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Closer to Home: building supply chain resilience

Wayne Imrie • December 03, 2024

New terms such as onshoring and nearshoring have become part of today's supply chain lexicon. Shorthand for the practice of relocating manufacturing to countries closer to home where the risk of supply chain disruption from geopolitical events or changing weather patterns is reduced.

What are the risks, and how can firms build supply chain resilience via onshoring or nearshoring their manufacturing or suppliers?

Supply chains under siege

Restrictions over Russian air space and the Black Sea, due to the ongoing conflict in the region, has diverted millions of tonnes of cargo1. Causing bottlenecks in new routes, it has also incurred additional fuel costs and delayed delivery penalties. The same can be seen because of the ongoing conflict in the Middle East. Goods being transported between the West and Asia must now make the significantly longer and perilous journey through the southern tip of Africa to avoid attacks in the Red Sea2.

Shifting tectonic political strategies are prompting a wider rethink of the global trade map. In 2022, US Secretary of the Treasury Janet Yellen, declared that the United States would shift its supply chains away from rivals and to its partners. The rationale, "the United States cannot allow some countries—notably China—to disrupt the global economy or exercise geopolitical leverage simply because they hold a predominant position in critical materials, technologies, or products"3. To counter this possibility, the US administration now seeks to deepen economic integration only with countries it trusts.

Extreme weather events such as fire, hurricanes and floods are also forcing firms to reconsider their potential impact on their vital suppliers. Hurricane Milton4 and the flooding in Southern Spain5 are tragic examples of how these events in addition to the human impact, also damage infrastructure, create production delays, disrupt local

economies and halt the supply of vital goods, forcing businesses to adjust their supply strategies rapidly.

Resilience through diversification

The COVID-19 pandemic acted as a catalyst for firms to reevaluate their supply chain exposures. result of this experience many businesses looked to build agility through diversification, moving their supply chains closer to home and minimising the distance between their raw materials or the products they sell. However, bringing manufacturing closer requires significant investment.

According to our Risk & Resilience research of global executives6, concern over supply chain instability has dropped from **31%** in 2021 to just **18%** of the executives surveyed ranking this as their top business risk. Yet over a quarter feel unprepared7 to manage their exposure to supply chain risk.

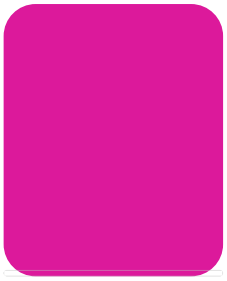
In addition, the percentage of firms we surveyed planning on increasing the agility of their supply chain this year is down from **35%** in 2023 to just **23%** this year. These statistics heighten the need to remind firms of the omnipresent and rising risk to their supply chains and the importance of reevaluating and strengthening their due diligence of their suppliers and trade routes. If they don’t, and they suffer supply chain issues that have not been considered and planned for, they are likely to face costly directors’ & officers’ liability (D&O) claims from disgruntled customers and investors either against their firm or individual executives.

The COVID-19 pandemic acted as a catalyst for firms to reevaluate their supply chain exposures, and because of this experience many businesses looked to build agility through diversification, moving their supply chains closer to home and minimising the distance between their raw materials or the products they sell. However, bringing manufacturing closer requires significant investment.

While external events are beyond the control of most C-suite executives, they can control their response and their level of preparedness to supply chain risk. By onshoring or nearshoring supply chains, ensuring multiple supplier relationships for vital components or commodities, and planning for the worst enables businesses to better navigate today’s wide range of supply chain and D&O risks.

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[1]https://www.europarl.europa.eu/RegData/etudes/ATAG

[2] What do Red Sea assaults mean for global trade? - BBC News

[3] https://home.treasury.gov/news/press-releases/

[4] Hurricane Milton Shakes Global Supply Chains

[5] expert reaction to flash floods in south-eastern Spain | Science Media Centre

[6] beazley.com/en-001/news-and-events/spotlight-on-boardroom-risk-2024/methodology/

[7] ‘Not very well’ and ‘not at all’ prepared answers combined

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