

WHITE PAPER

# Considering nearshoring?

Here's what you need to know



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*Shocks to supply chain operations have been coming with increasing frequency in recent years. Unpredictable and unprecedented events like the Covid-19 pandemic, wars, and climate-related disasters have all contributed to create a global environment that seems less conducive to long, transcontinental supply chains.*



**Companies that set a foot in Mexico will have greater visibility, shorter delivery times, and influence the quality of their products<sup>[2]</sup> [...]. Mexico is becoming the hottest market in the region, in terms of production, skilled professionals, and advanced facilities.”**

- Alfonso De los Rios  
President of a Mexican freight forwarding company

When transportation links are broken by unforeseen events, supply chain operations can be severely disrupted. When that happens, parts are not delivered on time to factories, or finished products don't make it into stores. Costs escalate as managers try to find alternate routes or carriers on short notice, and revenues decline with lost sales. It can be a grim picture for organizations relying on transcontinental supply chain links.

That's why many companies are reconsidering how they source materials and where they put their production facilities. In fact, a recent survey found that almost two thirds of companies (63%) are at present overhauling their supply chain operations to bring production and procurement closer to home<sup>[1]</sup>.

Making a supply chain shorter brings many benefits, from lower costs to decrease time to fulfill orders. What it ultimately comes down to is having better control over your supply chain operations.

## Nearshoring

The move to bring production closer to home or markets is known as nearshoring. It's also referred to as onshoring when it specifically refers to bringing production into a company's home country. The term had its genesis during the 1990s when the North American Free Trade Agreement (NAFTA) created a single trade region for Canada, the US and Mexico. Now it can refer to any shift in production or procurement to within the same region as a company's headquarters or main markets.

Many global firms with sourcing and production in Asia are now looking to make that move closer to home. And Mexico is an increasingly popular choice thanks to favorable trade regulations under the updated NAFTA – the USMCA, or US-Mexico-Canada agreement – cheaper labor, lower costs, and immediate proximity to the massive US market.

## The benefits of moving to Mexico

Alfonso De los Rios, president of a Mexican freight forwarding company, told Forbes “... companies that set a foot in Mexico will have greater visibility, shorter delivery times, and influence the quality of their products.”<sup>[2]</sup> He added that Mexico is “becoming the hottest market in the region, in terms of production, skilled professionals, and advanced facilities.”

This means companies looking for an advantageous move closer to home are taking a very close look at what Mexico has to offer. The benefits are numerous.

Physical proximity to the US means quicker and cheaper transportation of finished products. The volatility in ocean freight rates makes the cost of goods extremely unpredictable, while the price of truck transport across the border is relatively stable. Where a container shipped from China can take **two to six weeks** to reach the US, a truck can travel across the border and to most of the continental US within a **day or two**.

The cost of overhead and other inputs is also lower in Mexico than China. Companies can expect to save 4% in energy costs, 60% in natural gas costs and 40% in facility lease rates in Mexico<sup>[3]</sup>.

The other plus of shorter transportation links is a potential reduction in carbon emissions. A nearshoring strategy can help your company meet greenhouse gas emissions reduction targets. By eliminating the transportation links from overseas factory to the port, as well as the ocean leg itself, you can see substantial reductions in emissions.

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Being in the same (or close) time zone means better communications within an organization, less chance of error and less requirement for employees to keep stressful overnight hours in order to stay in touch with production facilities.

The USMCA deal means that goods are not penalized with heavy tariffs. With the recent imposition of trade penalties by China, US

companies have an even greater incentive to look to a friendly trading partner like Mexico. The trade deal also provides protection for intellectual property and digital trade, and brings labor and environment obligations into the core of the agreement<sup>[4]</sup>.

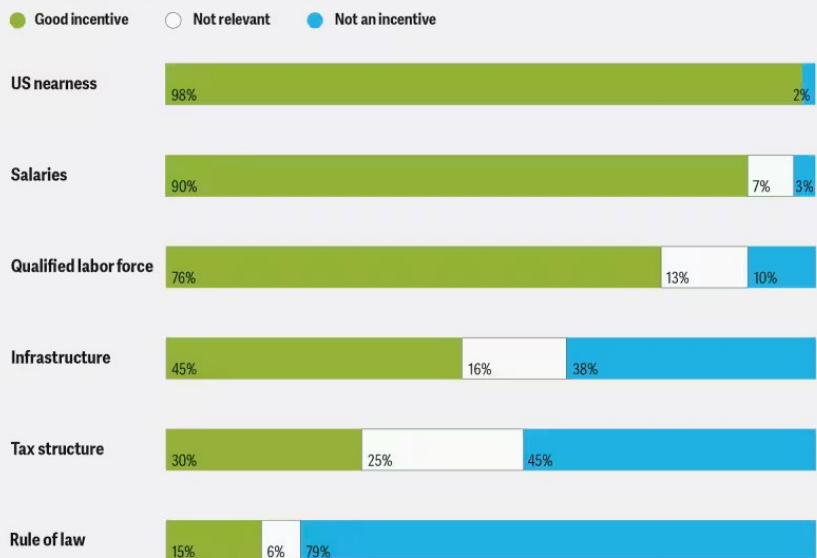
And while the USMCA does protect workers against exploitative labor practices, like unfair wages, the cost of labor remains cheaper in Mexico than the United States. It's also 20% less expensive than wage rates in China, and Mexico has a highly skilled, largely bilingual work force<sup>[5]</sup>.

