



EBOOK

How Nearshoring Impacts Your Supplier Risk Management Program

Know the Hidden Risks as You Rebalance Your Supply Chain

So near... but not that near

Even as we continue to move further into a post-pandemic period, we're still facing major challenges in managing supply chains.

Facility shutdowns. Port delays. Cargo backlogs. Throughout the world, supply chain disruptions are still happening, compounded not just from the fallout of pandemic-related events, but by unstable socioeconomic conditions, political upheavals, and severe weather events.

As a result, companies are seeking ways to regain control and are reassessing how they manage their supply chains. One increasingly viable solution is nearshoring.

Here are just two recent examples of nearshoring:



A major coffee retailer decided to procure ceramic coffee cups, which it once sourced overseas, from a factory in Ohio.



A U.K.-based maker of water purification systems for airports and malls chose to build a factory in Dallas specifically to serve the U.S. market, instead of expanding production capacity in China.¹

Nearshoring has gained traction because it can enable greater visibility, greater agility, and ultimately, greater control — but that's not to say it doesn't come with its own set of risks. Shorter distances can solve some problems, but not all of them.

In this eBook, we explore some of the ways nearshoring can impact your supply chain in terms of cost, quality, availability, efficiency, and speed of delivery. We also share tips for optimizing supply chain visibility through effective data management.

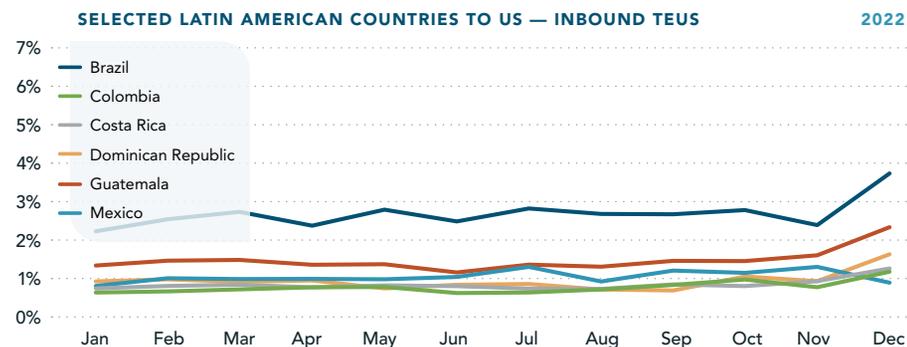
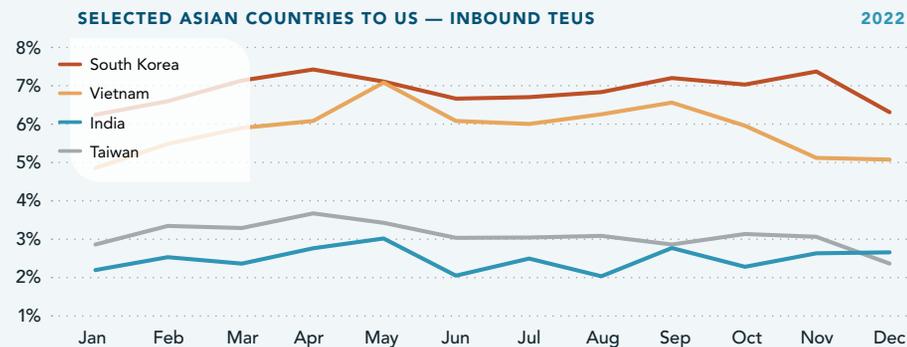
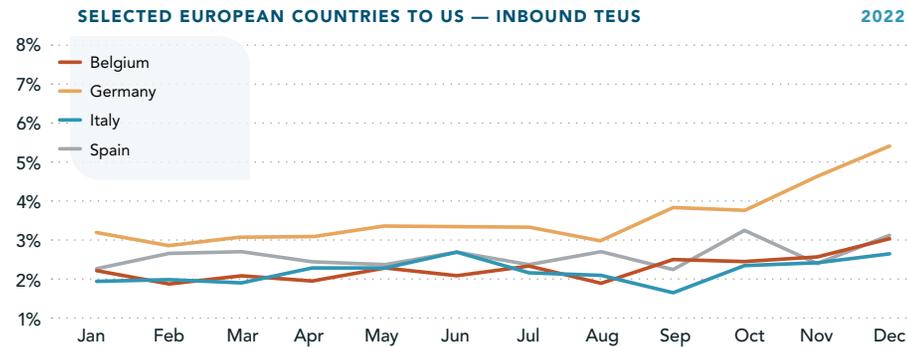
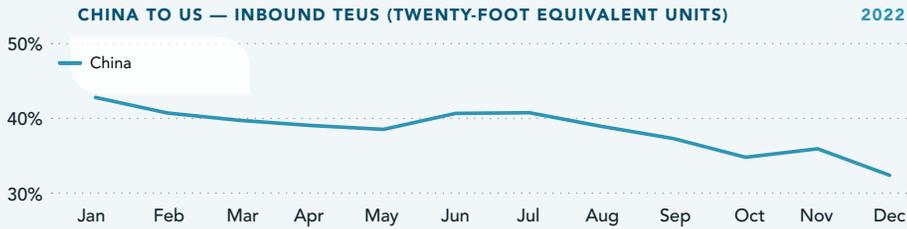


