

Nearshoring: relocating procurement to geographically close regions

Nearshoring refers to the strategic relocation of procurement, manufacturing or services to countries with a smaller geographical, cultural or regulatory distance to the sales market. In contrast to offshoring, long distances to low-wage countries are replaced by shorter transport routes, lower risk and faster response times. For industrial companies in the DACH region, Eastern Europe, Turkey or North Africa are coming into focus as sourcing regions. The approach is closely linked to resilience, sustainability requirements and a holistic view of procurement costs.

Key facts

- Nearshoring relocates supply to nearby regions such as Eastern Europe, Turkey or North Africa.
- The focus is on shorter supply chains, lower transport costs and higher on-time delivery.
- The decision should be based on a total cost calculation, not just the unit price.
- In practice, typical risks involve additional time for supplier qualification and quality assurance.
- High demand for nearshore locations frequently leads to longer lead times for capacity build-up.
- Digitised processes such as supply chain visibility support the management of new suppliers.

Definition: nearshoring

Nearshoring is the outsourcing of value creation or procurement to locations that are geographically and economically closer to the home market than classic offshore regions. The aim is to combine the advantages of global procurement with lower complexity and reduced risk.

Distinction from offshoring and reshoring

With offshoring, the focus is on low labour costs, usually in Asia; with nearshoring, the total cost view takes centre stage. Reshoring describes the relocation back to the home country and thus goes one step further. In practice, hybrid forms exist, for example when critical components are sourced regionally while simple parts remain offshore. The choice of model often follows a segmentation by risk, criticality and material value.

Typical target countries from a German perspective

For DACH companies, Poland, the Czech Republic, Slovakia, Hungary, Romania, Turkey or North Africa are frequently viable options. Criteria are wage levels, industrial infrastructure, customs regimes, cultural proximity and transport links. Wage levels also differ considerably within Europe; a frequently cited rule of thumb is that labour costs in Eastern Europe typically lie well below the Western European level but above Asian rates. The final selection should be assessed in a structured manner within the supplier portfolio.

Methods and approach for the nearshoring decision

A nearshoring project usually follows a structured approach: potential analysis, supplier search, qualification and gradual relocation. Early involvement of engineering, quality and logistics is crucial.

Total cost view instead of unit price

The basis is a total cost of ownership calculation that compares material costs, transport, customs duties, tooling investments, quality costs and capital commitment over the product life cycle. Common benchmarks show that transport and customs shares in long-distance sourcing often account for 5 to 15 per cent of procurement costs, while nearshoring may incur additional capacity build-up costs. Without this full-cost calculation, poor decisions loom that later have to be corrected through expensive re-relocation.

Supplier search and qualification

New suppliers are identified through RFQ processes, trade fairs, chambers of commerce or supplier benchmarks. This is followed by structured qualification with an audit, sample inspection and, if applicable, incoming goods with QC inspection for the first series deliveries. Anyone relocating more complex parts should typically allow six to twelve months for qualification and first-article approval. Tooling investments are frequently secured through a tooling deposit or clear ownership arrangements.

Contract and price design

Initially, framework orders with flexible volumes and clearly defined payment terms are suitable. Price adjustment clauses govern raw material and currency fluctuations, as new locations sometimes show higher volatility. For price adjustments, the buyer should anchor contractual adjustment mechanisms with index formulas in order to avoid renegotiations.

Key KPIs for managing nearshoring

The success of the relocation is measured via delivery and quality KPIs as well as the realised cost savings compared with the baseline.

Delivery performance and quality

Key performance indicators are on-time delivery (OTD), incoming goods quality (PPM or complaint rate) and lead times. New nearshore suppliers often start below the target level; a deviation workflow for quantities helps to escalate short-term shortfalls in a structured way. Blocked stock management ensures that inspected goods do not enter production unverified.

Costs and inventory holding

In addition to procurement costs, capital commitment and safety stocks are relevant: shorter transport routes typically allow lower inventories, which is quantified via an economic order quantity (EOQ) and adjusted delivery scheduling. More favourable payment terms such as 2/10 net also improve liquidity. A supplier benchmark compares the efficiency of new locations with the existing portfolio.

Risks and controls in nearshoring

Nearshoring reduces geopolitical distance but creates risks of its own: limited supplier capacity, skilled labour shortages, currency risks and rising labour costs in the target countries.

