

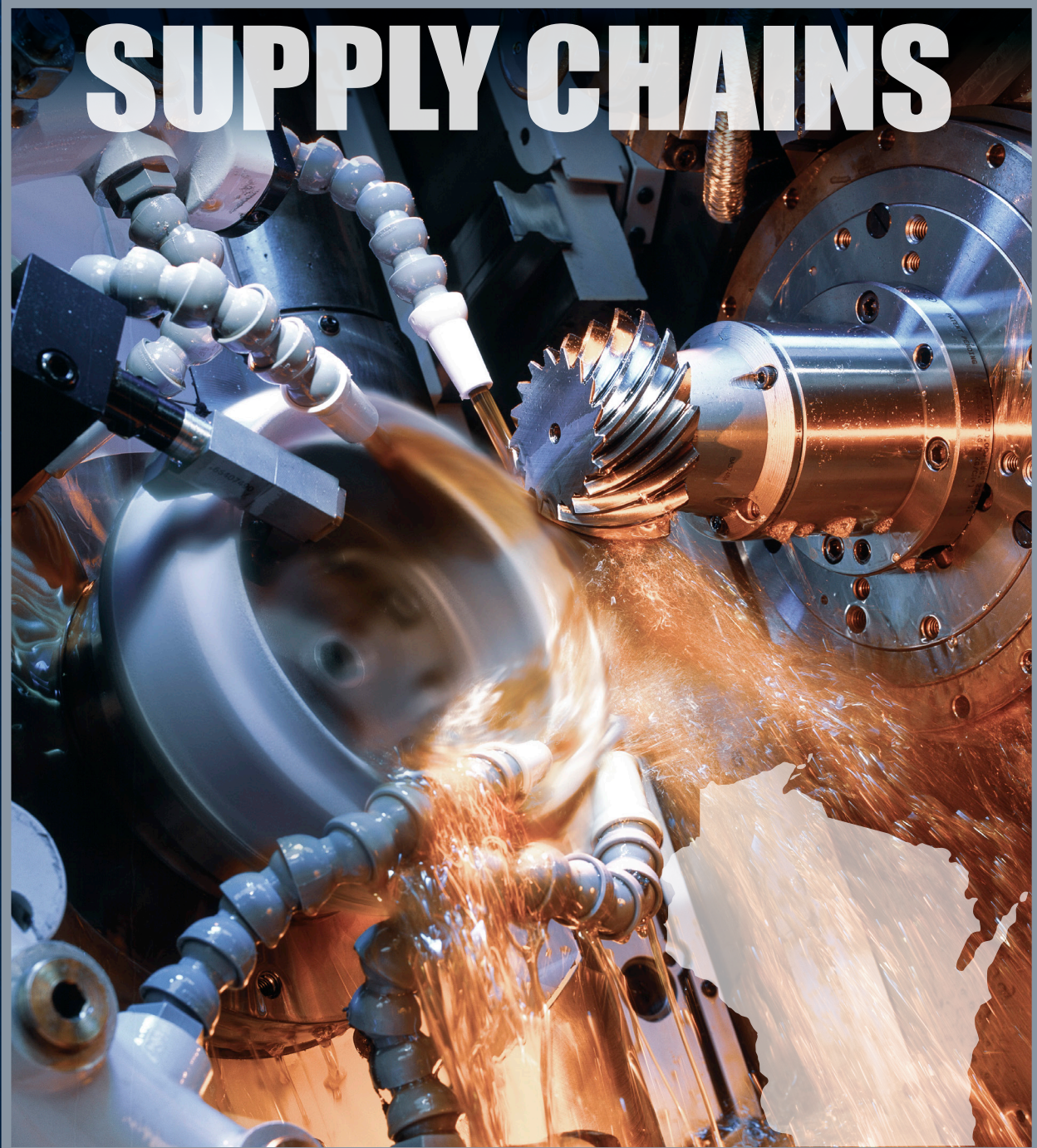


WISCONSIN ECONOMIC
DEVELOPMENT CORPORATION

RESHORING REPORT

The Impact of COVID-19 on

SUPPLY CHAINS



in Wisconsin



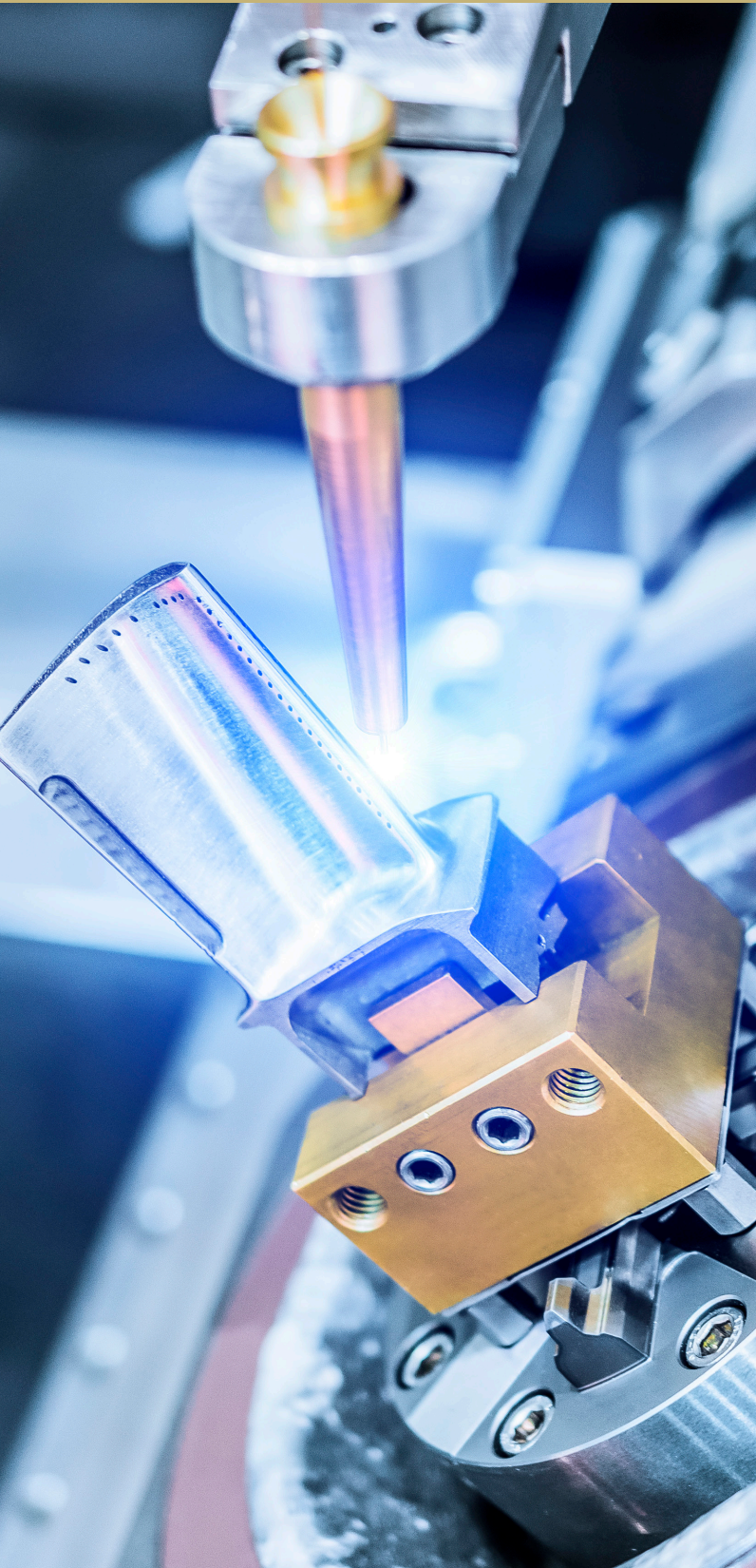
As we look at the impact of COVID across different industries as outlined in the report "[*Wisconsin Tomorrow - An Economy for All*](#)" submitted by WEDC to the Legislature on June 30, one area of interest gaining attention is reshoring of manufacturing.

Supply chain reshoring is not new. Numerous factors have contributed to consideration of bringing manufacturing back within the U.S. for several years. In fact, well before COVID-19, global trade tensions were causing companies to consider multi-sourcing and becoming less dependent on foreign suppliers. Technological advancements have made companies less dependent on sourcing from countries with low labor costs. The global pandemic has certainly been an additional catalyst to supply chain disruptions and multi-sourcing activity. However, companies with a global presence may still not be able to divorce themselves completely from China, considering how large the market is and how competitive its production costs remain.

