

HOW COMPANIES ARE OVERHAULING SUPPLY CHAIN TO EASE BOTTLENECKS

The COVID pandemic has snarled global supply chains causing massive backlogs and shortages that have some companies stockpiling goods in trailers and chartering private container ships. But these are temporary fixes. For longer-term solutions, some companies are looking to make sweeping changes to their supply chains, including shifting manufacturing closer to home. Pulling off these strategies can require retooling a complex web of global production, potentially adding new risks and costs.

Modern supply chains are complex, and they're far flung. Over the past few decades, supply chains have become increasingly global. With every step along the way, there is the potential for disruption, whether it's in manufacturing or in transport. Lately, disruptions have caused extensive delays, which has driven up the cost of many goods. For this reason, some companies are looking at different location strategies to protect their supply chain.

Regionalization - This involves setting up factories in multiple parts of the world so that operations in each region are able to supply products to the closest markets. The idea is to minimize risk. If a company is regionalized, a closed factory in one place only impacts sales in nearby locations.

Nearshoring - It refers to the practice of pulling production that had been moved far away, back to a country closer to where the products are distributed and sold. This strategy is fast becoming popular among companies.

Reshoring - It's similar to nearshoring, but in this case, a company that previously moved manufacturing overseas moves it back to the country where it was originally located.

While moving production could solve some supply chain issues, these solutions aren't a fix-all and they still carry risks. Mainly, they're expensive to pull off. According to a 2020 report, the total combined cost for US and European companies to move manufacturing out of China would come to \$1 trillion over the next five years. And for many smaller companies, the costs are too high to bear.

Overhauling entire supply chains can also take years. Still, some companies think these strategies could pay dividends for the future and help their businesses survive.