷

By 2022, U.S.- and European-based businesses will no longer have IT jobs they can offshore.²⁸ New domestic demand for skilled IT professionals will increase along with the spread of IT to new products and on-demand services made available through cloud computing. (Graebel provided in-depth coverage on how the cloud and other technological advancements will impact global mobility in Graebel ReloTRENDSSM and white papers, including the October 2011 release, “Technology Helps Drive the Customer Experience.”)

While the numbers of new jobs being offshored will decrease, the likelihood that these jobs could be reshored is quite slim. As businesses become increasingly more reliant on global business, business services will need to support global operations. “At Graebel, our G|LOCAL operating

¹⁶ Harold L. Sirkin, Michael Zinser, and Douglas Hohner. “Made in America, Again.” Boston Consulting Group, August 25, 2011.

¹⁷ AlixPartners. “Mexico continues to be top choice for manufacturing ‘near-shoring,’ says AlixPartners study.” June 4, 2012.

¹⁸ Ibid.

¹⁹ Tholons. “Outsourcing & National Development in Latin America.” February 2012.

²⁰ Dan Berthiaume. “Upstarts Threaten Big Players in Potential LatAm BPO Boom.” Near Shore Americas, February 6, 2012.

²¹ Ibid.

²² Stephen Ceasar. “Hispanic population tops 50 million in U.S.” Los Angeles Times, March 24, 2011.

²³ Patrick Burnson. “New research forecasts offshoring of 750,000 more jobs.” Logistics Management, March 27, 2012.

²⁴ Ibid.

²⁵ Patrick Burnson. “New research forecasts offshoring of 750,000 more jobs.” Logistics Management, March 27, 2012.

²⁶ Michel Janssen, Erik Dorr, and Martijn Geerling. “Job Losses from Offshoring and Productivity Improvement Far Outpace Gains from Economic Growth.” Hackett Group, 2012.

²⁷ Michel Janssen, Erik Dorr, and Martijn Geerling. “Job Losses from Offshoring and Productivity Improvement Far Outpace Gains from Economic Growth.” Hackett Group, 2012.

²⁸ Nick Heath. “Offshoring to end, as businesses run out of jobs to outsource.” TechRepublic, March 23, 2012.



rhythm is customer-centric and seamless, and ensures clients benefit from our global footprint, solutions, and the highest quality global mobility, commercial cargo and facility relocation services that are delivered on a local level in 153 countries,” explained William Graebel, chief executive officer of the Graebel Companies, Inc. “G|LOCAL equals unequivocal value and relevancy that matters to every client.”

TAXES

Along with market opportunities and labor costs, taxes can be a major determining factor as to where a company locates its operations. Forty-seven-percent of industrial manufacturing CEOs weigh tax policies heavily when making decisions on cross-border locations.²⁹ Currently, the U.S. does not tax U.S. firms’ overseas earnings provided those earnings do not come into the country – a policy that supports companies reinvesting money outside the U.S.³⁰

Recent economic problems across the world – and increasing debts and deficits among developed economies – could impact where companies operate. As a result of these trends,

37-percent of manufacturing CEOs anticipate adjusting their growth strategies.³¹

Members of the U.S. Senate and the House of Representatives have introduced bills that could incentivize companies to bring jobs back to the U.S. The Bring Home Jobs Act (H.R. 5542 and S. 2884) would provide up to a 20-percent tax credit to companies that incur the costs associated with moving production lines, trade, or other functions from overseas to the U.S.³² The bill would also eliminate tax deductions for moving jobs overseas, and require companies to increase their U.S.-based full-time workers before receiving the tax credit.³³ As of the date of this paper, the bills have been referred to committees for determination as to whether they will come to a vote.³⁴ As 2012 is an election year, it is unclear at this time whether the bills will move past the committee stage.

WHAT DO THESE TRENDS MEAN FOR GLOBAL MOBILITY?

Business today is inherently global – and that’s not going to change. Companies need to ensure their staff can successfully function in a globally

connected organization, regardless of where the physical locations are. To do so, companies may need to transfer senior executives or managers who are on aggressive career tracks to new locations to help develop local leadership talent and facilitate the adoption of company culture and values.³⁵ Furthermore, if companies plan to reshore their facilities, they may need to relocate repatriates or recruit, train, and in certain circumstances, hire, new employees from other parts of the country.

Regardless of a company’s strategy, Graebel is the ideal global mobility partner that can keep companies moving ahead. Offering on-the-ground service in 153 countries and in-theatre relocation experts in the Americas, EMEA, and APAC regions, Graebel is the single-source solution for global 100 and Fortune 500 full-service employee relocation and move management services, commercial cargo freight forwarding, commercial office relocations, facility footprint reductions, and warehousing.



Transform Your Approach to Global Mobility with Graebel. Thinking Ahead. Moving You Forward.



Graebel World Headquarters | 16346 Airport Circle | Aurora, CO 80011 | 800.723.6683 | 303.214.2156 (fax) | marcom@graebel.com | www.GRAEBEL.com

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²⁹ “Delivering results: Key findings in the Industrial Manufacturing industry.” PwC, 2012.

³⁰ “Where America’s jobs went.” The Week, March 18, 2011.

³¹ “Delivering results: Key findings in the Industrial Manufacturing industry.” PwC, 2012.

³² James Walsh. “Schumer backs jobs legislation.” Times Herald-Record, June 14, 2012.

³³ Ibid.

³⁴ As of the date this paper was published, www.govtrack.us (a website developed to provide comprehensive legislative tracking for citizens) reported these two bills were still in committee.

³⁵ Michel Janssen, Erik Dorr, and Martijn Gaerling. “Job Losses from Offshoring and Productivity Improvement Far Outpace Gains from Economic Growth.” Hackett Group, 2012.