The Proximity Premium

Strategically reshaping supply chains in the Americas

October 2024

kpmg.com

Executive summary

Proximity emerges as the new value driver for US supply chains

In this environment, companies need to be more deliberate about what they are managing, what they are outsourcing and what they are insourcing.

Brian Higgins
Partner, KPMG US Consulting Leader, Industrial Manufacturing

The landscape of supply chains serving the US market is undergoing a profound and pivotal transformation.

Black swan events, such as the COVID-19 pandemic, the Panama Canal drought and the Suez Canal incident, have revealed that the long, globalized supply chains organizations have built over recent decades are extremely vulnerable to disruption. These disruptions not only frustrate customers but can also catapult business models into painful flux.

Organizations are now turning to a more localized approach, focusing on the proximity of their supply chains and swiftly adjusting their demand and supply strategies to increase agility and stability. By drawing supply chains in, companies can shorten lead times, bypassing protectionist measures, avoid punitive tariffs, and gain control of their operations.

Nearshoring has become the most commonly used term to describe this localization trend. But, since this term in the US has become synonymous with moving supply chain operations from Asia to Mexico, we use the term **strategic shoring** as it offers offers a more holistic view.

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 better serve the US.

This report unpacks the concept of strategic shoring, analyzing its implications for US businesses seeking to enhance their supply chain resilience. According to the KPMG survey of 250 senior US executives with strategic shoring experience and expertise, many have already found success with this approach.

As companies strive for greater agility in supply chains, it has become increasingly clear that traditional supply chain structures are fragile and in need of reform. To thrive in this dynamic landscape, companies must find the right balance between cost efficiency and flexibility to safeguard the integrity of their supply flows.

The Proximity Premium research not only supports the growing trend of strategic shoring but also reveals the growing value of proximity, which can enable companies to enhance their resilience, strengthen their supply chains, and gain a competitive edge in the face of market volatility.

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 better serve the US.

Chapter 1

How strategic shoring is transforming US supply chains

69%

69 percent of these supply chains will be based in the Americas up from 59 percent currently.

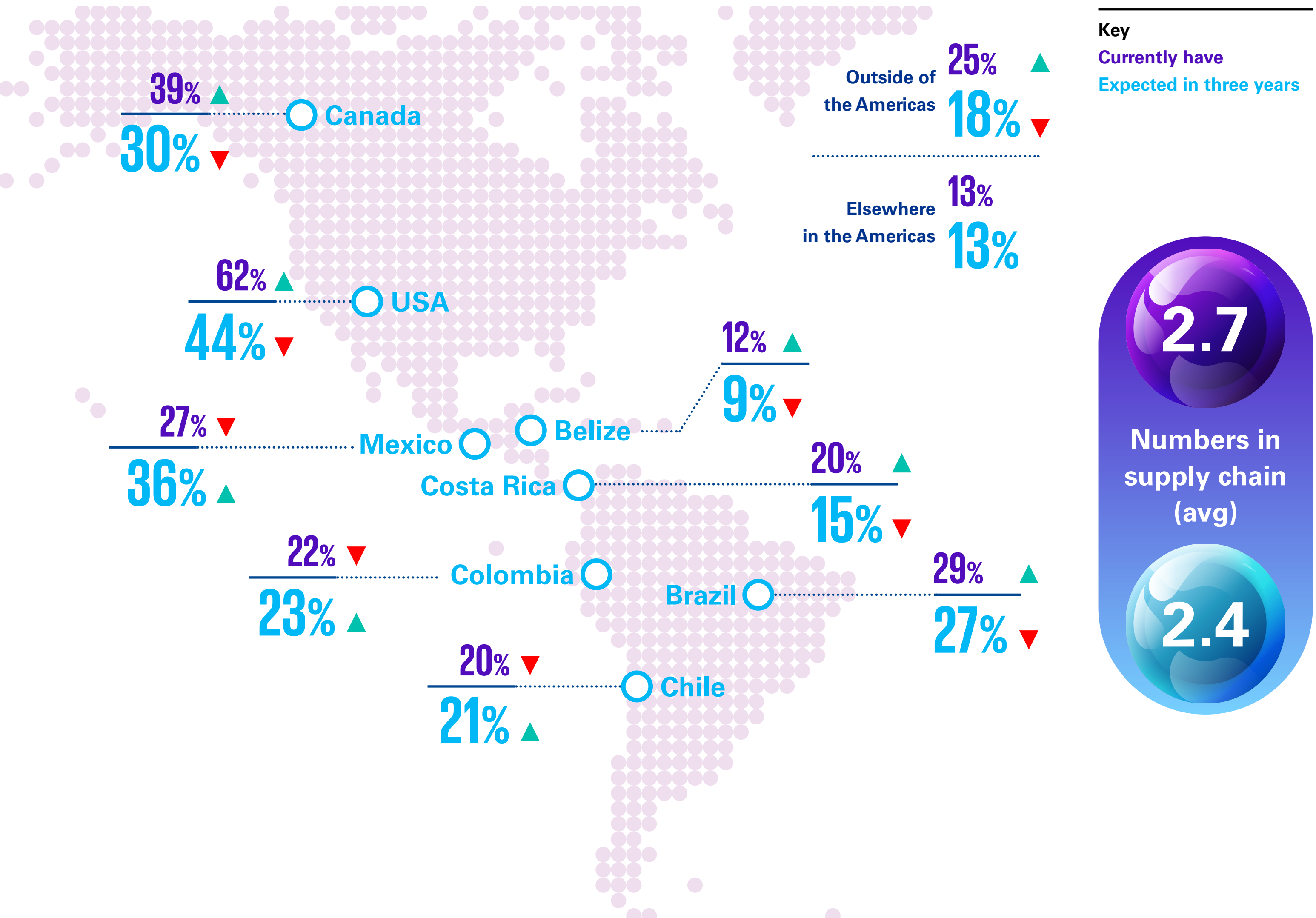
The survey respondents confirm that they have stabilized their business models by relocating their supply chains closer to the US, with nearly three-quarters reporting that strategic shoring has enhanced supply resilience and operational agility.

According to 81 percent of the executives in the survey, once they have completed their current strategic shoring shifts, the majority of their US-serving supply chains will be located in the Americas. This will mean that 69 percent of these supply chains will be based in the Americas up from 59 percent currently (a 10-percentage-point uplift). Three-quarters of respondents (76 percent) are making these changes within the next one to two years.

Figures from the US Chamber of Commerce[1] reflect a wider, more pressing trend, with about half of the US companies polled — companies that do not yet manufacture in Mexico, South America, Central America or the Caribbean — intending to expand into these regions in the next five years.

Our data indicates that executives expect the US to retain the largest share of supply chain operations over the next three years, and they project that Canada and Brazil will be among the top four locations. They also expect Mexico to gain more share, becoming the second-most popular country in the Americas to feature in supply chains to the US.

Figure 1: Companies are streamlining trade routes in the Americas, reducing reliance on the US and Canada.



[1]https://www.uschamber.com/security/supply-chain/u-s-chamber-ipsos-report-supply-chain-strategies-and-nearshoring-opportunities-in-the-americas

We want to take the standard 17-step global supply chain for highly perishable produce and remove the non-value adding steps so we can collapse the chain into two or three steps.

