Resilience rising: Toward a new agility premium

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Cost reduction is an important benefit of strategic shoring — for many organizations it is the fundamental one. But if organizations only pay attention to cost, they risk paying the price elsewhere.

Inflationary pressures. Geopolitical tensions. Natural disasters. Congestion in major ports. The challenges faced by supply chain executives are wide-ranging, unpredictable and significant.

Reducing the cost of managing supply networks is an essential lever that organizations can pull to demonstrate continuous improvement and return on investment. But if they fixate on price in every supply chain decision they make, they might find that there are some unwelcome consequences that restrict their supply chain's agility.

New research from KPMG, which surveys 250 US senior executives involved in supply chain development and strategy, shows that organizations are now turning more aggressively to strategic shoring in order to build agility into their supply chains. To optimize how they supply product to the U.S. companies are increasingly implementing strategic shoring: relocating their supply chains operations to regions in the Americas.

While supply chain executives appear to want more agility for their networks, and flexibility has become more prized over the past two years, cost still ranks as the single most important outcome in their supply chain decisions.

There are foreseeable risks for global supply chains in the years ahead, which means that organizations should make sure that cost reduction does not sabotage the agility of their supply chain operations. The quest for an agile supply chain has never been more consequential. "A company is a living organism," says Mike Zelkind, co-founder and CEO of 80 Acres Farms. "So what's right for a company today might not be right for the company tomorrow. As the corporation evolves and continues to grow as a living organism, its strategies and solutions will need to shift accordingly based on geopolitical changes and other influencing factors."

The increasing value of an agile footprint

Two-thirds of US supply chain executives surveyed (66 percent) say that political and economic uncertainty is prompting them to re-evaluate the assumptions behind their supply chain decisions. And many supply chain executives are responding to this flux with sharpened strategic shoring strategies.

"As companies start to wonder if resilience, rather than cost efficiency, should be their top priority, they're rethinking whether long, intercontinental supply chains are still in their best interest," explains economist and Professor Roberto Durán Fernández, School of Government Tecnológico de Monterrey.

Strategic shoring is defined as changing the geographic footprint of a global supply chain to locations in the Americas, including Mexico, Central and South America, Canada and even within the US itself, to be closer to and therefore better serve the US.

Resilience and faster time to market are both cited as top objectives pushing executives toward strategic shoring as they look for more dynamic and responsive capabilities to handle market uncertainties.

Martin VanTrieste, President Emeritus and CEO at pharmaceutical company Civica Rx, calls out the role of the US BIOSECURE Act in driving strategic shoring activities. "Investors are demanding shorter, more robust supply chains largely because they no longer want investees to be dependent on China from a geopolitical standpoint," he explains. "That's giving businesses in the US a strong incentive for wanting to change supply chain strategies."

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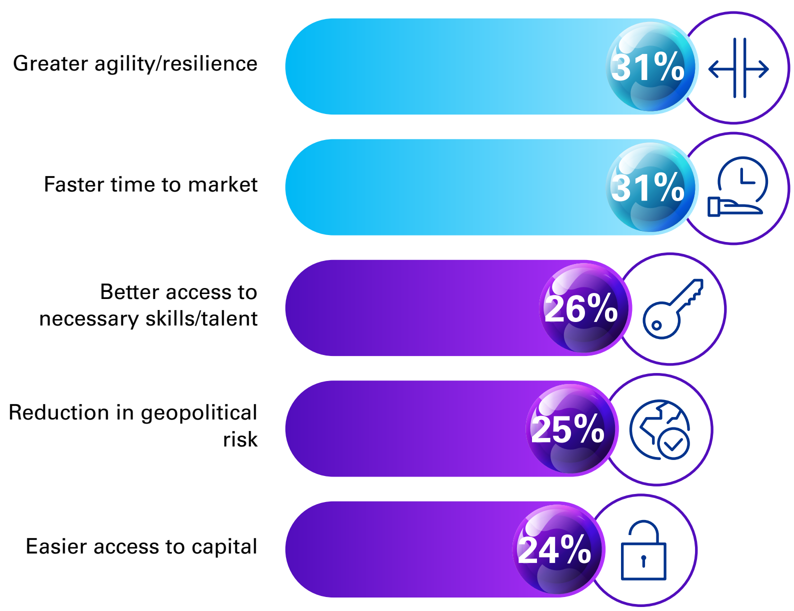
Figure 1: Resilience and faster time to market are the top objectives pushing companies toward strategic shoring



Vincent Golebiowski, Global Head of Supply Chain at US fashion retailer Tapestry, which sources most of its raw materials from Asia, believes there is growing recognition of the value of supply chain agility.

