

# OFFSHORING, NEARSHORING, RESHORING —

WHAT'S THE DIFFERENCE?





# We love to put **order** in your chaos.

Morai Logistics Inc. is a 3rd party logistics provider with an operating agency agreement representing Mode Transportation. We are a powerhouse logistics team based in the Greater Toronto Area and do business throughout North America, including Mexico. Our team is dedicated to our terrific clients and we strive to take the chaos out of your supply chain. We are always on the lookout to do exceptional work with remarkable people and companies!

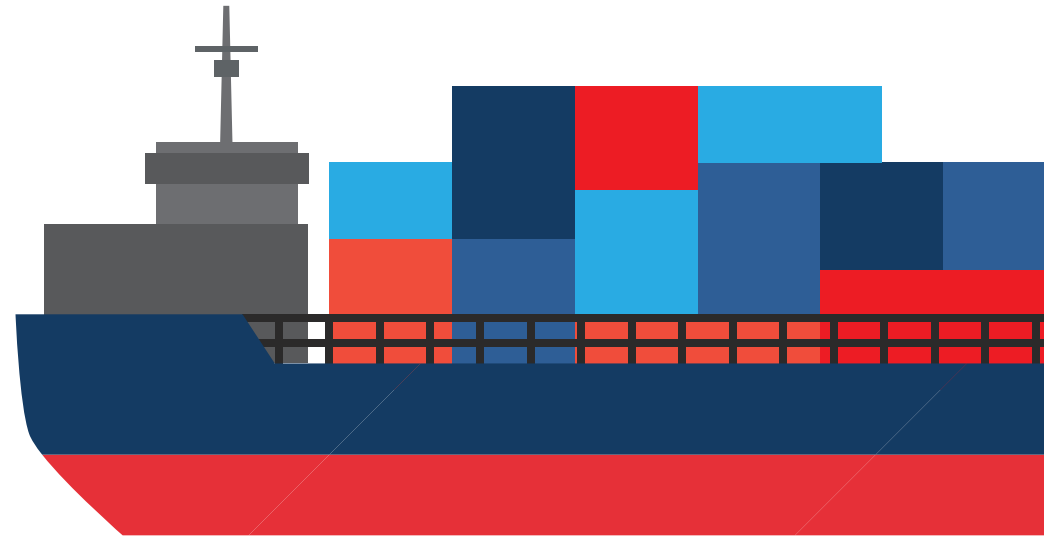


# Introduction

Outsourcing refers to the business strategy of contracting work out to a third-party. Its purpose is to gain access to cheaper labour, larger specialized labour pools, and/or obtain other benefits through an economy of scale. The term encompasses both the setup of a subsidiary, and the off-site activities of a company.

It has been a popular tool for decades, but it was not formally identified as business strategy until 1989.

Outsourcing continues to accelerate, but it's aim is evolving to encompass value beyond cost-cutting. A 2016 Deloitte global outsourcing survey found that outsourcing is becoming a pathway for driving innovation.



*“More than one-third (35 percent) of respondents say they measured the value of innovation in their outsourcing relationships. In response to the increasing emphasis on delivering value beyond cost savings, service providers are rapidly evolving into innovation centers with the aim of creating improvement opportunities for their clients.”*

Offshoring, nearshoring, and reshoring are all types of outsourcing. The difference between them is the location of the third-party. Each has its own benefits and costs, but because of the dynamic nature of global political-economy these are always changing.

Before diving into the specifics of each, it's important to go over why an organization would want to outsource.



There are two types of tasks Forbes contributor **Chuck Cohn**, identifies as being beneficial to outsource

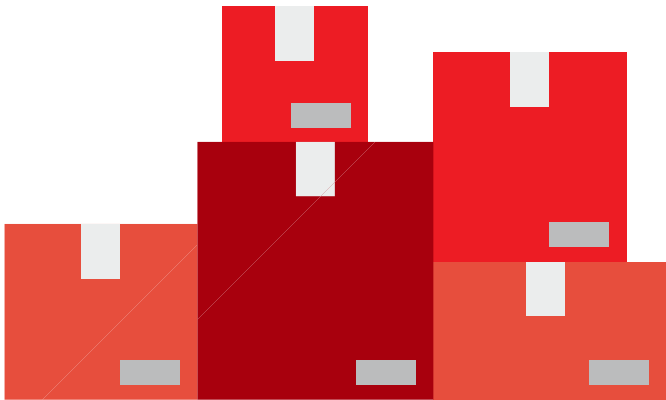
**A. Tasks that are critical to your operations, but not a vital component of your strategy.**

- An example is deliveries.

**B. Commodity tasks—these job functions are routine and follow a specific process or script.**

- Examples are printing, call centers, or janitorial services.