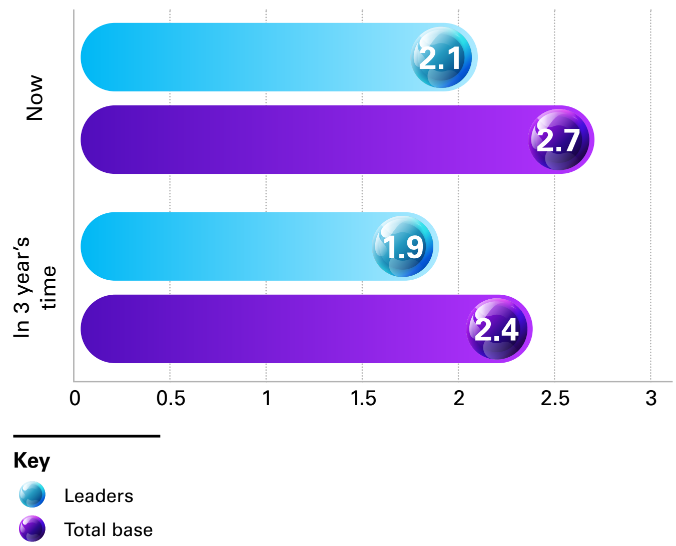
Mike Zelkind
CEO and Co-founder, 80 Acres Farms

We asked respondents to identify the countries in the Americas that are currently part of their supply chains serving the US and to predict their evolution over the next three years.

From a macro perspective, companies are streamlining supply chain routes within the Americas, with the average number of locations involved in a single supply chain set to fall from 2.7 to 2.4 in the next three years. Organizations with the highest supply chain performance ("leaders" in figure 2 below) typically operate in fewer markets and are looking to reduce that from an average 2.1 to 1.9.

Ohio-based vertical farming company 80 Acres Farms is building its production lines closer to the point of consumer consumption in the US to shorten its supply chain and boost product quality. "We want to take the standard 17-step global supply chain for highly perishable produce and remove the non-value adding steps so we can collapse the chain into two or three steps and deliver the freshest produce to our consumers," says Mike Zelkind, CEO and Co-founder, 80 Acres Farms. "We don't want to spend a lot of time on the last mile of delivery," adds Tisha Livingston, CEO, Infinite Acres and Co-founder, 80 Acres Farms. "So, when we select locations for our supply chain, we build our farms within close proximity of our customers' produce centers."

Figure 2: Average number of locations in supply chains running to the US.



Businesses surveyed expect to decrease their reliance on the US and Canada over time

Currently have a presence in the US **62%**

44% Expect to have one in three years

Looking more closely at the research data, the businesses surveyed expect to decrease their reliance on the US and Canada over time. 62 percent currently have a presence in the US, but only 44 percent expect to have one in three years. Meanwhile, 39 percent have a presence in Canada and 30 percent expect one in three years.

Many companies plan to lean into Mexico instead, with 36 percent expecting to have a presence there in three years, up from 27 percent currently. They also anticipate a marginal increase in their presence in Colombia and Chile (of 1 percentage point).

Push and pull factors shaping strategic shoring

The trend towards strategic shoring in the Americas (rather than completely onshoring supply chains to the US) implies that, while proximity is a key goal, other considerations, including cost of labor, remain important. Mexico's appeal, for instance, can in large part be attributed to its significant manufacturing base,[2] its low labor costs, and its participation in the US-Mexico-Canada-Agreement (USMCA), which provides preferential trade access to the rest of North America.

The advantages offered by the USMCA, and the fact that geopolitical tensions are making some traditional supply markets less attractive, have already prompted a raft of US companies to relocate their manufacturing operations to Mexico in recent years, helping the region leapfrog China to become the biggest import market for the US in 2023.[3]

US imports from Mexico reached an all-time high in May 2024, while US imports from China have fallen since 2022.[4] Foreign direct investment in Mexico also hit a record US$32.9bn in the first nine months of 2023,[5] up 30 percent compared with the same period in 2022.

The diminishment of China's wage advantage over the Americas has also played a role. In 2001, US manufacturing workers were paid 36.4 times more than their peers in China. That dropped to 5.5 by 2022, which is more in line with the wage difference between the US and Latin America. And, as China's wage gap with the US has narrowed, Mexico's has stayed fairly consistent over the same period, at 7.2 times lower than the US in 2022.

That said, the increasing popularity of strategic shoring has not made offshored models in Asian countries such as China obsolete. In terms of production capacity and cost efficiency, China is considered an important player in many supply chains, leading some companies to adopt a "China Plus One" strategy, which spreads production between China and one other country.

[2] https://www.ciip.group.cam.ac.uk/reports-and-articles/five-reasons-why-mexico-needs-industrial-strategy-now/#:~:text=Mexico%20boasts%20a%20strong%20industrial,of%20which%20was%20in%20manufacturing.

[3] https://www.nytimes.com/2024/02/07/business/economy/united-states-china-mexico-trade.html

[4] Source: US Chamber of Commerce and https://www.statista.com/statistics/277428/value-of-us-imports-from-china/#:~:text=This%20timeline%20shows%20the%20monthly,approximately%2031.6%20billion%20U.S.%20dollars.

[5] https://www.ft.com/content/517e6199-fa16-4e2d-90bf-065f86a1a298

But, previous intellectual property (IP) issues with supply chain partners in China, rising tariffs and flaring geopolitical tensions are prompting some organizations to reduce their dependence on that country, says Roberto Durán Fernández, Research Professor, Tecnológico de Monterrey.

"Since the pandemic, many organizations have even started to consider re-shoring production from East Asia, moving from China to the US itself," he expands. "Supply chain leaders are thinking 'If we are having severe issues with IP rights and the overall resilience and integrity of our supply chain, maybe the best move is to place certain factories within the US'."

There are many considerations that need to be taken into account when weighing the advantages and disadvantages of rebalancing supply chains closer to home. As the next section outlines, companies need to carefully evaluate where in the Americas it makes the most sense for their supply chain needs.

> **Companies need to carefully evaluate where in the Americas it makes the most sense for their supply chain needs.**

Americas rising

The rise in prioritizing proximity is not just a story about Mexico. While many focus on Mexico, US companies have a myriad of options across the Americas, and factors such as established trade routes, access to natural resources, sustainability, and the tax environment are just some of the factors that are influencing site selection.

Brazil, for example, offers some obvious upsides, including access to a large population and significant natural resources. Over a quarter of supply chain executives surveyed already have a presence in Brazil and it is expected that this proportion will remain relatively stable over the next three years. US fashion retailer Tapestry designed its supply chain network to allow the brand to tap into Brazil's rich natural resources while avoiding complications from importing additional raw materials into the country. While certain footwear is produced in Brazil in alignment with the available raw resources, other products are sourced from and manufactured in regions outside the Americas.

As Tapestry's Global Head of Supply Chain, Vincent Golebiowski, says, optimizing supply chain flows is a perpetual task: "We always try to understand if our current footprint is the right one, but it can change year on year, depending on our suppliers. I thought our footprint would be more static but in fact, it is evolving all the time."

As illustrated in figure one, fewer supply chain executives expect to be present in the US and Canada in three years' time. However, these countries will still command a dominant share of supply chains running to the US. As more businesses seek to streamline the number of countries featuring in supply chains, they are expanding sub-segments of their existing operations in the US, Canada and Mexico.

