Welcome to this **Dunod podcast** to help you with your studies. Today, we are going to talk about **nearshoring.**

Nearshoring is a business strategy that implies transferring all or part of a company's operations to a nearby country. The main objective is always to reduce costs and also improve efficiency. Nearshoring is different from other business processes like outsourcing, offshoring, and onshoring – I will explain the differences between those later.
In nearshoring cases, a company transfers its operations to a neighbouring country – usually a country it shares a border with – and where the average salary and general cost of manufacturing and/or production are lower than in its country of origin. For instance, for years, American companies have sent their product manufacturing overseas to low-cost countries (also called LCCs), such as Asia. Now, however, there is an obvious trend toward industrial manufacturing returning to North America or the American continent at least.

Nearshoring has many advantages, such as:

- Labour costs are lower since neighbouring countries might still be a bit cheaper, and that means lower general and administrative costs.
- Transportation costs are lower too, since distances to cover are much shorter.
- Companies maintain better control over their operations and ensure that their products or services meet the required and expected quality standards.
- There are fewer language and cultural barriers when companies operate from neighbouring countries as they know each other well.
- Geographical proximity and similar or the same time zones help: nearshoring helps companies reduce delays, improve communication, and provide better customer service by being in the same time zone as their customers.
- A wider pool of talented and skilled workers can be found and that means diversity, creativity, and versatility.
- Companies can also purchase cheaper land, property, and reduce real estate costs to build, rent and own facilities.
- A company's supply chains can be optimised and it can address increasing unpredictability and disruptions (caused by man-made events, natural disasters, the COVID-19 pandemic, etc.).
- All that means cost savings and increased productivity, efficiency, revenue and profits.

All this sounds great, but nearshoring also has some significant drawbacks to consider:

- Nearshoring can actually turn out to be more expensive, especially if the neighbouring country has a higher cost of living, higher labour costs and taxes.
- A smaller talent pool in the neighbouring country can make it harder to find the right staff.
- A company could face the limited availability of specific skill sets: neighbouring countries might not have the same level of expertise in certain areas.
- Potential language, customs, cultural differences and norms create communication barriers.
- It is challenging to maintain 24/7 support, especially when located in a different time zone.
- Political and economic instability can endanger a company's operations or put it at risk as a result of uncertainty, policy changes, and crises.
- Companies can be hampered by issues with laws and regulations as different countries have different rules and regulations pertaining to business operations, like data protection and tax laws, for example.
- Finally, there might be quality concerns: nearshoring backfires when the country chosen does not have the same quality standards, which damages customer retention and loyalty.

To give you some examples, US companies benefit from nearshoring located in Mexico and Colombia, while some European companies benefit from nearshoring located in Poland and Ukraine.

In a nutshell, for nearshoring to be successful, a company needs the following key criteria: the right destination, strong business relationships, excellent quality control procedures, legal compliance, and cultural intelligence.

Here are few key definitions:
Outsourcing: When a company hires another one to carry out certain pre-established business activities and services on its behalf. This practice is commonly used to reduce costs or make up for expertise deficits, especially in areas that

require a large number of highly technical or service operations, and specialised staff. Generally, they include customer service, accounting, marketing, or software development. Many companies decide not to develop these capabilities and positions in-house, hence the better financial decision to hire specialised providers with the necessary human and technical resources to perform these roles.

Onshoring: When a company hires another one within the same country, but in different cities. This model guarantees the hiring companies the absence of cultural differences between their internal and external collaborators, facilitating better communication, collaboration, and workflow. This model also means capital is not invested outside national borders, thus contributing to job creation and growth in the given own country. There are drawbacks, however: high costs and a higher tax burden.

Offshoring: When a company outsources its business activities and services to countries with less costly economies, lower costs, and cheaper labour costs, which can significantly lower operating costs. This model is prevalent in companies established in the United States or the European Union, which outsource to emerging markets, such as Latin America or some Asian countries. While offshoring takes full advantage of differential costs, language, culture, and customs barriers can play a non-negligible role and be challenging. Besides, its ethical implications cannot be ignored as performing the same activity for lower compensation is detrimental to workers on emerging markets, and the practice also results in significantly reducing the workforce in companies' respective countries of origin.