Not filling orders or losing a supplier with no backup, seeing other [sourcing] constraints that were not there before... All of a sudden, [supply chains] became a much bigger decision, with a lot more variables and new risks introduced."

ROSEMARY COATES

Executive Director, The Reshoring Institute

¹ Gary Frantz, "Supply Chain Woes Accelerate Reshoring, Nearshoring Trend," *Transport Topics*, 4 November 2022.



Nearshoring is gaining momentum... for good reasons

Lower shipping costs. Faster fulfillment times.
Greater customer satisfaction.

Probably the greatest motivator for companies considering nearshoring is the potential for building greater resilience in all aspects of managing their supply chains.

Recent industry shipping trends show that there is a definite swing toward sourcing suppliers in closer proximity. Shipping from Asia to the United States has dropped off, while shipping from Latin America and Europe to the United States has increased.

Logistical costs can certainly be lowered by having outsourced operations closer — a reduced distance translates to reduced customs and transport costs. A reduced carbon footprint too, which in turn can lead to better ESG (environmental, social, and governance) scores and rankings.

Also, by being in a time zone that's the same or closer, a company can experience more timely and accurate delivery of goods, leading to faster speed to market, enhanced customer service, and higher KPIs.

And there's more.

Proximity to suppliers gives company representatives the ability to visit in person more frequently. There's also a greater potential to maintain stricter control over their intellectual property. Greater potential to nurture close relationships with suppliers due to similarities in local culture and customs. And greater potential for overall quality control.

There can be risks with nearshoring, though... quite a few

While there can be many advantages to nearshoring, there are also potential risks that need to be considered. Being aware of them is not enough — each has its own unique set of challenges.

And before we start listing these risks, there are two key points that need to be made:

- #1** Yes, nearshoring aside, most of these risks would factor into any sourcing instance where a new supplier is being considered; BUT
- #2** the big overarching risk that cannot be overlooked is complacency — the temptation to let your guard down and not perform thorough due diligence because the nearshore supplier is geographically closer or culturally more familiar.

That said, here we've identified the biggest risks of nearshoring suppliers.

Geopolitical

Having a supplier located in a nearby country doesn't necessarily guarantee that their working conditions are always stable. Supply chain professionals need to continually monitor the country of any supplier in terms of political climate, labor relations, economic uncertainty, trade tariffs, banking and monetary policies, and national security.

Logistical

Proximity also doesn't guarantee that a supplier will be in sync with your company's planning, production, and delivery processes. Again, it's critical to be able to assess whether a potential supplier's logistics operations will be appropriate and advantageous to the needs of your company.

Quality Control

Manufacturing standards — not to mention customer satisfaction thresholds — can differ across geographies as well. To what extent can a potential supplier meet the standards set by your market, your industry, and your company? Are the benchmarks the same?



Environmental

Earthquakes. Hurricanes. Tsunamis. Forest fires. In the past decade, an unprecedented number of catastrophic weather events and natural disasters have wreaked havoc on supply chains around the globe. In assessing the efficacy of utilizing a nearshore supplier, it's critical to have an understanding of how local climates can potentially disrupt the manufacturing and delivery of goods.