Take the automotive industry, for example. To increase its speed to market, an original equipment manufacturer (OEM)) operating in Canada, the US, and Mexico may decide to also manufacture batteries in these countries.

I thought our footprint would be more static but in fact, it is evolving all the time.

Vincent Golebiowski
Global Head of Supply Chain, Tapestry

The components to create the batteries, such as the anode and cathode, may have been sourced from elsewhere in the past, but by moving them closer to the rest of the production line the OEM can reduce its manufacturing lead times.

However, access to natural resources and good shipping routes could equally determine speed to market. As seen in the survey findings, a country such as Colombia offers clear potential to some organizations, thanks to its abundant natural resources and access to the Panama Canal.

Chile's developed mining sector is another potential draw. "Chile's copper mining outputs, in particular, are very attractive for high-tech manufacturing, [to supply] semiconductor production and battery production," suggests Meagan Schoenberger, Senior Economist, KPMG US.

Another key consideration is sustainability, especially as national environmentally focused policies are expected to grow in prevalence moving forward. "Strategic shoring helps you reduce your carbon footprint because you're reducing the environmental impact attached to your products," says Maura Hodge, Sustainability Reporting Leader, KPMG US.

In this light, Latin America looks particularly attractive. Natural resources and developed hydropower have given Latin America one of the highest shares of renewable energy globally, providing about two-thirds of its electricity from clean sources.[6] Latin America, being ahead of the game on hydropower, wind, solar, and other types of renewable energy, could provide a big tax advantage for organizations.

More broadly, the underlying tax environment and trade structure of a country have a significant bearing on where companies choose to put down their roots. In fact, 64 percent of supply chain executives surveyed consider indirect taxes, government grants and incentives, and transfer pricing rules at the outset of their strategic shoring decisions.

Government incentives for high-priority sectors such as semiconductors or batteries also aim to encourage strategic shoring efforts. After all, a global shortage of semiconductors could affect not only the consumer electronics industry but also the supply of life-saving medical devices and systems.

As part of the Inflation Reduction Act (IRA), Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act, and Infrastructure Investment and Jobs Act (IIJA), the US government has announced US$898bn for high-tech projects.[7]

[6] https ://www.statista.com/topics/11998/renewable-energy-outlook-in-latin-america/#:~:text=Latin%20America%20has%20one%20of,further%20deployment%20of%20renewable%20energy.

[7] https://www.whitehouse.gov/invest/

64 percent of supply chain executives surveyed consider indirect taxes, government grants and incentives, and transfer pricing rules at the outset of their strategic shoring decisions.

64%

Nearly half of that total, US$395bn, is for semiconductors and electronics, with another US$177bn for electronic vehicles (EVs) and batteries. Supply chain structure and location will be key factors in eligibility for funding. Similarly, adds Schoenberger, there is an increase in data centers currently under construction in the US. Consequently, there is a surge in investment in electricity projects, especially for clean energy.

These examples highlight just a few of the factors that companies will consider when choosing which countries or regions to prioritize for their supply chains. A thorough assessment of the variables at play across the Americas requires connected thinking to shape the strategic shoring decision-making process. This is particularly true of tax planning, which has significant repercussions for administrative benefits in trade, indirect tax, and transfer pricing. We will explore this — and more — in the following chapter.

Sam Rosen, President of Ollin Plastics, a custom contract manufacturer of rotomolded plastics parts, adds that this decision-making process can be iterative, so companies need to take a long-term view. "Twenty years ago, Mexico would not have been the right move," he says. "But by being open to what's changing in the market and staying close to our customers, we have crafted a strategy for our supply chain."

Supply chain structure and location will be key factors in eligibility for funding.

Chapter 2

Building shock-absorbent supply chains to the US

Resilience in the face of global trade and geopolitical uncertainty

While most of the executives surveyed approve of their supply chain performance, with 78 percent feeling satisfied with their logistics, companies find the most pressing challenges to be navigating geopolitical risk, hitting sustainability targets, and remaining agile. In light of ongoing volatility, executives should guard against complacency to prevent fragile assumptions from undermining their supply chains.

We live in a world where, going forward, you're probably going to need a multi-country or multi-shore strategy if you're going to serve large global customers. They're going to be everywhere, so you need to figure out how you can serve them or serve a portion of what they do effectively. If you don't, someone else will.

Sam Rosen
President, Ollin Plastics

Navigating geopolitical risk is the area that causes companies most concern for supply chain networks. But strategic shoring is providing a mitigation strategy for many, with nearly three-quarters saying it has enhanced their resilience and agility.

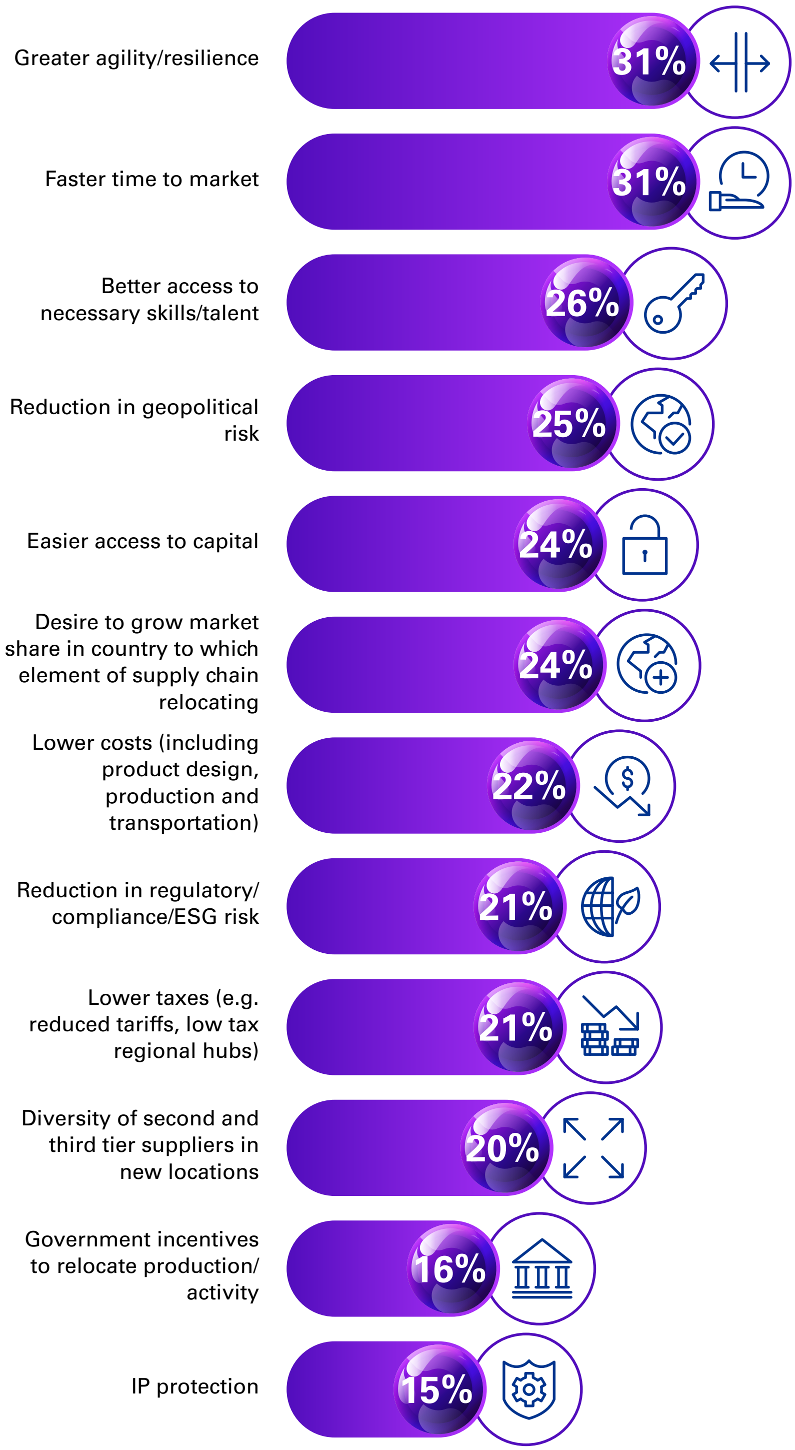
In today's volatile and uncertain world, companies need to develop adaptive multi-country strategies. "We live in a world where, going forward, you're probably going to need a multi-country or multi-shore strategy if you're going to serve large global customers," suggests Ollin Plastics' Rosen. "They're going to be everywhere, so you need to figure out how you can serve them or serve a portion of what they do effectively. If you don't, someone else will."