“Over the past few years, the global environment has made us understand that it’s important to have an agile footprint,” says Golebiowski. “Meaning not putting all our eggs in the same basket and being able to be flexible, when needed, to change sourcing.”

Tapestry understands this need for flexibility. Having established factories in south Brazil for its leather footwear, difficulties in accessing certain raw materials and importing them from Brazil to the US led the retail brand to adapt its strategy. While the production of certain products remains in Brazil, it is also complemented by sourcing and manufacturing from other regions outside of the Americas.

Balancing cost with agility

The research indicates that strategic shoring is already giving businesses more stability: three-quarters of supply chain executives say it has successfully increased their resilience.

But when cost is pitched against resilience and agility, the data shows that price is still the primary driver of supply chain strategies.

Figure 2: Cost stands as the most important outcome in supply chain strategies, with agility in fourth place

> **The index shows that a change in an assumption or variable, such as sea freight costs or on time in full (OTIF) penalties, can drastically affect the viability of a strategic shoring decision.**

Cost optimization is of course a business imperative, but it can be shortsighted to always prioritize cost over agility or speed in supply chain decisions. "If you always approach your supply chain decisions by focusing on the lowest cost, you'll pay [in other ways] later," says Sam Rosen, President of Ollin Plastics, a custom contract manufacturer of rotomolded plastics parts. "So, while the cost element is a very real factor, balancing this with other supply chain needs is critical."

This balancing act should be guided by the needs of the product line being manufactured. "For business lines that will be easily disrupted by fluctuating customer dynamics, what's going to help you win there is having the supply chain agility to respond to shifts," says Chris Callieri, Chief Supply Chain Officer, Victoria's Secret. In this case, site selection choices should prioritize locations with a robust ecosystem of capabilities. Callieri adds, "You may trade off a bit on the cost of the materials, but instead you are focusing on boosting your agility and speed."

However, for stable, core products with consistent demand, a cost-effective supply chain in lower-cost regions may be more important than flexibility, as demand variability is less of a concern.

Martin VanTrieste of Civica Rx agrees that supply chain decisions have to balance the various factors at play to reach the right end goal, especially the quality and reliability of input materials.

"If you have to do a product recall because of poor quality, you'll struggle to ever make enough pennies to pay for that recall. I've seen it happen over the years: Purchasing is chasing cost savings on big branded products, and then there is a giant recall and every penny that was ever saved is flushed away.", says VanTrieste.

What's more, an organization's view of what constitutes a cost or a saving today is nuanced and can shift continuously as the world changes. Organizations considering strategic shoring should undertake a robust assumption sensitivity analysis to stress-test the assumptions in their supply chain decisions. These results can inform contingency plans to help bolster future agility.

Brian Higgins, Principal, Advisory Services practice, KPMG US, sees disruption becoming a growing norm, a trend that is also forecasted by the KPMG Supply Chain Stability Index.[1] The, the fragility of the factors underpinning today's supply chain routes has the potential to encourage organizations to build more agility into their logistics strategies.

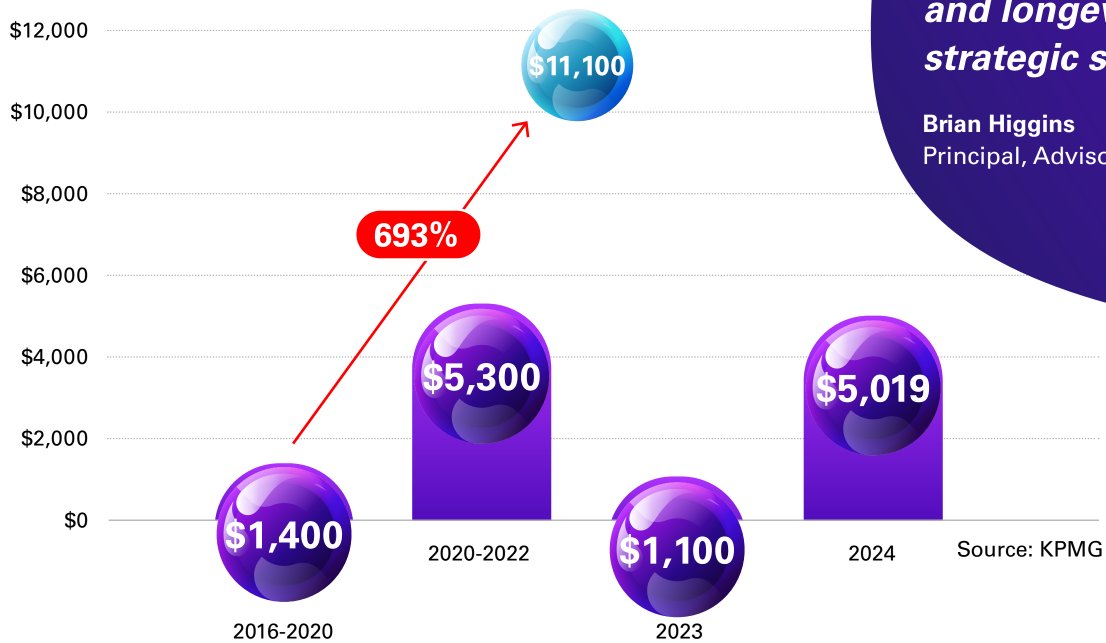
The index shows that a change in an assumption or variable, such as sea freight costs or on time in full (OTIF) penalties, can drastically affect the viability of a strategic shoring decision. Analysis by KPMG US suggests this could equate to millions of dollars in losses.