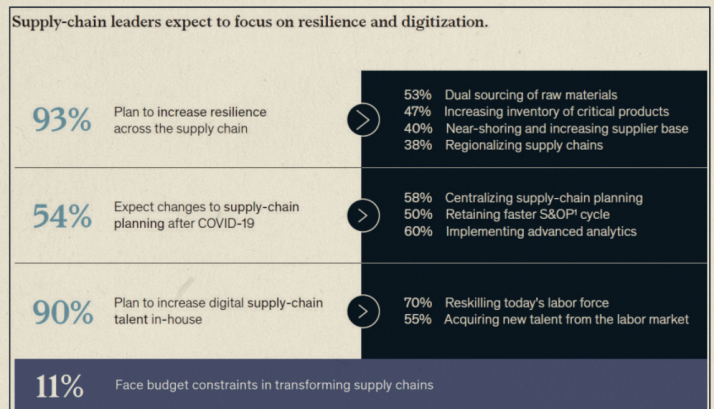
As survey after survey indicates, manufacturers across several sectors (food and beverage, pharmaceuticals, defense etc.) are considering multi-sourcing or reshoring to balance risk and improve resiliency beyond any specific pandemic-induced disruption. Manufacturers confirm

that some of these activities were already underway, either as response to overall trade tensions or as a best practice to mitigate risk.

- A recent study from [Thomas Industrial](#) shows that 64% of manufacturers say reshoring is likely after a pandemic:
- As disruptions from the coronavirus pandemic continue to unfold, 64% of companies across the manufacturing and industrial sectors "are likely to bring manufacturing production and sourcing back to North America" to avoid similar difficulties in the future, according to a Thomas survey in April of 878 North American manufacturing and industrial sector professionals.
- In a July McKinsey report, "[Resetting Supply Chains for the Next Normal](#)":
 - Of 60 senior supply chain executives interviewed, 73% said they had encountered problems in their supplier base, and 75% said they'd faced problems with production and distribution. In the food and consumer-goods industries, all respondents reported experiencing production and distribution problems.



- All respondents were aligned in taking two types of action to improve resiliency: dual-sourcing of raw materials and increasing their inventories of critical products. To a lesser extent, they reported exploring near-shoring and regionalizing supply chains.
- The pandemic-induced supply chain disruption shed a bright light on digital technologies, both in their role for response and in helping speed up recovery. According to McKinsey's report, a whopping 85% of respondents struggled with inefficient digital technologies in their supply chains.



Source: McKinsey & Company, *Resetting supply chains for the next normal*, July 21, 2020

- A survey from the Netherlands-based location consultant BCI Global, "How to Attract Reshoring Production Plants," indicates that there is some movement of production away from China, including data showing that the U.S. manufacturing imports ratio declined in 2019—the first time since 2011. However, imports have grown from other Asian countries—although not in Wisconsin. 54% of respondents said they were likely, very likely or extremely likely to reshore due to COVID, with 38% saying it would be in the next 7 to 12 months. For more information, visit [BCI](#).
- And closer to home, the UW-Madison eBusiness Consortium Supply Chain Management Practice recently hosted a webinar for its [member companies](#) on the topic of "A Pandemic and the Supply Chain," featuring speakers from BDO and Opex Analytics. It addressed a broad range of issues, including return to work, risk management, and specific supply chain concerns related to inventory, sourcing and partner relationships. Takeaways included:

- Most companies are putting strategic initiatives on hold and focusing on efficiency. An inability to make solid plans for the future is driving a shift to an organizational culture that focuses on flexibility. By focusing on risk management, original equipment manufacturers (OEMs) are evolving their cost model to consider factors beyond price. This new perspective views offshoring and the supply chain with a resiliency lens, in addition to cost, quality and delivery.
- COVID-19 has impacted companies and industries differently. Even within a sector like food and beverage, the increase in demand in certain categories has impacted the supply on certain types of packaging that are better suited for different channels based on consumer purchasing behavior. For example, there is less need for larger service-industry packaging, and higher demand for grocery store and quick-service retail.

In a more recent report, "Risk, Resilience and Rebalancing in Global Value Chains," McKinsey indicates that 16% to 26% of global goods exports, worth \$2.9 trillion to \$4.6 trillion, could conceivably move to new countries over the next five years if companies restructure their supplier networks. However, building resilience goes beyond relocating production; it includes improving transparency, building redundancy in supplier and transportation networks, holding more inventory, reducing product complexity, creating capacity to flex production across sites, and improving the financial and operational capacity to respond to shocks.