Speed to market is mission critical

The principal drivers of strategic shoring in the Americas, according to the survey respondents are greater agility/resilience (31 percent), faster time to market (31 percent), and better access to skills/talent (26 percent). Regulatory changes and tax legislation are other important drivers, although they rank slightly further down the list for the supply chain executives surveyed.

Resilience and faster time to market are dominant objectives and for industries that require high-tech materials, such as EVs and semiconductors, the incentive to pick up production and move to areas offering a more secure supply is compelling.

Figure 3: Main reasons for supply chain relocation to the Americas



Ulrich Schmidt, Principal and National Leader, Site Selection and Project Development Practice, KPMG US, agrees that market access drives strategic shoring in the Americas: "In the industrial manufacturing space, it's really about how we can access the market quickly without transportation delays."

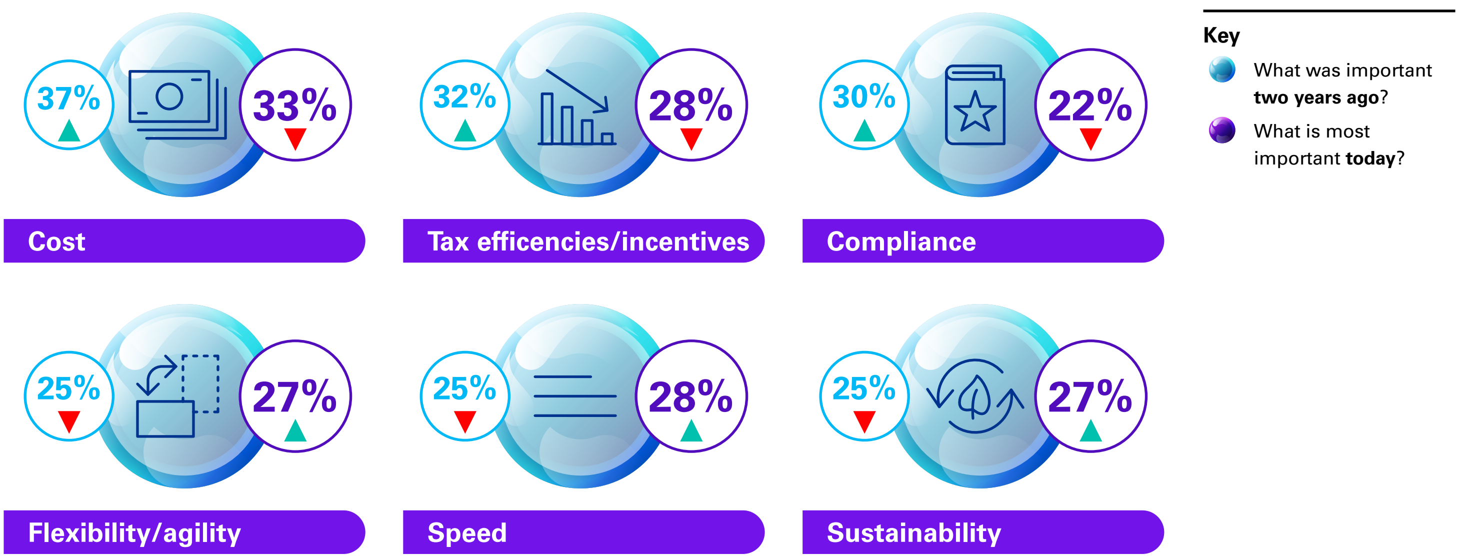
The cost of placing price above agility

Strategic shoring is, by necessity, a long-term strategy. Yet the research suggests that, when executives face a trade-off between agility and cost, the latter is likely to win out. The respondents rank both cost and speed as more important than agility when it comes to supply chain outcomes.

However, there can be long-term consequences of putting cost savings ahead of agility. "If you always approach your supply chain decisions by focusing on lowest cost, you'll pay [in other ways] later, warns Rosen "So while the cost element is a very real factor, balancing this with other supply chain needs is critical."

As executives search for budget efficiencies, they should avoid sacrificing long-term agility for fleeting cost advantages. Supply chain choices that prioritize short-term cost savings at the expense of agility have a risk of being counterproductive in the long-term. Once fleeting cost advantages wear off, supply chain managers will likely be left with frustrating inefficiencies in their supply chains that will require time and effort to work around. Whereas sustained cost stability may potentially provide a more worthwhile trade-off. Take the evolving tax landscape, as an example. When comparing sites to relocate to, companies should be mindful that the tax liabilities in their supply chain are subject to potential change when a new government comes into office.

Figure 4: Flexibility/agility gains momentum but cost still ranks first as most important outcome in supply chain strategies



The changing significance of supply chain outcomes over the last two years seen in figure 4, paired with wider market observations from KPMG experts, indicates that short-termism is fading fast in the supply chain arena. While the more tangible outcomes, such as cost and tax, still have the highest priority, the more abstract and long-term goals such as agility and sustainability are gaining more attention. This gravitation towards long-term ambitions in supply chain strategies will likely enhance the durability of business models when they inevitably face disruption.

> ***So while the cost element is a very real factor, balancing this with other supply chain needs is critical.***
>
> **Sam Rosen**
> President, Ollin Plastics

How weak assumptions can breed supply chain fragility

According to the findings, agility has become a more important outcome over the past two years. *The KPMG Supply Chain Stability Index*[8] forecasts that this trend is expected to continue as companies face more severe supply chain disruption in the years ahead.

Supply chain fragility can undermine the entire business ecosystem and generate inflationary pressure across the global economy. "People are paying more attention to storm seasons and cyber-attacks because they affect supply chain operations," says Schoenberger. "So, when it comes to strategic shoring, being able to do that in the most streamlined way possible can really help the macro-economy." By localizing their US-serving logistics networks to the Americas in a way that enhances supply chain resilience, companies can reduce the risk of ripple effects triggering widespread surges in price.

