

# Localisation: anchoring value creation and procurement regionally

Localisation refers to the relocation and anchoring of procurement, production and value creation in the region where the sales markets are located. For industrial companies, it is a strategic instrument to reduce supply chain risks, lower transport costs and lead times, and meet regulatory requirements. The term covers both switching existing sources of supply and systematically building up regional supplier structures.

## Key facts

- Localisation describes the relocation of procurement and value creation to the region of the sales markets, often as a counter-trend to global sourcing.
- Typical drivers are supply chain disruptions, rising freight and customs costs, exchange rate fluctuations, and sustainability and reporting obligations.
- In practice, complete localisation is often not pursued; instead, a hybrid model of regional and global procurement is chosen.
- Localisation projects require cost-benefit analyses, supplier development, qualification and a clear governance framework.
- Key metrics are regionalisation rate, lead time, delivery performance and cost per component over the entire life cycle.
- Localisation reduces structural dependencies and supports risk management in procurement.

## Definition: localisation

Localisation is the deliberate regional anchoring of procurement and value creation in the sales market. It involves switching suppliers, relocating production steps and, where necessary, adapting products to local requirements.

## Distinction from nearshoring and reshoring

Nearshoring describes relocation to nearby countries, reshoring the relocation back to one's own high-wage country. Localisation is the overarching term: what matters is not geographic distance alone, but the availability of value creation in the region where goods are sold and produced. In practice, the concepts frequently overlap, for example when a European supplier builds a plant in Eastern Europe.

## Local-for-local principle

Under the local-for-local principle, each sales region is supplied as far as possible by regional suppliers and production sites. This reduces transport routes, currency risks in procurement and susceptibility to disruptions in international supply chains. However, the approach requires standardisation of components and processes so that economies of scale are preserved.

## Drivers and benefits of localisation

Localisation is rarely driven purely by unit cost considerations. Instead, several factors interact that affect the total cost and risk of procurement.

### Supply chain security and risk reduction

Disruptions in global supply chains – for example through port problems, export restrictions or geopolitical events – have shown how vulnerable pure cost-country strategies are. More regional procurement improves supply chain visibility, shortens response times and makes the spare parts situation more plannable. At the same time, it reduces country risk in procurement, as less business is concentrated in countries with unstable legal or political conditions.

### Costs and capital commitment

Shorter transport routes reduce freight costs, for example through fewer freight surcharge items or expensive air freight. At the same time, inventory falls because lead times are shorter and more plannable – a direct benefit for working capital. A total cost of ownership view is important: higher unit costs locally can be offset by lower logistics, quality and inventory costs.

### Regulation and sustainability

Sustainability requirements such as the Corporate Sustainability Due Diligence Directive (CSDDD) demand transparency and due diligence along the supply chain. Shorter, more regional supply chains are easier to audit and document. Customer requirements regarding CO2 balances and proof of origin also argue for stronger regionalisation.

## Methods and approach in localisation projects

Successful localisation follows a structured approach: analysis, selection, supplier development and implementation. Without a methodological foundation, duplicate structures or expensive individual projects arise.

### Analysis of the procurement portfolio

The starting point is a transparency analysis: where is sourcing done from which countries today, which components are critical, which volumes justify regional development? Methods such as slow-mover analysis help identify marginal items that, due to low volumes, are hardly suitable for local development. For standard parts, duplicate detection is worthwhile in order to create cleaner regional sourcing structures.

### Supplier search, qualification and changeover

On the basis of the analysis, regional suppliers are identified, qualified and commissioned via tenders – for simple components, a structured enquiry with AI support is often sufficient, while complex components require a multi-stage process. Verification before the changeover is mandatory: drawings, materials, approvals and, where applicable, HS classification for customs clearance must be clarified. A gradual changeover with dual sourcing limits the risk; a coordinated transfer of work governs responsibilities between the old and new supplier.

### Governance and project organisation

Localisation projects are of company-wide importance and should be accompanied by a crisis team or

emergency procurement team as soon as critical parts are affected. Clear deadline tracking and a defined price deviation workflow ensure that changeovers remain plannable and price changes are negotiated in a controlled manner. The procurement mission statement should enshrine regionalisation as an explicit objective so that individual decisions do not work against it.

## **Key KPIs for localisation**

Without measurable objectives, localisation remains a buzzword. Metrics that capture both the regionalisation rate and operational performance have proven effective.

### **Regionalisation rate and dependency ratios**

The regionalisation rate – the share of procurement volume sourced from one's own region – is the central steering metric. In addition, dependency ratios per country or supplier are collected, such as the share of critical parts from a single country of origin. These metrics count among the data quality KPIs of procurement, as they are only meaningful with clean master data.

### **Delivery and inventory metrics**

Delivery performance shows whether regional suppliers actually achieve the expected reliability; typically, values above 95–98 % are considered good, depending on the industry. Lead time, on-time delivery and inventory coverage show whether the hoped-for reduction in capital commitment is realised. Cycle counting of inventory secures the data basis for these evaluations.

### **Cost and quality metrics**

In addition to unit costs, total cost metrics prove their worth: freight costs, customs, complaint rate and goods receipt inspection effort. Goods receipt provides the data on acceptance quality and delivery reliability that objectively document the quality of regional sources of supply.

## **Risks and controls in localisation**

Localisation is not a risk-free process. Higher unit costs, limited capacities and missing second sources are typical pitfalls that can be managed through suitable controls.