Defining reshoring

Before proceeding further with assessing the opportunity of “reshoring” for Wisconsin, it’s helpful to define how the term reshoring is being used in different situations:

I. **Reshoring of critical supplies/national security**

The pandemic has created increased concern about the supply of personal protective equipment, medical equipment and pharmaceuticals, and our reliance on offshore sources for these items. Because the U.S. is not in a position to competitively manufacture certain products (masks, sanitizers, and other personal protective equipment) due to cost as well as expertise, but may be in a position to lead in other areas (pharmaceuticals, medical equipment), it will take public policy and federal support to shift some of this manufacturing to the U.S. market. To that end, many bills have been introduced in Congress. To take one example, the Preparing for the Next Pandemic Act focuses on three of the most obvious steps about which there is near universal agreement:

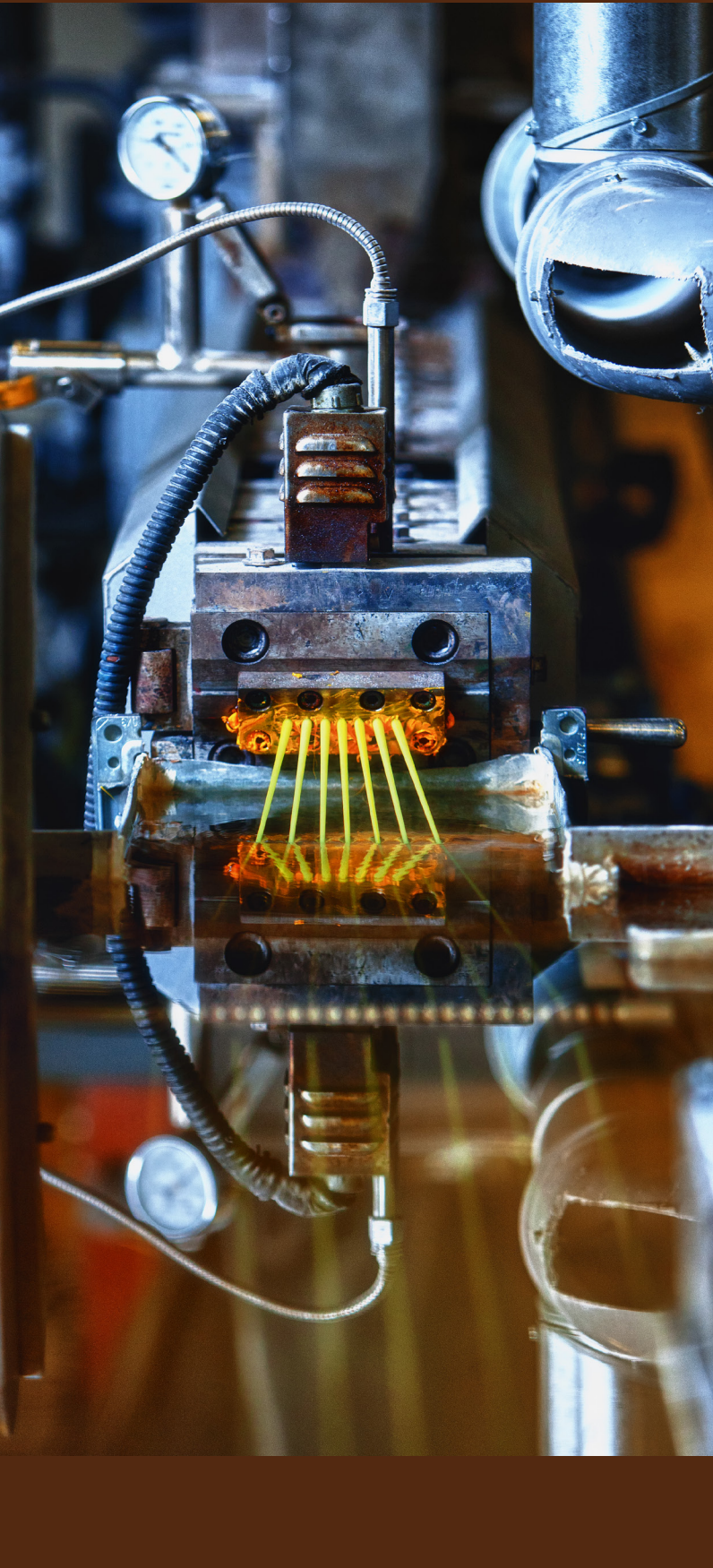
“One, make certain that we have sufficient manufacturing capacity within the United States to produce tests, treatments and vaccines, so that we do not have to rely on manufacturing plants in China or India or any other foreign country.