As the Deloitte survey points out, companies are outsourcing innovation requirements. Usually the skill-set required for these jobs are so specialized, that it doesn't make sense financially to have a regular







FROM **ORIGIN** TO **SUCCESS**

# OFFSHORING



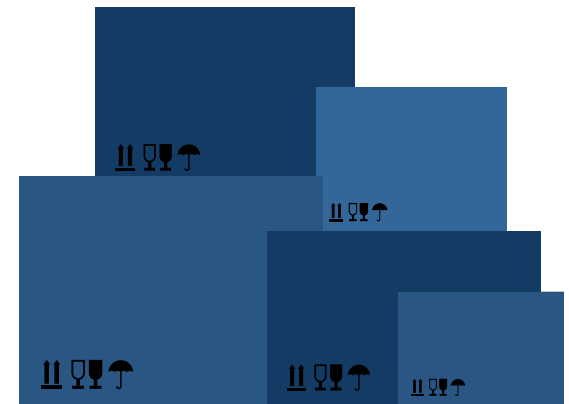
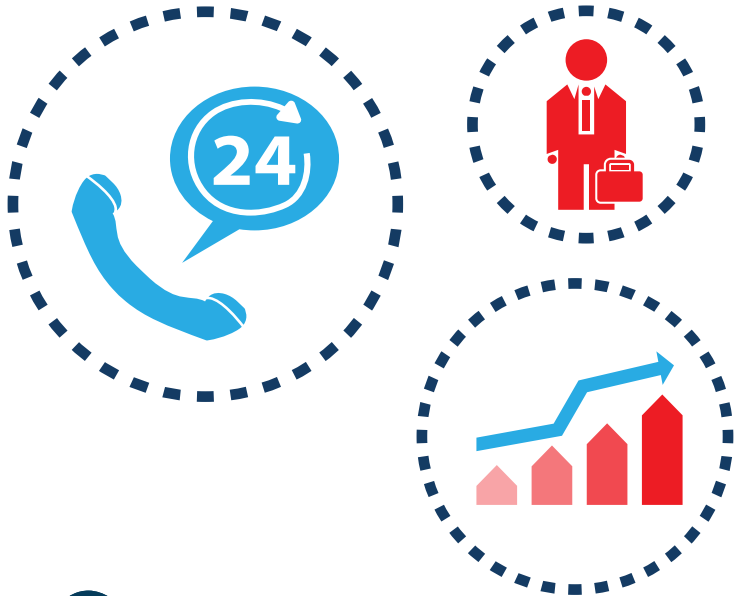
Offshoring refers to outsourcing done overseas, across national borders. Countries such as China and India are popular offshoring locations.



This was the dominant strategy for maximizing value in the global manufacturing supply chain during the 1970s and 1980s.

## PROS

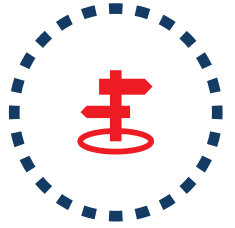
- **Cost benefits** – wages are generally lower overseas, meaning each investment dollar can buy more labour hours.
- **Access to lower-cost talent** – cheaper labour means greater **access to more affordable high skill labour**. Several tech companies have started moving innovative work to countries such as Belarus, India, China, South Africa and Russia as a result.
- **24/7 working model** – Most offshore manufacturing facilities have rotating shifts. If there's a customer question, there'll always be someone to address it.





## CONS

- **Longer supply lines** – It takes longer for items to reach their destination, increasing the risk of theft, damage, spoiling, or devaluation if the items have fluctuating demand (such as fashion apparel). Accountability is also **harder to manage**.
- **Culture differences** – Holidays, observances, and government work regulations between the two sites can be very different from one another. Work and quality expectations for certain roles might also be dissimilar, making performance difficult to standardize.
- **Different time zones** – Companies and offshore third-parties are separated by an ocean. When it's morning in one place, it might be night time in the other. This makes it hard to coordinate meetings.
- **Communication** – Language barriers are a hurdle if outsourcing is done in a country with a different language. On the technical side, calls and online communication will be unreliable if the country lacks a strong communications infrastructure.



Recent global trends have seen a slowing down of offshoring. Rising wages in overseas locations, global security concerns, volatile fuels costs, and growing political disapproval at home has been eroding the benefits of offshoring.





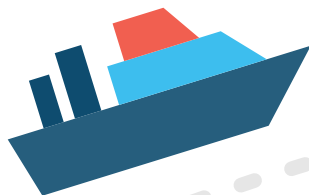
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# NEARSHORING



## PROS

- **Lower freight costs** – The distance cargo needs to travel is much less than it would've had to travel overseas. This greatly reduces the cost of
- **Shorter supply lines** – Reduced travel distance means that customers will be able to receive goods faster. It also means less resources can be spent trying to keep perishables fresh.
- **Time-zone advantages** – Communication is made much easier by the fact that both parties will have similar work hours.
- **Improved cultural alignment with North American managers** – The proximity of places like Mexico improves cultural, and language similarities, which in turn makes management smoother. Onsite visits can happen faster and more frequently as a result.