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

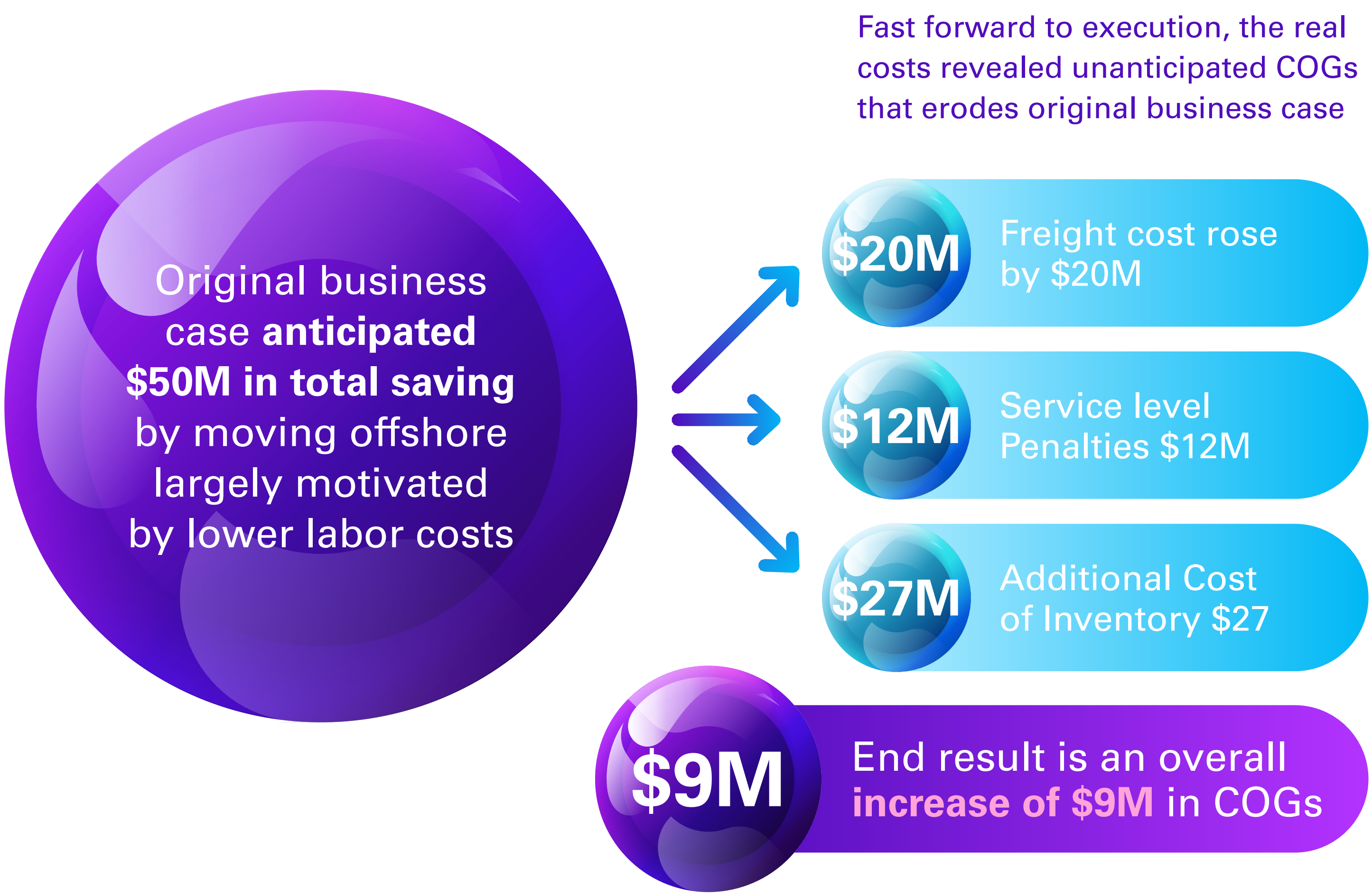
Forecasting and scenario planning can allow managers to experiment with different strategic positions before they make real-world decisions. These experiments can predict the consequences of certain assumptions in supply models being overturned and in turn can inform contingency responses to certain events.

This due diligence in connecting the dots of a vast supply chain picture is a vital step in the overall decision-making process.

"We have the same problem statement but a shift in variables results in two very different answers," says Brian Higgins, US Consulting Leader, Industrial Manufacturing, KPMG US. "And, with strategic shoring efforts, those answers are likely to be significant in your cost-to-serve structure for the next five years."

"Enhancing the quality of your data and analytics techniques is going to drastically increase the probability that you're setting your supply chain structure right," he adds.