Regulatory Compliance

Adhering to local, federal, and international laws, specifications, and guidelines is challenging enough within your own borders — and all the more challenging outside of them. You'll need to pursue insight into whether a nearshore supplier is following applicable regulations on, for example, environmental health and safety protocols, employment practices, or banned and toxic materials.

Competitive Factors

Similar to material dependency, there's the risk of depending on the same suppliers as your competitors if you're trying to bring those suppliers closer. Sourcing alternate suppliers — or at least being aware of them if needed — helps mitigate the risk of over-dependency.

Material Dependency

If your company relies on materials such as chemicals or rare earth minerals that can be obtained only from a small number of suppliers in specific geographies, it can put a great deal of stress on your supply chain. Knowing where alternate sources of materials can be obtained can help offset the risk of dependency on one supplier or geographical location.

Cybersecurity

Are you familiar with the measures your supplier has in place to protect critical data? Do their protocols align with your company's cyber risk policies? Do they have dedicated security personnel that can monitor their systems and provide reporting on demand? Have there been any breaches in the past — and if so, how were they handled?

Supplier Capacity/Scalability

Meeting the immediate demands of your market is obviously paramount, but how do you determine whether your potential nearshore supplier can keep pace if there are surges in demand? Can they scale efficiently and effectively, up or down as needed?

Costs

While it's generally accepted that nearshoring will increase costs, the question is by how much, and how effectively the increased costs can be contained, or predicted. At the same time, you'll want to have a holistic view so that you can show, for example, that increased manufacturing costs are being offset by lower delivery costs because shipping distances are shorter.

This is a broad and perhaps daunting list of risks. The good news is that it's possible to mitigate them by maintaining vigilance with a comprehensive data management strategy.

Why a comprehensive data strategy matters in supplier risk management

Ultimately, mitigating the risks associated with engaging nearshore suppliers comes down to having meaningful transparency into all your supply sources, wherever they are.

A Master Data Management (MDM) program enables you to oversee all aspects of the data that inform a decision-making process.