## CONS

- **Labour cost (when compared to offshoring)** – Labour costs in countries such as Mexico have historically been higher than in China. In 2000, **Mexican labour was 58% more expensive than Chinese labour**. This trend has been reversed in recent years. Chinese labour costs five times more than it did 10 years ago, making it more expensive than Mexican labour as of 2014.

According to data from **2016 A.T Kearney Global Services Index**, India has since become the country of choice for its discounted labour and financial attractiveness.

- **Fewer options** – Because of geography, there are fewer country and region options to outsource to when compared to offshoring.
- **Cultural differences** – Even though languages and time-zones are similar for both parties, there'll still exist some differences in holidays and cultural nuances.

Rising labour costs in countries such as China, and increasing oil prices, have played a part in diminishing offshoring benefits. However, the real secret behind the success of nearshoring is the way Mexico, and countries like it, have **primed themselves** to being excellent manufacturing and **logistical hubs**.







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# RESHORING



This strategy (sometimes called 'onshoring') involves outsourcing within the same country.



Like with nearshoring, this type of outsourcing has been gaining momentum in recent years. The rising cost of offshoring, and a **political push at home**, are the roots of its growth.

## PROS

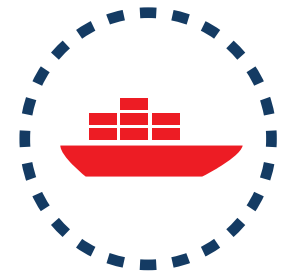
- **No culture gap** – Outsourcing to a third-party within the same city or country as you, means that there won't be any culture gap. The same holidays, business hours, relative time-zones and quality requirements are mostly the same across the network.
- **Easily reachable** – A flight within a country is much easier, and faster, than a flight abroad.
- **Popular** – “Made in America”, or “made in Canada” can be a strong selling point for some consumers. A recent **Consumer Reports survey** found that almost 80% of Americans surveyed say they would rather buy an American-made product over an imported one. unication is made much easier by the fact



## CONS

- **Expensive** – A selling point behind outsourcing is the cost-benefit. Labour at home simply can't compete with the prices of offshore and nearshore companies.
- **Resource scarcity** – Due to the higher cost of maintaining staff, **onshore companies can't afford to keep staff unoccupied**. If you need someone with a specialized skill-set, you may be stuck waiting. The talent pool is also much smaller compared to other shoring options as the selection is limited to one country.
- **Less options** – Because the selection of reshoring partners is limited to a single country, your choices are slim compared to the much larger pools of talent available through off- and nearshoring.

Reshoring is following similar growth patterns to nearshoring. However, a part of its popularity has to do with consumer dissatisfaction over the outsourcing of jobs abroad. Time will tell if this model will retain its appeal once public opinion cools and the push-pull of market forces continue.

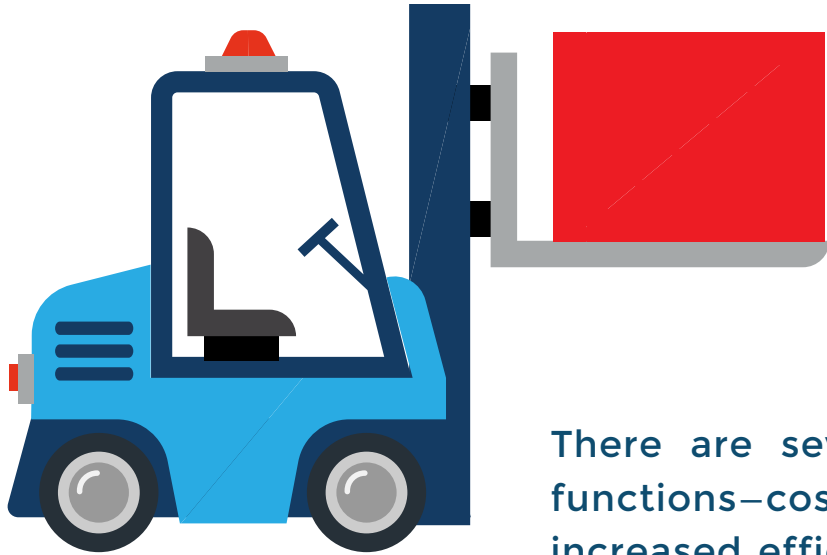




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# CHOOSING SHORING OPTIONS





There are several advantages to outsourcing certain jobs and functions—cost advantage, access to bigger pools of skilled labour, increased efficiency, and saving on infrastructure and technology. **The biggest advantage however, is that it allows your business to focus on core areas.** Your business will be able to spend more time on building its brand, R&D, and providing higher value added services.

Offshoring, nearshoring and reshoring each have their own distinct advantages and disadvantages.

**What will work best for your business will depend on its goals and core competencies. Talking to a third-party logistics provider is a very useful way to learn more about sourcing options.**

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