Figure 5: A single assumption can impact end-to-end cost to serve



Chapter 3

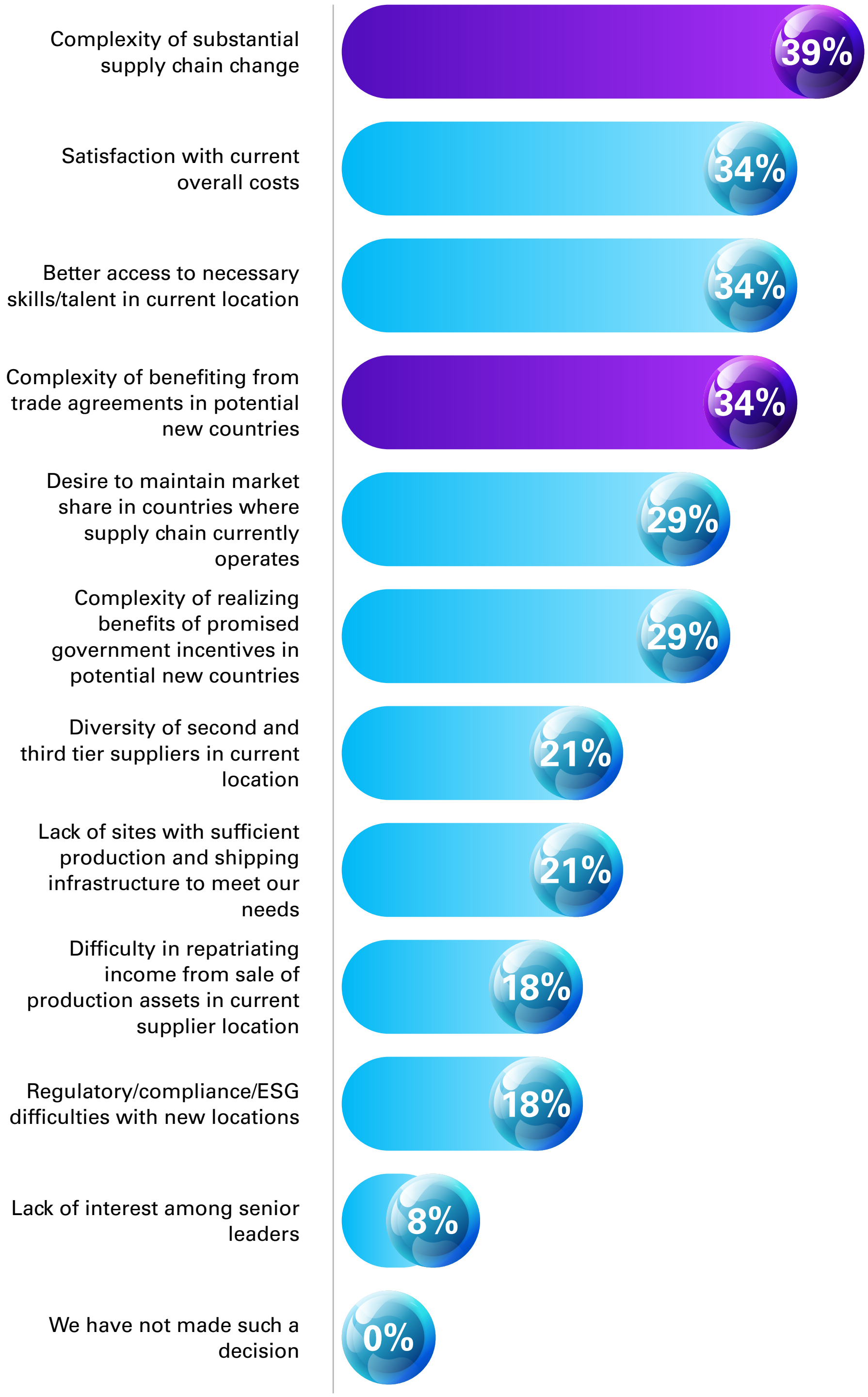
Threats to strategic shoring

Over-complexity is the enemy of smart decision-making

Executives in the research recognize that competing initiatives that hamper their attention are one of the factors impacting their strategic shoring decision-making. These distractions likely hinder their ability to tackle complex decisions. And in the small number of cases where the executives decided against strategic shoring, complexity overload was the main deterrent.

The complexity of extracting benefit from trade agreements, for example, is significant and has the potential to impede other decisions. And adapting to any changes from USMCA's review, due in 2026, will throw up unprecedented challenges for organizations to navigate in tandem with other free trade agreements.

Figure 6: The main reasons respondents decided against strategic shoring



Base sample for this question is 38

The intricacies of certain strategic shoring issues can intimidate companies into making reactive decisions rather than proactively tackling challenges. "Usually, companies have a root hypothesis or there is an event that forces them to evaluate their supply chain in a concentrated area," Higgins observes. "That could be identification of an alternative source or supplier, or an inventory dispositioning strategy to alleviate a particular issue or disruption. But, overall, it still feels reactive."

The impact of geopolitical recession

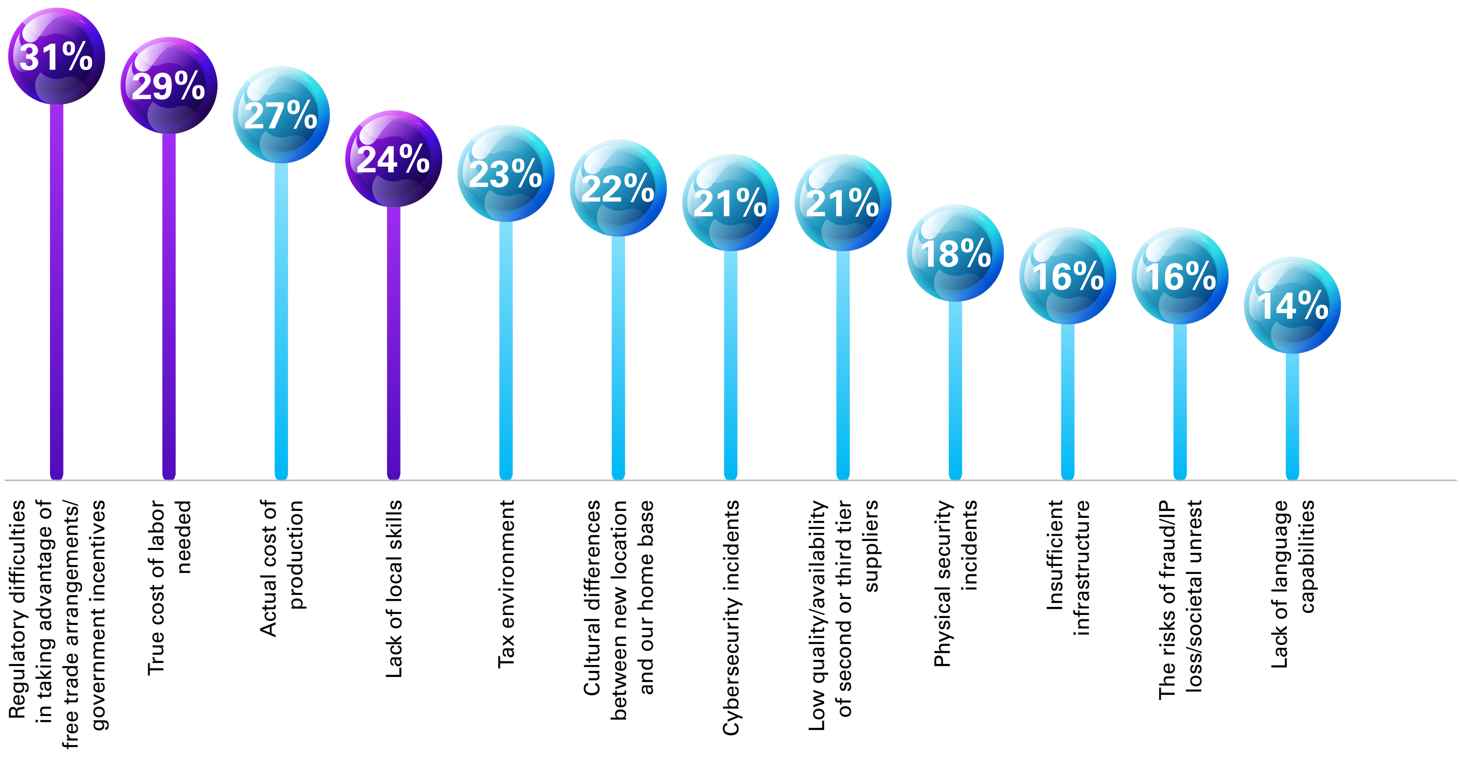
As the world grapples with a period of "geopolitical recession,"[9] companies are struggling to formulate reliable economic and business forecasts. Indeed, two-thirds of companies (66 percent) say that political and economic uncertainty is prompting them to re-evaluate their supply chain assumptions, while 61 percent say the volatile global trade environment is forcing their business to refocus on regional and domestic sourcing and distribution.

"Many companies have started to see the issues with offshore models that create long intercontinental supply chains," says Durán Fernández. "And they are figuring out that shorter supply chains are a way to build resilience against geopolitical, environmental, and sanitary shocks." As a result, many companies are shifting from protracted chains with just-in-time inventory models to shorter supply chains with more resilient just-in-case models.

[9]https ://www.goldmansachs.com/intelligence/podcasts/episodes/01-03-24-cohen-bremmer.html

"Just-in-time inventory models have little-to-no shock absorbers," explains Martin VanTrieste, President Emeritus, Civica Rx. "Instead, if you keep strategic inventory of your raw materials, intermediates, and finished product, then your supply chain will be able to absorb disruptions, because you have a set amount of inventory in strategic places throughout your manufacturing process."

Figure 7: Toughest challenges to strategic shoring



Companies must negotiate a regulatory labyrinth

While geopolitical uncertainty destabilizes the market, the evolving regulatory landscape is also causing problems for business. Given the restrictions, even companies with higher-performing supply chains find it difficult to capitalize on the full range of government incentives or free trade agreements. This is one of the top five deterrents to certain strategic shoring initiatives.