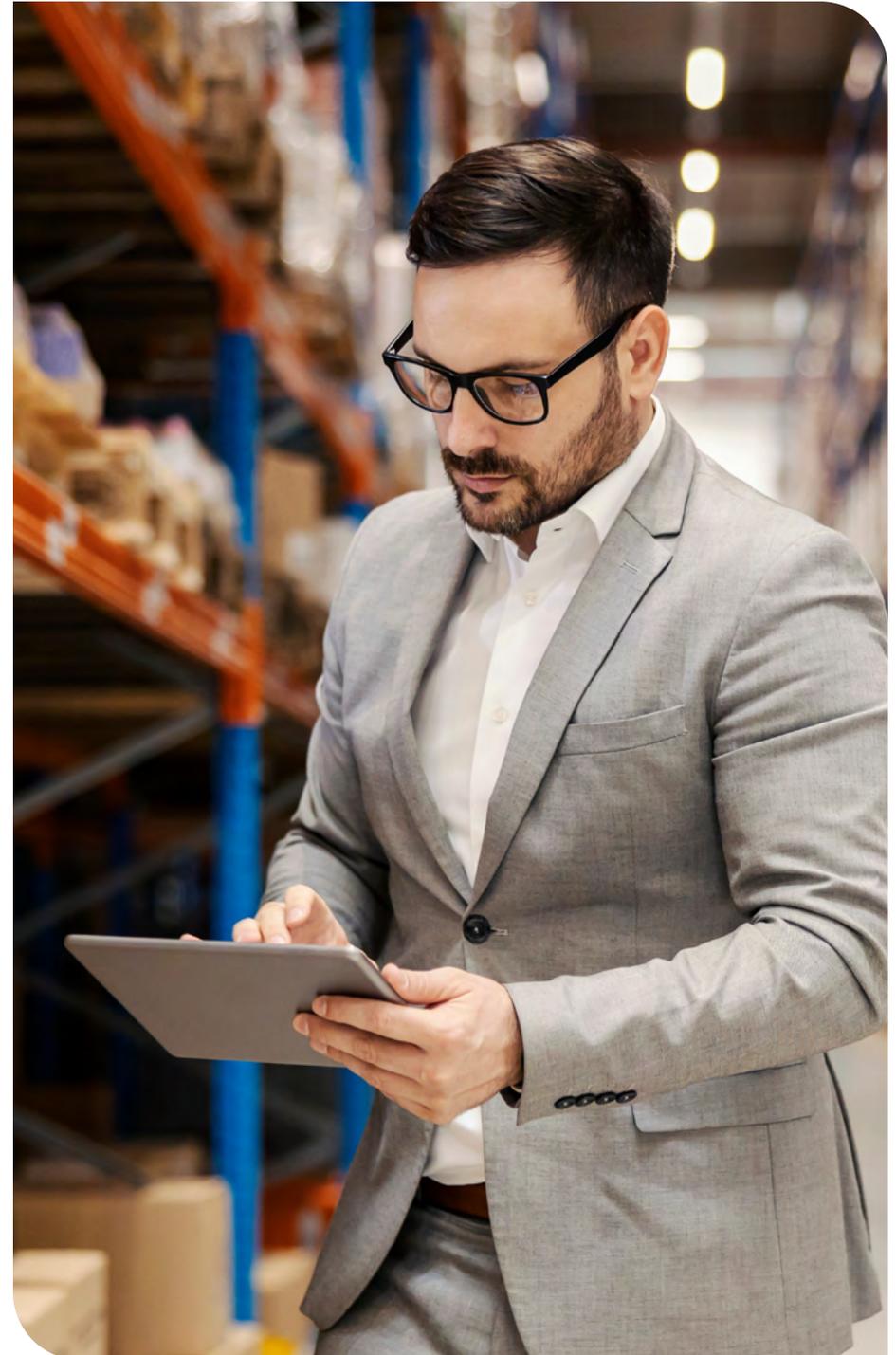


The goal: to help ensure viability, uniformity, consistency and accountability within the supply chain.

Nearshoring is no different than offshoring in that it requires a “single source of truth” to confirm that all requirements are being met, from supplier onboarding and onward through the relationship. It’s about having the intelligence about your suppliers to inform timely decisions that help ensure the supply chain is functioning well — intelligence that comes from screening suppliers, monitoring and alerts, and reporting and analysis.

From these sources of intelligence, it’s possible to identify key risk areas within your supply chain. You can actively monitor many potential supplier risks, screening suppliers for corporate structure, beneficial owners, sanctions, watchlists, and even legal or financial difficulties. You can also map, measure, and report on a supplier’s ESG performance.

Beyond mitigating risk, making these linkages to suppliers gives you a greater advantage when undertaking negotiations and making contractual arrangements — and, of course, increases your effectiveness in supplier selection and appraisals.



Five crucial areas to consider

No matter how near or far your suppliers may be, supply chains are governed by two criteria — the origins of the goods (i.e. where they come from) and the dependencies of how the goods are obtained (i.e. how they arrive). At all times, these criteria should be monitored and managed to help ensure any risk is mitigated.

These are the five crucial areas to consider when establishing a supplier risk management program:

IDENTITY

Is your supplier who they say they are?

Companies are constantly evolving and changing their staffing, organizational structure, locations, even their capabilities. Are they still capable of meeting demand? Can they maintain quality control? Follow through on shipping commitments? Comply with regulatory requirements? Maintain environmental standards?

You can't take these aspects for granted just because a supplier is in your own region and not on the other side of the globe. Regularly monitoring all these aspects of a company helps ensure you will continue to have control over your supply chain.

OWNERSHIP

Is it the same as when you initially engaged them?

You may have had a longstanding relationship with a company, but if it changes ownership, you can't always assume the new owners will be as reputable.

If, for example, they are undertaking any unscrupulous business practices such as laundering money or flouting environmental regulations, the impacts on your operations — not to mention your reputation — could be quite serious.

Being alerted of any ownership changes of your suppliers will give you a clearer view of exactly who you're doing business with at all times.

FINANCIAL STABILITY

Does your supplier maintain a viable business?