Tax exemptions are also available through the Manufacturing, Maquila and Export Services Industry Program (IMMEX), which allows foreign manufacturers to import raw materials and components into Mexico, tax and duty free, under the condition that 100% of all finished goods will be exported out of Mexico within a government mandated timeframe<sup>[6]</sup>.

Figure 11

Why Mexico is an attractive investment destination?

Percentage of companies\*



\*Interview program conducted by Mexico's Central Bank. Interview question: "In your opinion, how would you rate the importance of the following factors in Mexico in making it a more competitive destination for international companies?" Source: Bank of Mexico.

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Mexico's benefits are attracting foreign investment.<sup>[7]</sup>

## How Mexico benefits

Mexico is basking in the economic warmth that the nearshoring movement is creating. The industrial regions closest to the southern border of the US are reaping the most benefit, with construction and real estate sectors experiencing a boom in 2023. The Mexican government was expecting a **1.2% bump** in its economic growth for 2023 thanks to the nearshoring trend<sup>[8]</sup>.

Demand for **manufacturing properties rose by 80%**, with companies in the automotive, electronics and machine tooling sectors leading the charge. Along

with the northern states, the **El Bajío region** which encompasses the central states of Queretaro, San Luis Potosi, Aguascalientes and Guanajuato, and is known for auto manufacturing, is also experiencing a boom thanks to its well-developed infrastructure<sup>[9]</sup>.

Foreign investment in Mexico is soaring as companies, primarily American and Chinese, seek to move operations there. Many American enterprises are expanding their existing Mexico operations, while many Chinese firms are seeking the benefit of producing in North America while avoiding high costs of labor and reducing the risks of disruptions in the supply chain, just as everyone else is.

## How you can benefit

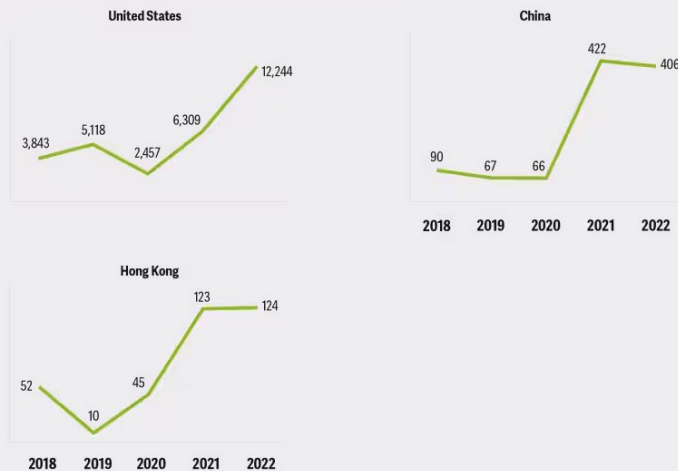
It's important to keep in mind that nearshoring is not a panacea. It cannot solve every supply chain headache your operation may be experiencing. However, nearshoring, when done properly, can give your company a tremendous **competitive advantage**.

There have been some notable recent examples of nearshoring success. Appliance manufacturer **Whirlpool**, for example, operates three production facilities and two distribution hubs that serve their North American market from Mexico. About **80% of their products are made in Mexico**. Whirlpool rose to the top of the appliance market thanks to the efficiency gains, cost reductions and their ability to leverage Mexico's well-trained workforce to develop and build new products<sup>[11]</sup>. Other appliance manufacturers are following suit, with China-based Hisense, Germany-based Bosch and Denmark-based Danfoss all opening facilities in 2022.

**General Motors** is another company with successful nearshore operations in Mexico. Although its presence in the country predates the concept of nearshoring, having begun in 1935 with the construction of a plant in Mexico City, GM's expansion to **15 facilities** today shows that operating there works.

