Name(s): Period: Date:

# Nearshore vs Offshore

**Calculating the best choice**

An SB1070 Project

## Case Study – Background & Introduction

You work as an international logistics manager for a company that has come up with a new wearable health tracking device. The item has gone through prototyping phases, and now your job is to identify where you will manufacture it before it goes out to customers.

Where do you start? What should you consider? In order to tackle some of these questions, let's compare Nearshore and Offshore options to see which is best for you.

The main considerations are usually quality assurance, time and cost. A company has to weigh out what is most important to them, identify the strengths of each sourcing option and then make a decision on where to manufacture their device.

### Nearshore vs Offshore?

When a product is manufactured outside of the US, one of the biggest considerations is how far to go. In this assignment, the goal is to compare manufacturing in Mexico with China to find out the benefits and drawbacks to each situation.

**Quality assurance** is a term that determines consistency and accuracy within the manufacturing process. You need to make sure that the manufacturing company has skilled workers and is able to produce the product with very few errors. You don't want to have a product that gets returned by the consumer because it breaks easily or has been damaged.

**Time** is strongly dependent on the manufacturing *distance* to the consumer. If you are planning to sell most of your goods in the United States, then the time to consumer for Mexico can be days or weeks, whereas it takes 4-5 weeks in just shipping for many goods to make it to the US from China, not counting the manufacturing time. There are also a lot more things that can slow down transportation from China, as your products may be slowed down at the port.

Additionally, working with a manufacturing facility in China can be difficult because they are so far away. A simple email can take 12 hours to get a response because of time zone differences, and a visit to the manufacturing site requires a visa and a 16 hour flight. Communication with Mexico and shipping to and from Mexico is nearly interchangeable with using a US manufacturer.

The cost, however, is a trickier consideration. To get to the true cost of procuring a product you need to address the **Total Landing Cost (TLC).** Often times a quote from Mexico will look more expensive than a quote from China, however there are many variables that come up between China and the consumer market that need to be addressed. The total landing costs include the Materials, Labor, Shipping and any Taxes and Fees charged to import the item.

The **cost of goods sold (COGS)** includes the **materials**, energy and equipment used to manufacture the product, which is pretty consistent everywhere in the world, and the cost of **labor**, which is the biggest variation. If you are getting a quote from a manufacturing plant, their portion is the COGS.

**Changes in Labor Costs** have increased pay in salary for Chinese workers so that labor is actually less expensive in Mexico's manufacturing sector. In order to maintain their contracts and keep up their competition, China is able to discount their products by cutting back on their margins and offering more bulk options than Mexico due to larger facilities.

**Transportation Costs or Shipping** depend strongly on the distance the goods will need to travel. Estimates show that a shipping container coming from China will cost somewhere around $5000 per container, however a container from Mexico to the US can cost somewhere around $3000 per container. If you need goods more quickly you can ship goods by air, but the additional cost will usually significantly change the cost of the goods.

**Taxes & Import Costs** Goods that come into the US from another country must pay taxes and fees at the border. NAFTA, the North American Free Trade Agreement, gives preferential tax rates to goods that are made in Mexico over goods made in China.

**Storage** If you buy in bulk you will have warehouse fees for the goods that are not yet sold. Since it takes so long to get goods from China, you may buy them in bulk in order to get a discount and to have enough on hand for a long period of time, however, the longer the goods sit there unsold, the lower your profits will be.

## Case Study Questions

**Please answer these on a separate sheet of paper**

1. Define the following terms

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| Logistics | Prototype | Manufacture | Nearshore | Quality assurance |
| Consistency | Offshore | NAFTA | bulk | Total Landing Cost |

2. What are the main considerations to look at when choosing where to manufacture goods?
3. Traditionally the term offshore has been used when a company manufactures goods outside of the US. ***Compare and contrast*** the term offshore to the term nearshore.
4. Research – what is the time difference between you and Beijing China?
5. What are the variables considered when calculating the Total Landing Cost?
6. What does COGS mean and what does it include?
7. Compare costs for transportation from china with costs for transportation from Mexico
8. Compare time for shipping from China with time for Shipping from Mexico.