[1]https://kpmg.com/us/en/articles/2023/supply-chain-stability-index.html

The market for containers has shown a high degree of variability. For example, containers costs have gone from an average of $1400 per container prior to the pandemic to a peak of $11,100, an astonishing 693% increase. The continued variability needs constant monitoring, and strategic modeling needs to account for highly variable assumption factors.

> ***Our KPMG Supply Chain Stability Index illustrates how a 'bad' or short-lived assumption can wildly swing the meter on the size and longevity of expected strategic shoring benefits.***
>
> **Brian Higgins**
> Principal, Advisory Services practice, KPMG US

Figure 3: Average global container rate before and after COVID-19



Source: KPMG US Advisory

"Our KPMG Supply Chain Stability Index illustrates how a 'bad' or short-lived assumption can wildly swing the meter on the size and longevity of expected strategic shoring benefits," says Higgins.

Take the long view on strategic shoring, and flex

With market volatility on the rise across global supply chains, strategic shoring is not just a quick fix. Instead, it is a long-term strategy.

Meagan Schoenberger, Senior Economist, KPMG US, says that the 2026 review of the United States-Mexico-Canada Agreement (USMCA) is an example of the fragility of strategic shoring decisions — one with potential repercussions for supply chain executives in the region.

"All three countries will have different leaders at the table than when this agreement was first negotiated, and if this review process goes sour, that could set off the domino effect of USMCA eventually expiring in 2036," explains Schoenberger.

"The type of production that is being moved to Mexico at the moment is very high tech and requires a lot of long-term investment. So the idea that you would specifically target Mexico due to this agreement, then potentially not have that advantage in 10 years is a major risk."

Against this backdrop, organizations should make sure that their supply chains are flexible enough to change and invest time and energy into building their contingency reflexes.

Economist and Professor Roberto Durán Fernández admits that this is the biggest challenge for leadership. “Any decision a CEO or CFO makes right now will have a long-term impact, so while there’s pressure to change, the ongoing uncertainty means they don’t have much information to work with,” he states. “That’s where tools like scenario planning are invaluable. It’s not about having one plan; businesses need to think of multiple possible futures and establish how each of those might impact their operations.”

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Roberto Durán Fernández
Research Professor
School of Government Tecnológico de Monterrey

Clearly, organizations will not be able to avoid future stress altogether, but establishing flexible “shock absorbers” across their supply chain can give them greater resilience during those periods of disruption.

For example, if an organization moves its manufacturing closer to the US, but some of the assumptions behind that decision change two years later, does it have the flexibility to move some of that production back to where it came from?

“For some, this could involve breaking down manufacturing into different parts and only doing part of that manufacturing close to the US, rather than doing all of it there,” says Mary Rollman, a Principal in the KPMG US Advisory practice. “Another option for organizations could be to white label their product, ship it and then have the final packaging done closer to the US.”

These strategies depend on the support of third parties and bring added flexibility that could be preferable to a more rigid strategy.

For Rollman, it all comes back to how confident companies are about their supply chain assumptions. She says, “If the reality is that they’re as fragile as we think they are, says Rollman supply chain networks that have less of a hard-coded, cemented view might be a better option.”

For more on how to build resilience into your strategic sourcing efforts for success in the Americas, read our report *The Proximity Premium: Strategically reshaping supply chains in the Americas.*

Read more →

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