Figure 6

### New investments in Mexico per year (US\$M)\*



Total foreign direct investment (FDI) breakdown in 2022

Country	Contribution	Sector	State
United States	42.6%	South Korea	1.9%
Canada	10.7%	Hongkong	1.3%
Argentina	6.6%	France	1.2%
Japan	5.2%	France	1.2%
United Kingdom	5.0%	Others	20.1%

\*The total FDI is compounded by new investments, reinvestment, and parent company accounts. Source: Ministry of Economy of Mexico.

**There has been a steep increase in investment from American and Chinese firms since 2020 as they begin to move production to Mexico.<sup>[10]</sup>**

“

It's also important that decision-makers remain realistic. Nearshoring is not as simple as just yanking everything back to an adjacent location. In many sectors, there may be no widespread sources of supply.”

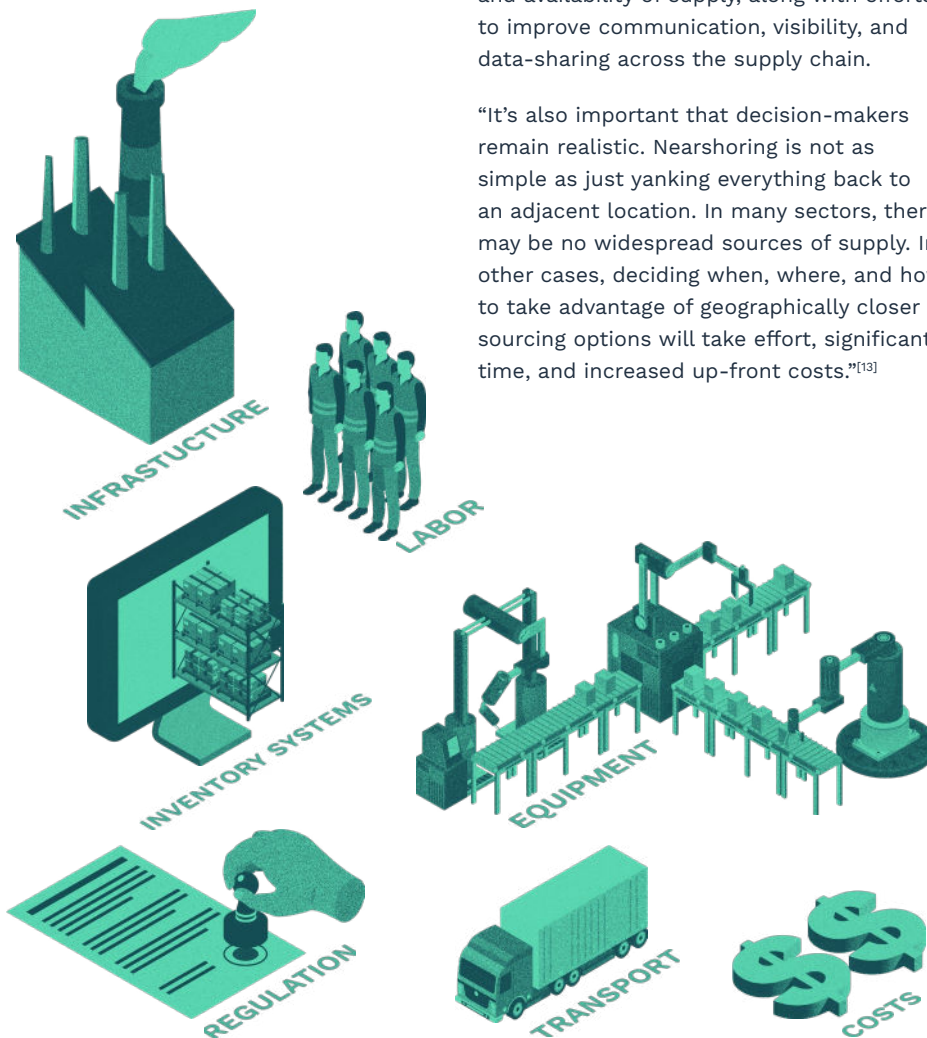
- Enterprise software provider

Mexican suppliers are critical for GM's manufacturing. It buys many of its components and raw materials from Mexican companies, including engines, transmissions, axles, suspension systems, and interior components. GM's partnership with Mexican suppliers allows it to take advantage of Mexico's competitive labor costs and proximity to the US market. **Tesla** recently announced it is beginning production in Mexico, potentially following GM's example of an auto industry success there<sup>[12]</sup>.

## Getting it right

Nearshoring is a more complex opportunity than simply opening a new facility. A major **enterprise software provider** suggests a thoughtful approach that factors in costs and availability of supply, along with efforts to improve communication, visibility, and data-sharing across the supply chain.