“Two, make sure that the federal and state stockpiles have sufficient protective equipment: masks, gowns, ventilators and other absolutely essential supplies so that we don’t run out during the rest of this pandemic or the next one.

“Three, create more authority for the federal government to work with private companies to maintain more supplies and manufacturing capacity for products that are needed during a public health emergency.”

We will continue to monitor several of these federal bills to better position Wisconsin for this opportunity, including the Preparing for the Next Pandemic Act, the Endless Frontiers Act, and Connecting the Links, which is a bill to develop a national online database for suppliers.





II. Reshoring of manufacturing, sometimes referred to as “near-shoring”

This may be where a manufacturer is looking to shift production from any country (not only China) closer to home. This is a significant business decision, with a complex cost-benefit model used to justify this type of move. In addition to cost, there is the consideration of market access, which is factored into the cost analysis. In other words, it may not be cost-effective to shift production out of Asia if you’re a manufacturer whose market expansion is reliant on Asian consumers. Many Wisconsin-based manufacturers have global customers, such that the trade-off in cost of shifting production closer to home increases the cost of customer access. Since shifting away from China doesn’t necessarily mean shifting to the U.S., let alone Wisconsin, opportunities in this area remain unclear, but WEDC continues to work with partners and manufacturers to position Wisconsin for any such opportunities as they become more actionable.

III. Multi-sourcing

This refers to a manufacturer’s desire to rebalance their reliance on certain markets. Regardless of where they are sourcing right now, due to the pandemic and other market forces (geopolitical uncertainty, tariffs, natural disasters), there is an increasing appetite for diversifying supply sources to mitigate risk as a cost of doing business. In other words, lowest cost is not the single driver of decision-making when it comes to purchasing. As one of our partners shared, companies are in the midst of reexamining their cost model and what it will take to multi-source from suppliers based in Wisconsin to help balance risk of relying on suppliers in other parts of the world.