### **Cost risks and currencies**

Regional suppliers may charge higher unit costs, which only justify themselves in the total cost view. Currency risks in procurement remain relevant even with regionalisation if volumes are invoiced in foreign currencies; hedging strategies and contractual clauses limit the risk. Price changes after the changeover should be controlled via a defined price deviation workflow.

### **Supplier-specific risks**

A newly developed regional supplier is initially a single source – a risk that is mitigated through dual sourcing, contractual safeguards (indemnity for intellectual property or liability issues) and regular supplier evaluations. Country risk in procurement also remains relevant if regionalisation takes place in neighbouring countries with their own instability. Delivery concepts should be defined from the outset so that container types, quantities and cycles match the regional network.

### **Organisational controls**

Project progress and supplier development require discipline in deadline tracking. A clearly defined

escalation route – up to the emergency procurement team for critical parts – prevents changeovers from silently drifting. For downstream operations, goods receipt, delivery concepts and deviation management should be part of the project scope from the beginning.

## Current developments in localisation

Localisation is evolving from a crisis response into a lasting strategic orientation. Several trends are shaping its implementation in industry.

### Resilience instead of pure cost focus

Procurement organisations are shifting their weighting: resilience and transparency now rank alongside cost efficiency. Consistent risk management evaluates suppliers not only on price, but on risk of failure, substitutability and geographic diversification. Automatic dispositioning and digital tools make it easier to organise finer lot sizes and more frequent deliveries regionally.

### Digitalisation and data foundation

Modern localisation projects rely on better data: data quality KPIs, digital supplier master data and standardised enquiries accelerate the supplier search. A design sprint with cross-functional teams can also help evaluate regional alternatives for critical components in a short time. Supply chain visibility across tiers (suppliers of suppliers) remains a challenge, but improves through standardised data models.

### Convergence with sustainability

Regionalisation and sustainability requirements reinforce each other. Shorter transport routes reduce emissions in the CO2 balance, and due diligence requirements are easier to implement operationally with regional suppliers. In practice, both objectives are increasingly bundled in a joint supplier development programme.

## Typical metrics

### Regionalisation rate: depending on objectives, typically 40–70 %

Share of procurement volume sourced from one's own region; analysed differentiated by commodity group

### Delivery performance: typically > 95 %

On-time delivery of regional suppliers; values above 98 % are considered very good

### Lead time: often 1–4 weeks regional vs. 8–16 weeks global

Benchmark values per component class; decisive for inventory commitment

### Single-source share of critical parts: target often < 10 %

Share of critical components with only one source of supply after changeover

## Practical example

A mid-sized mechanical engineering company with a strong European business previously sourced around 60 % of its sheet metal and plastic components from Asia. After repeated delays due to freight bottlenecks and rising air freight costs, the company launched a localisation project for its 20 highest-revenue components. Following duplicate detection and a tender, three regional sheet metal fabricators and one plastic injection moulder were qualified; the changeover took place over six months

with dual sourcing and continuous goods receipt monitoring.

- Analysis of procurement volume per component and identification of localisable items using slow-mover analysis
- Structured enquiry with AI support for standard parts, multi-stage qualification for complex components
- Gradual changeover with dual sourcing and defined deadline tracking per component
- Monthly evaluation of regionalisation rate, delivery performance and total cost of ownership for steering purposes

## Conclusion

In industry, localisation is long past being a niche topic; it is a strategic lever for security of supply, cost structure and risk reduction. It does not fully replace pure cost-country logic, but leads to a well-considered hybrid model of regional and global procurement. Success is decided less in the decision to regionalise than in clean implementation: supplier qualification, data quality, deadline tracking and clear governance. Those who set up localisation as a project with measurable KPIs demonstrably reduce dependencies and build a robust procurement structure. Those who treat it as a buzzword create expensive isolated solutions without genuine resilience gains.

## Frequently asked questions

### What does localisation mean in procurement?

Localisation refers to the deliberate relocation of procurement and value creation to the region of the sales markets. It involves switching to regional suppliers, moving production steps and adapting products to local requirements. The goals are shorter supply chains, reduced risk and improved plannability.

### What is the difference between localisation, nearshoring and reshoring?

Nearshoring relocates procurement to nearby countries, reshoring moves it back to one's own high-wage country. Localisation is the overarching term: what matters is that value creation is available in the region of the sales market. In practice, the concepts frequently overlap.

### What benefits does localisation bring to the supply chain?

Shorter transport routes reduce freight costs, lead times and inventories. Supply chain disruptions have a weaker impact, and transparency over suppliers improves. In addition, regional structures facilitate sustainability checks and regulatory evidence.

### What risks arise from localisation?

Higher unit costs, limited regional capacities and a newly established single source are typical risks. Currency risks in procurement remain relevant if volumes are invoiced in foreign currencies. Controls such as dual sourcing, defined deviation workflows and regular supplier evaluation mitigate these risks.

### How do you start a localisation project in procurement?

The starting point is an analysis of the procurement portfolio: volumes, criticality and regional availability per component. This is followed by supplier search, qualification and a gradual changeover with dual sourcing. Deadline tracking and clear responsibilities are decisive for success.

### **Which KPIs are suitable for steering localisation?**

The regionalisation rate is the central steering metric, supplemented by dependency ratios per country or supplier. Delivery performance, lead time and inventory coverage show the operational effect. Total cost metrics such as freight, customs and complaint costs complement the unit cost view.