Companies

Reshoring is an issue in Europe too

INTERNATIONAL A global survey by Stanton Chase reveals that many companies are considering moving their production back home.

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Does 34% count as “many”? In this context it is at least appreciable. 34% of participants in the Stanton Chase “2013 Global Industrial Executive Survey” see a trend towards reshoring – the partial relocating of production to the home country. Participating in the survey by executive search specialist Stanton Chase were 451 senior business leaders of industrial companies from all over the world – above all Europe (approximately 60%), giving the study a European character, as well as the USA and also, to a significant extent, Switzerland.

The companies cite quality and costs (see chart) as the most important reasons why they are at least considering reshoring. Although half of those questioned see no such trend occurring, a “yes” from a good third of the respondents is significant and points to a potential direct impact on employment and investment activity in the countries in question.

Switzerland’s special role

Because the study has been carried out anonymously, it is not possible to ascertain where the reshoring trend is strongest. However, Dieter Hagmann, a partner of Stanton Chase in Switzerland and manager of the Industrial Practice Group, told FINANZ und WIRTSCHAFT: “We are seeing a real reshoring trend in the USA. In Europe the first signs are there and it is being thought about almost from the sidelines. With regard to Switzerland, on the other hand, I don’t think a clear trend can be detected.”

Its strong but small domestic market, with an emphatic export orientation and high labour costs, mean that Switzerland is unique. It is also a typical example of what Dieter Hagmann describes as non-offshoring: in particular many small and medium-sized enterprises have simply not gone along with the trend of shifting production abroad. Instead, they have maintained their international competitiveness by concentrating on efficiency and innovative products and in so doing can be said to have acted in a more sustainable manner.

In order to ensure that Switzerland remains an internationally competitive business location, however, it needs more managers, stresses Hagmann – not without a degree of self-interest. In its “2013 Global Industrial Executive Survey” Stanton Chase already detects a significant shortage of management personnel, in particular engineers with the necessary entrepreneurial skills. The problem is set to become even more acute, benefiting executive search firms but also forcing companies to invest more in their own development of managers and specialist staff.

A real trend in the USA

However, even in Switzerland there are examples of reshoring, reveals Dieter Hagmann, without naming names – above all in the manufacturing of sophisticated and technology-driven products. The same is true of Germany. There too, it is mainly high-priced products that are being repatriated, according to Hagmann, because overall quality cannot be guaranteed in the (low-cost) foreign locations.

The survey data does not permit the reshoring trend to be broken down any further by sector, however. In the USA the pattern is more varied. The country has become more competitive in terms of labour costs, has a large domestic market and furthermore in the form of shale gas has a low-cost energy source that makes the home manufacture of products other than merely high-end goods seem more
In a survey conducted in America in August by the Boston Consulting Group, 38% of manufacturing industry managers questioned indicated that they would be repatriating parts of their production to the USA or were considering such a step. A year and a half previously the figure was just 18%. According to the latest survey, some 13% of companies are in the process of moving their production back home or have done already, while 8% are planning to do so.

Regardless of such deliberations, offshore production remains attractive for many products. Textiles are a good example, although even here, optimisation is under way. Because China is becoming more expensive, companies are already moving out of the country. “But they are not coming home”, says Stanton Chase partner and co-initiator of the survey Dieter Hagmann. “Instead they are looking for another, generally cheaper location, such as Vietnam or Bangladesh”.

Quality is the most common reason

“Companies considering reshoring are not doing so for reasons of cost alone”, claims Hagmann, “but more because of quality.” And here it is not just about product quality. He concedes that this is an important, and often the most important reason, but claims that the term “quality” needs to be extended to include the process chain: “If the supply chains are unstable and delivery cannot be guaranteed on time, in short if the supply quality is not right, problems soon arise”, explains Hagmann based on personal experience and that of his clients.

Another frequently cited motive in the Stanton Chase survey is a desire for stronger customer orientation – for a greater sensitivity to market trends and a closer relationship with customers.

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Seen in this light, a significant geographical separation of research & development and production is not always ideal, explains Dieter Hagmann. Accordingly, it is increasingly being seen as beneficial to have part of production close to R&D.

Dieter Hagmann also mentions that among the companies’ other considerations, political factors should not be underestimated. In a wider sense this also includes patriotic tendencies, as can be seen in the USA, as well as risks to reputation deriving from factors – particularly in underdeveloped countries – that are considered difficult to control, such as the exploitation of workers and environmental pollution.