

How Companies Are Overhauling Supply Chains to Ease Bottlenecks | WSJ

If you've been waiting on a **package** for weeks, your **order** might be here, **stuck at sea** in a **shipping container**. The COVID pandemic has **snailed** 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**, but **pulling off** these **strategies** can require **retooling** a complex web of global production, potentially adding new **risks** and **costs**.

First, here's how a globally **distributed** supply chain typically works. In this case, for Timberland's Pit Boss boots, a shoe the company sells to consumers in the US and beyond. Sourcemap, a website that **publishes** data about supply chains says the **materials**, including the **leather** and **metal details**, are **sourced from** locations around the world, including the US, the UK, China, Japan, South Korea, Taiwan, and Vietnam. All of these materials **are shipped to a factory** in Bangladesh where the boots are **assembled**. The boots **are transported to** a distribution center in Virginia, where they're then **shipped off to retail locations** and customers around the world.

- Modern supply chains are complex and they're **far-flung**.

Jen Smith has been covering the **forces** behind the supply chain issues for the "Wall Street Journal." She says that 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, or if you're having trouble distributing it once it gets here.

Lately, **disruptions** have caused **extensive delays**, which has **driven up** the cost of many goods. So some companies are looking at different **location strategies** to protect their supply chain and their **bottom line**.

One idea being discussed in **corporate boardrooms** is called **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**.

Supply chain problems happen all the time. The most common pre-pandemic was something to do with a **natural disaster** or a hurricane or a typhoon or something that affects the ability to **get stuff on the shelves** of your local grocery stores so things are **emptied out** and then that has a **ripple effect** on the cost of **transporting** goods.

So if a company is regionalized, a closed factory in one place only impacts sales in **nearby locations**. Companies are also looking at **shortening** their supply chains through a similar strategy called “**nearshoring**”. The concept is pretty simple. 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**. And this strategy is becoming more popular.

After facing shortages, the Italian clothing company, Benetton, decided to increase manufacturing in Serbia, Croatia, Turkey, Tunisia, and Egypt, closer to where the products are sold in Europe. It's a big move. The company plans to cut its Asia production **by half** over the next year or so. It's a **reversal** of the decades-long shift by many **apparel companies** to Asian factories that **offered low-cost supplies**. Some companies are also using a strategy called “**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**.

With reshoring, a business may choose to move some of its manufacturing that it had been doing elsewhere back to the US if it had experienced trouble **getting the products here**, whether there wasn't enough **production capacity** abroad, or whether there were **transportation bottlenecks** that were **preventing** products from getting here when they were needed.

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 some \$1 trillion over the next five years. And for many smaller companies, the costs are too **high to bear**.

Some companies may not have enough money to **set up** manufacturing **domestically**. And even if they did, it might not make sense because their product might **end up costing twice as much** as it does. So they are gonna have to **weigh** the cost of **delays of a product** that's made elsewhere getting here, what does that mean for their bottom line? Versus would they have as many buyers for that product if they were making it **domestically** and it costs **twice as much**?

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**.