“It's also important that decision-makers remain realistic. Nearshoring is not as simple as just yanking everything back to an adjacent location. In many sectors, there may be no widespread sources of supply. In other cases, deciding when, where, and how to take advantage of geographically closer sourcing options will take effort, significant time, and increased up-front costs.”<sup>[13]</sup>



There are a few key facets of your business that can influence how nearshoring will work for you. The nature of the products you produce needs to be considered. Production of products that have common manufacturing processes is more easily moved than ones where you have a lot invested in proprietary systems and equipment <sup>[14]</sup>.

Likewise, you need to consider your **fulfillment network**. How will you decide where orders are filled from? Your entire **inventory management** and control system may need to be revamped and updated to accommodate the new location or locations.

Duties and customs regulations are another very important part of the calculation. You'll need to keep careful track of parts' country of origin and be aware of the implications of changes in your supply.

In practical terms, this means doing **comprehensive research**, scoping potential locations for suitability in terms of costs, labor availability, infrastructure, trade regulations and raw materials or parts inputs. But you don't have to go it alone, there are many consultancies, often based in the target country, that offer comprehensive services in this area, taking the guesswork out of a foray into foreign territory.

In its analysis the software provider cautions against oversimplification. The process will likely take years, it noted, and the importance of correctly calculating the costs of the switch is critical.

It's also imperative to take advantage of digital solutions. That's where using the tools that **C3 Solutions** provides will help. Because even with a shorter, less complex supply chain, you still need to control variables like **inbound** and **outbound** transportation, security, customs clearance, and inventory control.

Using digital solutions gives you the **visibility and control** you need to manage both your nearshore and home operations seamlessly. For the VP of supply chain who's located at the home office, having insight into what's going on in your remote operations is an enormous asset.

Another benefit to nearshoring is the ability to maintain common processes and standards across your operations.

Let's look at a few examples of challenges that may arise in nearshoring, and how **C3** can help you realize the strategy in the most efficient and cost-effective way possible.

### Transportation management

With a nearshore operation, truck traffic to and from your gates may flow a little differently than you are used to. When you don't have to ship out aiming for a specific ocean sailing, you may have more frequent and regular traffic in and out of your gates. And depending on whether you are distributing or manufacturing, your inputs may also flow differently.

All this is to say that using an **automated system** to manage **dock scheduling** and what's in your **yard** will make the whole transition much easier. There are enough other variables without trying to manage inbound and outbound loads manually.

Another facet of transportation management is keeping ahead of **demurrage charges**. By being able to schedule trailers accurately, and keep to that schedule, you'll be able to avoid detention and demurrage fees, thus keeping your operation on budget.

### Security

While Mexico is a popular destination for nearshoring, its reputation for criminal activity and corruption adds a layer of **risk to operations**. The lack of rule of law is cited as a deterrent by some corporations considering the move<sup>[15]</sup>.

By using solutions like C3's **seal management**, you can keep track of trailer seals automatically. It's part of **C3 Yard**, and it lets you set up rules to track and manage seals from the gate to the dock and back out the gate again. Every user action is recorded so you can follow up if

there's a discrepancy. This is a valuable asset when you operate in an environment where theft is common.

C3 also helps manage security at the gate by **automating the registration process**. That way it's much more difficult for someone who is not a driver with a scheduled load to gain access.

### Inventory control

With a nearshoring operation, the shorter transportation routes open an opportunity to manage inventory differently. Because goods are closer to market and available on short notice at the nearshore location, it's possible to use the facility to **maintain safety stock**.

With that inventory strategy it is important to ensure you have the most accurate and up-to-date data about what's on hand. Using **C3 Yard** allows you to easily keep track of **inventory stored in trailers** in your yard. Not only can you manage the contents of each individual trailer, but you'll also know where each trailer is at any time, automatically. That alleviates the need to keep paper records as well as preventing your yard staff from wasting valuable time searching for trailers.

### Harmonization

Another benefit to nearshoring is the ability to maintain common processes and standards across your operations. By deploying a suite of systems like C3's Yard and **Dock Scheduling**, you will **have the same controls at the remote location** as you use at your home operations. This will allow all your inventory and processes to align seamlessly, making all your locations feel as though they are under the same roof.

At the same time, by using these systems, you'll be able to **measure and compare the performance** of your locations' docks and yards and ensure that both local and remote operations are performing to the standards or **KPIs** you expect.



## Now is the time

As we have seen, there are numerous powerful business arguments to be made for nearshoring. The potential **cost savings**, **reduction in complexity**, **risk mitigation** and **enhanced control** over your supply chain all make nearshoring an attractive prospect.

And with increasingly chaotic and unpredictable global geopolitics, combined with the growing risks related to climate disasters, it's no wonder that so many companies are looking to leave their remote manufacturing and sourcing outposts in favour of closer options. Supply chains are getting shorter, and if you want to compete, now is the time to consider your options.



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