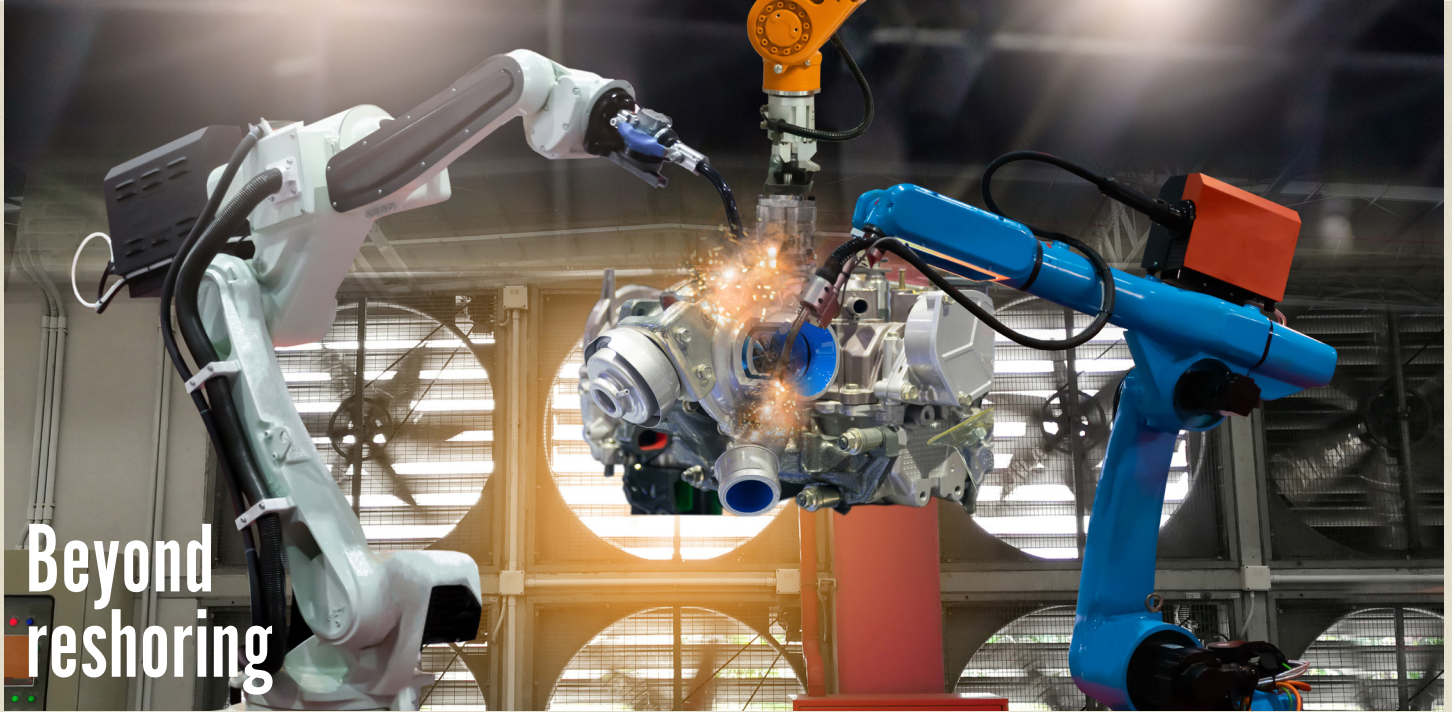
Port of Green Bay

WISCONSIN OEM Observations

- There's increased desire to consider sources outside of China, a momentum that had already been underway due to tariffs and political tension with the U.S., further destabilizing supply. However, that doesn't necessarily mean that the shift is to source in Wisconsin. Many OEMs based in Wisconsin have already done their homework to identify Wisconsin-based suppliers. Although there is renewed interest in diversifying risk, many have opted to consider other Asian countries or (Mexico), which may have more favorable conditions. WEDC's international team is seeing increased activity in Mexico from Chinese companies to benefit from the USMCA, be closer to customers and benefit from the less expensive labor that Mexico can offer.
- Some OEMs that rely on supply from China noted that because COVID-19 hit China first and around the timing of Chinese New Year, many manufacturers were already prepared with surplus supply, having previously experienced the annual New Year shutdown. This helped them deal with the pandemic disruption until China regained stability, at the same time other parts of the world, including Mexico and the U.S., were experiencing disruption. In fact, the inconsistency of reopening in North American markets was more disruptive to supply than events in Asia.
- With preliminary and limited input, there is interest in helping midsize OEMs who may not be as sophisticated address the challenges of reshoring, risk mitigation and basic best practices of inventory management. Most of these companies don't have the capacity or resources to distribute their supply needs among several suppliers. To build a culture that prepares for risk and establishes a path to resiliency, WEDC will work with partners to identify opportunities to educate as well as introduce Wisconsin-based suppliers to help offset reliance on suppliers in less stable settings.

WISCONSIN SUPPLIER NETWORK

Please list your company on the [wisconsinsuppliernetwork.com](https://www.wisconsinsuppliernetwork.com) to continue to receive updates on reshoring and to ensure that your company is part of our efforts to promote Wisconsin suppliers.



Beyond reshoring

Beyond the opportunity for reshoring and multi-sourcing, we need to look at the broader impact on manufacturing and, in particular, what small to midsize businesses are experiencing as they recover and reset their direction. We need to ask the broader question: *What transformation in supply chain was already underway and has been accelerated by COVID?*

WEDC will work with partners across the state to prioritize initiatives designed to facilitate transformations in supply chains that are here to stay. Ultimately, supporting technology investment will help position manufacturing to recover more quickly, manage risk more effectively and compete more globally.

OBSERVATIONS DURING CRISIS

Rapidly redeploying resources in government and industry to meet essential demands

Increasing exposure of supply-chain risks that were previously unrecognized or dismissed

Rising concerns about supply-chain disruption and shortages of critical goods

Discovering new ways of doing things —eg., online ordering for all essential goods and working remotely

Recognizing environmental benefits of shutdowns while societies adapt to lower activity levels

TRENDS THAT ARE HERE TO STAY

- Developing more agile mindsets and behaviors that encourage collaboration

- Establishing dedicated risk-management functions to prepare long-term risk mitigation focused on supply chain

- Increasing regionalization and inventory closer to end consumer, with reexamination of the supplier footprint

- Focusing on capability building, not only for online channels but also for embedding digital tools and skills —e.g., in automation, end-to-end planning and shared service centers for supply-chain management

- Accelerating societal push for sustainability, with high-pollution activities increasingly perceived as expendable

“By embracing real-time resource management, redundancy, reshoring and the convergence between the digital and physical supply chains, manufacturers will come out of this crisis even stronger than they were before.

~ Tony Uphoff, Thomas CEO

For additional information on WEDC support for advanced manufacturing and supply chain, please contact:

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