

ESPO keeps going – week 8

Contribution by : prof. Guido Nassimbeni, Professor in Management Engineering, University of Udine (Italy)



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COVID-19 and Reshoring

What will be the impact of the pandemic emergence on companies' reshoring strategies, and more generally on their localisation choices? To answer this question, it is first of all necessary to recall the evolutionary trajectory of reshoring in the last decades and the changes induced by the current emergency.

Evolution of the reshoring processes. The analysis of the European industrial system shows that in recent years location choices have gone through a significant transformation. In the 90s and early 2000s, a massive transfer of production took place. The main motivation was the search for cost advantages, especially in high labour industries (e.g. apparel and furniture) or where price-based competition prevailed. Low-cost countries were therefore chosen as privileged destinations. As time went by, the drivers and the geography of location choices changed due to a series of factors like production overcapacity in Western countries (determined by the global crisis), the increase of prices in key developing countries (e.g. China), and new technological trajectories (e.g. industry 4.0). In addition, firms realised not only the advantages but also several unexpected costs and risks of offshoring. In the period 2007-2017, the European Monitor on Reshoring reports almost 400 cases of back-shoring in Europe (<https://reshoring.eurofound.europa.eu/>). The motivations were often country-specific: in Italy it was the search for the "made in" effect and the improvement of customer service, while in Germany reshoring flows were often justified by the higher technological and infrastructural profile of this context. After the "offshoring" and the "reshoring" phases, companies became aware of the fact that the manufacturing internationalisation choices should not pursue temporary location advantages. The challenge is the so-called "right-shoring", defined as an appropriate mix of in- and out-sourcing and of off-, near- and back-shoring choices according to the opportunities and location advantages offered by a constantly evolving international chessboard.

The coronavirus shocks. The coronavirus outbreak intervenes in this scenario. Compared to other past emergencies (determined by political instability, terrorist acts, natural disasters, ...), its peculiarity is that it has generated contextual disruptions in almost every part of the world and in practically every area: procurement and distribution, transport systems, flow of materials, infrastructures, information systems, human resources. The literature on resilience and risk management identifies a complex and articulated mix of instruments to manage disruptions and to reconfigure the supply chain. They involve the

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organisation, the work distribution, the operations, the product / service, and the supply network. Considering the severity and extension of this emergency, it seems necessary to intervene in all these domains. With regard to the supply network, the literature suggests the use of multiple sources, different carriers and transport modes, the availability of alternative supply, production and distribution centres to distribute to the country and the supply risk. In reconfiguring their supply chains, companies will deal with a series of trade-offs: single vs. multiple sourcing, domestic vs. foreign sourcing, centralisation vs. decentralisation, collaboration vs. secrecy, redundancy of resources vs. leanness. A trend towards more regional, centralised, and redundant supply chains seems quite evident.

The challenge. The reconfiguration of the manufacturing footprint of our companies will encounter several difficulties. I will mention two of them. First, any reconfiguration requires time and resources: in a very uncertain period and a collapse in market demand, it will not be easy to find the resources to make major structural changes. Second, some industrial supply chains have weakened or even disappeared. These supply chains need to be revitalised or regenerated. This challenge is played out not only at the corporate level, but also at the institutional level by addressing fundamental industrial policy issues. The case of the health sector is emblematic. The COVID-19 outbreak has revived fears over acute drug shortages in Europe, sparking calls to repatriate the production of pharmaceutical ingredients and biomedical equipment from China and far East. Beside the healthcare sector, let's think of the tracking apps, which ultimately lead us back to the American giants of the web, but also of the smartphones, for which those apps should be downloaded. There is no European player in this crucial field and rebuilding or even building capacity will take years.

Ultimately, the emergence of COVID appears to be a "game changer" with enormous consequences for corporate strategy and the policies of national and supranational institutions. Sooner or later the virus will disappear, but without the restoration of an effective and competitive industrial system, the crisis will not be overcome.