Although government incentives can significantly offset operational costs, firstly the overall operating environment must be suitable. "Incentives, whether federal, state or local, make a good location better," says Schmidt. "But they don't make a bad location good. If you don't have the operating environment, the infrastructure or labor availability, no amount of money can fix all those problems down the line."

Incentives, whether federal, state or local, make a good location better. They don't make a bad location good.

Ulrich Schmidt
Principal and National Leader, Site Selection and Project Development Practice, KPMG US

Six strategic shoring risks to keep on your radar

1. Getting your cost-to-serve wrong

This is not just a gross margin analysis. Companies need to determine the true cost of structuring their supply chain and understand the sensitivity of key cost drivers.

2. Failure to factor tax into the bigger picture

Companies — particularly those in advanced manufacturing — should keep tax considerations front-of-mind from the outset. The potential savings (and penalties) are significant.

3. Factoring in talent too late

Talent availability should be one of the first qualifying criteria in site-selection decisions. Ask yourself: Does this region have available the talent capable of producing your product?

4. Lack of supply diversification

Many companies are over-dependent on a single country for sourcing. In view of China's changing status as a trading partner, companies should manage Mexico closely as a supply hub.

5. Failure to include suppliers in strategic discussions

Organizations must include a status assessment of each component of their supply chains in each business case. Ask yourself: Do I know who my strategic suppliers are and what the impact of any change may have on them?

6. Following the herd

In this space, there is little value in being a fast follower. To succeed, organizations need a tailored strategy specific to their business and customers.

Chapter 4

Moving the needle on strategic shoring

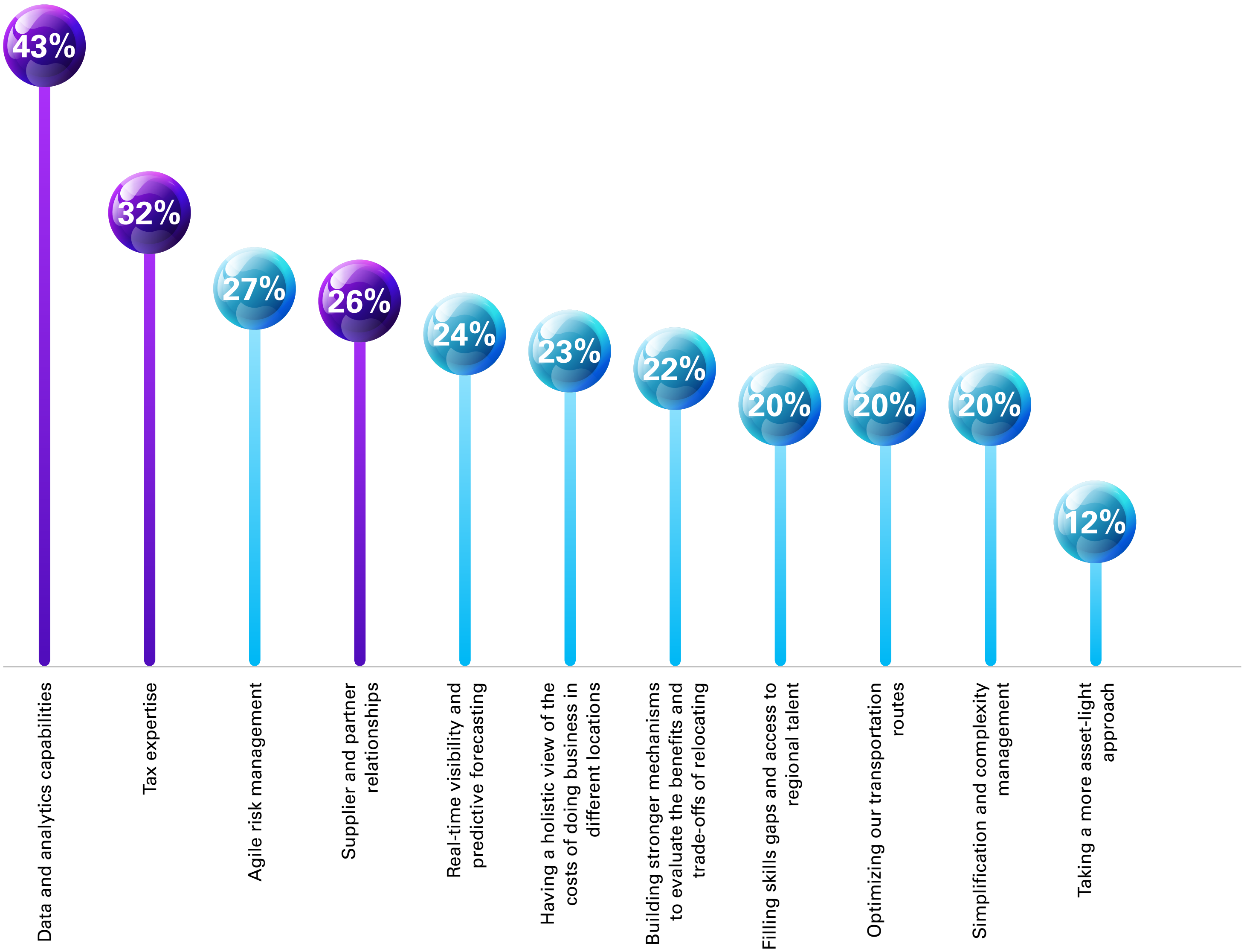
The executives surveyed highlight data and analytics, tax matters and supplier relationships as areas they must troubleshoot to clear the hurdles blocking their strategic shoring journeys.

Data and analytics

Supply chain performance data is vital to pre-deployment evaluation, and ongoing assessment of strategic shoring efforts. Data and analytics capabilities are seen as most important to boosting sourcing strategies by the relative majority of the respondents (43 percent). This rises to 63 percent among the leader group.

But capturing the right data is not enough. Supply chain executives need to have confidence in their data and analytics techniques in order to structure their supply chain and deploy their capital and resources successfully.

Figure 8: Key capabilities for meeting strategic shoring ambitions
Percentages show the priority ranking of the capabilities executives need to improve to meet their strategic shoring objectives



Strategic decisions such as choosing a new site for supply chain components require credible and reliable data. To build a robust data repository, organizations should conduct routine audit exercises that will help improve data integrity and maintain a clear map of the various sources feeding information into the supply chain's data ecosystem. These data feeds will include external data from factories or transportation partners as well as internal data points.

"With so many inputs available, it's crucial to identify where data is genuinely improving decision-making and then aim to use the fewest data points necessary," says Chris Callieri, Chief Supply Chain Officer, Victoria's Secret. "While it's tempting to collect as much data as possible, excessive data volumes can lead to issues like bad data creeping in, increased complexity, and higher costs with systems and resourcing."

Towards a tax-first mindset

Many companies recognize that a tax-first mindset is crucial to efficient supply chain management: 53 percent say that regulators and tax officials are significant influences on their strategic shoring decisions — second only to shareholders, at 56 percent.

They are also aware of their shortcomings in this area. Tax expertise ranks as the second-most important area requiring improvement, after data and analytics . This, coupled with the finding that tax requirements are considered one of the top five challenges in strategic shoring, indicates that companies often find themselves struggling to wade through the tax landscape.

Whether it's getting to grips with free-trade agreements (FTAs), tariffs, and other trade deals or navigating evolving compliance requirements, there is much complexity for companies to handle.