A supplier's buying power can change over time, too. There are two possible scenarios: when its buying power is better, you can negotiate a more favorable price. When it's worse, you may end up spending more than is necessary. In either scenario, your company's profitability can be impacted positively or negatively, so knowing as much as possible about the supplier's financial standing at any given time is essential. And again, you can't make assumptions based on whether the supplier is nearer or farther away.



At the same time, a supplier can try to save money by lowering the quality of what they provide for you, which in turn can have a negative effect on your own quality standards. Their decision to do less, or deliver later, or change their own partners to save money, can severely impact your business.

Ultimately, more information means more negotiation power for you.

WORKFORCE

Does your supplier have a stable number of skilled employees?

There are several ways to monitor a supplier's workforce. Metrics include the number of employees, hiring activity, retention levels, and employee satisfaction scores. More specifically, they include levels of experience, skill sets, and industry certifications. They can also include reporting on practices concerning the health, safety, and well-being of their workforce, as well as their commitment to environmental sustainability.

Each of these metrics can provide insight into how well the supplier can provide its products or services, and whether there are any immediate or long-term risks in continuing the relationship. In some cases, near-shoring may make these metrics easier to obtain.

RESPONSIVENESS

Can your supplier adapt quickly to unforeseen events?

It could be a natural disaster like a hurricane or earthquake or wildfire. Civil unrest, terrorism, or war. A security breach or cyberattack. Whatever the threat, whether it's already happened or is imminent, companies need to be prepared.

Does it have a response plan that's feasible? What are its specific plans for business continuity? Does it have the ability to recover quickly, and can you depend on it to continue to provide product to you?

Be future-ready: resilient nearshore supplier risk management

Practical ways to avoid potential supply chain disruption

This four-step framework can serve as your guideposts to help you plan ahead and address any potential supply risks with confidence:



01 BE PREDICTIVE

The data you use should enable you to better understand the potential future state of your supply chain, regardless of the changes you may make to your supplier network.

02 BE AGILE

Establish and maintain relationships with alternative suppliers to be engaged if your preferred suppliers cannot fulfill needs.

03 BE INTERCONNECTED

Using data to understand the dependencies your organization's various operations have with their suppliers — and how these may change based on changes to the supply network — can help reduce business disruption.

04 BE INTELLIGENT

By employing continuous monitoring of your supply chain data, you gain an active understanding of how current events will impact your supply chain and operations.

Next steps toward better nearshore supplier risk management

If you are considering a nearshoring strategy, or have already committed to one, there are many ways you can help ensure your organization is continually mitigating risk with your suppliers.

Here are the **immediate next steps** you can take right now:

STEP 01

Determine how much visibility you currently have with nearshore suppliers

KEY QUESTIONS TO ASK:

- How familiar is your organization with the suppliers you've selected?
- How much access do you currently have to key data about a supplier's competencies, financial profile, and reputation?
- How do they compare to competing suppliers?
- Where are the gaps in your data?

STEP 02

Prioritize supplier selection criteria

Ensure that all the must-haves for your choice suppliers are met through your own defined set of criteria. The five crucial areas we cover in this eBook are a great start. Remember that it's possible to enrich and expand your criteria, and that external data providers can help you to know what aspects you don't know but need to.



STEP 03

Establish a nearshore supplier risk management team

All the disciplines that are traditionally involved in selecting a supplier should be included in this new task force to ensure that all criteria are met and that all risks associated with a supplier can be efficiently addressed.

STEP 04

Assess the usability and accessibility of your supply chain data

Being aware of the many aspects of your supply chain through data will enable greater flexibility, responsiveness, and efficiency.

KEY QUESTIONS TO ASK:

- What is your data measuring, and where is it coming from?
- Is your data as comprehensive as it needs to be?
- Are your data sources working in concert to provide a big-picture view?
- Is the data you see being presented in a usable, understandable way that enables you to take action?

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Dun & Bradstreet empowers procurement and supply management teams with better tools and insights to help minimize third-party risk, helping their businesses succeed in fast-changing, risk-prone environments. Our market-leading data and intelligent, automated analytics solutions help customers identify appropriate suppliers, achieve broad visibility into supplier networks, and improve cost savings and bottom-line results.

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