"Certification of origin is another common stumbling block for companies," says Doug Zuvich, Tax Partner, KPMG US, and Latin America Regional Managing Partner, Tax & Legal*, KPMG Americas. "Executives can assume that a product qualifies as 'Mexican-sourced' but the rules aren't always easy." "If the US government rules that a product doesn't qualify, there are significant penalties involved, and companies might have to go back as far as five years to pay taxes and tariffs on those goods."

There are significant tariff and taxation variables across the Americas and, given the major overhauls that can come with each new US administration, firms considering strategic shoring should undertake a systematic assessment of each supply node's ecosystem. They must be confident that they are protected from potential liabilities and are not overlooking any available incentives or tax reliefs.

Taxes are becoming increasingly digitized, with real-time reporting and e-invoicing requirements. As such, cross-functional tax planning (with tariffs, income and VAT/sales taxes, among others) is advisable, says Niren Saldanha, Tax Partner, KPMG US, and Latin America Deputy Tax Leader, Tax & Legal*, KPMG Americas.

"It shouldn't be an afterthought to have 'connected thinking' around tax, as benefits could include both savings and cash flow efficiency," says Saldanha. "Including tax executives in planning discussions can make product and service classification smoother and ensure you capture related incentives. There will be knock-on administrative benefits around trade, indirect tax and transfer pricing."

To minimize their costs and maximize efficiency, companies should let availability of FTAs and other programs guide which locations they migrate operations to. When considering a country, businesses should identify what FTAs they have with other countries. "Mexico has FTAs with all of North America, and also countries in South America and Europe, which can provide significant cost and speed to market benefits in some cases," says Zuvich. "Companies have to work through all of these things by product, by country, and by program."

Whether it's getting to grips with free-trade agreements (FTAs), tariffs, and other trade deals or navigating evolving compliance requirements, there is much complexity for companies to handle.

Reviving supplier and partner relationships

Managing outsourced relationships is a sensitive business and, in an evolving commercial environment, the skills required are changing.

COVID-19 uncovered the pitfalls of transactional supplier relationships, which can result in competitors getting preferential treatment. Companies have learned from these experiences, with the ability to manage supplier relationships standing as one of the top four criteria for strategic shoring success. The executives with the highest performing supply chains feel more strongly about the importance of improving partnerships, ranking it as one of their top two focus areas they need to address to achieve their strategic shoring ambitions.

According to Ollin Plastic's Rosen (whose leadership team is all Mexico-based), a crucial cog in the wheel is the right local or regional expertise. "Having done business in Asia, Europe, and Latin America over the years, having really strong leadership from onsite locals who understand the people and the culture is a critical element to success," he says.

Another factor is the changing roles of suppliers and partners. In pursuit of firmer control, companies are adopting an asset-heavy supply chain, taking back sections such as distribution centers and freight. "In this environment, companies need to be more deliberate about what they are managing, what they are outsourcing and what they are insourcing," says Higgins.

"You can't manage partner relationships unless you structure a shared benefits model appropriately. You need a deeper view of capacity, capabilities and costs that is rooted in data and analytics."

You can't manage partner relationships unless you structure a shared benefits model appropriately. You need a deeper view of capacity and capabilities that is rooted in data and analytics.

Brian Higgins
US Consulting Leader, Industrial Manufacturing, KPMG US

Conclusion

From remote fragility to agile proximity

Recent economic turmoil has exposed the vulnerability of protracted, inflexible global supply chains. These challenges underscore the urgency for executives to boost supply chain resilience and agility.

Even businesses with fairly robust supply chains are vulnerable to the cascading effects of global disruption. As Schoenberger warns, "A future disruption in the supply chain bears the risk of increased inflation and consequently a potential rise in interest rates. That can impact everyone."

The research finds that businesses that embrace strategic shoring are better able to respond swiftly to changes and protect their operations from global volatility — securing a competitive advantage.

1. Continually challenge and reassess the factors and assumptions driving their supply chain decisions. Strike the right balance between cost efficiency, supply chain flexibility and sustainability. A long-term view of organizational health is essential.

2. Harness the power of data and analytics to gain an accurate picture of supply and demand and the variables that create risk. Ensure your strategic shoring strategies are aligned with your business objectives and adaptable to changing business needs.

3. Consider tax planning at the outset of your supply chain decisions. A well-considered tax strategy can make the difference between success and costly missteps.

4. Forge strong relationships with your partners, suppliers and wider stakeholders. Early support can be crucial in identifying and mitigating vulnerabilities. Local insights are invaluable.

As global dynamics continue to shift, it's the companies that incorporate additional flexibility and agility into their business models that will succeed. For many of these organizations, heightened proximity in their supply chain will be a crucial enabler of this responsiveness.

About the research

This research is based on a wide-ranging survey of 250 executives, conducted during June and July 2024. To ensure the respondents had the suitable expertise to provide representative insights into the realities of strategic shoring in today's environment, all the executives surveyed for this study are US-based and work for companies that have moved some of their supply chain operations to the Americas during the past five years, are currently doing so, or planning to do so in the near future. All the companies surveyed have annual revenues of at least US$1bn and come from one of the following sectors: industrial manufacturing; consumer packaged goods; automotive; healthcare; technology; retail; agriculture; logistics and distribution; pharmaceuticals and life sciences; transport; telecoms, media and entertainment; energy and utilities (including oil and gas, power, chemicals and renewables); and aerospace and defense.

To complement this survey, we interviewed the following experts and executives for this report and accompanying articles.

Our thanks go to the following for their time and insights:

(listed alphabetically by surname)

Chris Callieri

Chief Supply Chain Officer
Victoria's Secret

Roberto Durán Fernández

Research Professor
School of Government
Tecnológico de Monterrey

Vincent Golebiowski

Global Head of Supply Chain
Tapestry

Brian Higgins

Principal, US Consulting Leader, Industrial Manufacturing
KPMG US

Maura Hodge

Sustainability Reporting Leader
KPMG US

Tisha Livingston

CEO, Infinite Acres and Cofounder
80 Acres Farms

Sam Rosen

President
Ollin Plastics

Niren Saldanha

Tax Partner, KPMG US, and Latin America Deputy Tax Leader, Tax & Legal*
KPMG Americas

Ulrich Schmidt

Principal and National Leader, Site Selection and Project Development Practice
KPMG US

Meagan Schoenberger

Senior Economist
KPMG US

Brian Tessin

Chief Tax Officer
Dow

Martin VanTrieste

President Emeritus
Civica Rx

Brett Weaver

Partner, International Tax **KPMG US**

Doug Zuvich

Tax Partner, KPMG US, and Latin America Regional Managing Partner, Tax & Legal*
KPMG Americas

Mike Zelkind

CEO and Co-founder
80 Acres Farms

MADE | MDE200503 | October 2024

Contacts

André Coutinho

Partner, Advisory

KPMG Brazil and South America**

Ricardo Delfín

Head of Clients and Markets

KPMG Mexico

Héctor Díaz Santana

Partner, Tax & Legal

KPMG Mexico

Marcus Vinicius

Partner, Tax

KPMG Brazil and South America**

Doug Zuvich

Tax Partner, KPMG US, and Latin America Regional Managing Partner, Tax & Legal*

KPMG Americas

kpmg.com