Risk identification and monitoring

A risk heatmap classifies suppliers and regions by probability of occurrence and damage amount, exposing critical dependencies. Continuous monitoring via supply chain visibility reveals bottlenecks and delays at an early stage. For critical parts, a second-source concept or safety stock is recommended in practice.

Contractual and legal safeguards

For advance deliveries, down payments or tooling, bank guarantees secure the investment risk. Product liability clauses govern liability and recourse, especially for components in safety-relevant applications. For critical supply chains or fragile compliance systems in the target countries, a whistleblowing channel strengthens the early investigation of grievances. Customs tariff codes and rules of origin must be declared correctly; the tax and customs assessment should be reviewed on a case-by-case basis.

Organisation and internal acceptance

Nearshoring changes process organisation, interfaces and responsibilities – from material planning to quality planning. Consistent stakeholder management involves development, production and sales early on and reduces internal resistance. Agile procurement approaches help to implement initial learnings in short iterations instead of relocating the entire volume at once.

Current developments: nearshoring as a megatrend

Disruptions in global supply chains, geopolitical tensions and rising sustainability requirements have significantly increased the importance of nearshoring in DACH industry. Several states promote regionalisation through subsidies and trade agreements.

Resilience and regulatory pressure

Supply chain due diligence laws and CO2 reporting obligations increase the workload for distant suppliers: transport emissions, audits and documentation are lower with short supply chains. Buyers therefore increasingly view nearshoring as a compliance and sustainability lever as well, not merely a cost issue. Systematic due diligence is made easier by shorter distances and on-site audits.

Digitalisation and marketplaces

Digital platforms and guided buying rules lower the barrier to identifying and systematically onboarding new nearshore suppliers. B2B marketplaces for manufacturing suppliers significantly shorten the supplier search and enable supplier events such as a supplier day to meet candidates in a bundled format. Target pictures such as an integrated supplier portfolio thus emerge faster and in a more data-driven way.

Limits of nearshoring

Nearshoring is not a panacea: in some regions wages are rising faster than in Western Europe, skilled labour shortages limit capacity, and for highly complex components there is a lack of qualified providers. Capacity demand from many companies relocating at the same time can drive up prices and lead times. A differentiated procurement strategy with a regionally mixed supplier base therefore remains the norm.

Typical metrics

On-time delivery (OTD): > 95 %

Target value after completion of the qualification phase; the start-up phase is often below this

Incoming goods quality: < 500 PPM

Common target value for new series suppliers after onboarding

Total cost savings: 5–15 %

Typical benchmark versus the offshore baseline incl. transport and inventories

Qualification duration: 6–12 months

Depending on part complexity and first-article approval

Practical example

A medium-sized mechanical engineering company with a high share of sheet-metal and welded assemblies relocated around 40 per cent of its volume from Asia to Poland and the Czech Republic after repeated delivery delays and rising freight costs.

- Total cost calculation per part incl. transport, customs and inventory impact as the decision basis
- Qualification of five new suppliers with audit, first-article inspection and incoming goods with QC inspection
- Framework orders with 2/10 net and price adjustment clauses for steel index and currency
- Monitoring of the transition phase via supply chain visibility and monthly on-time delivery reviews

Conclusion

For industrial companies in the DACH region, nearshoring is a practical way to shorten supply chains, diversify risk and meet sustainability requirements. The decisive factor is not the shortest route but the total cost calculation: transport, customs, quality costs and inventory impact determine the real benefit. Companies that qualify suppliers in a structured manner, secure them contractually and consistently monitor KPIs usually realise the benefits within two to four years. At the same time, nearshoring remains part of a diversified supplier portfolio, not a replacement for it. Those who start early with digital supplier sourcing and clear process organisation gain a genuine competitive advantage.

Frequently asked questions

What does nearshoring mean in simple terms?

Nearshoring means relocating production or procurement to countries closer to your own market – for example from Asia to Eastern Europe. The goals are shorter supply routes, lower risks and faster response times. In contrast to offshoring, the focus is on total cost analysis rather than the pure labour cost advantage.

Which countries are viable for nearshoring from Germany?

Typical target countries include Poland, the Czech Republic, Slovakia, Hungary, Romania, Turkey and increasingly North Africa. Decision criteria are wage levels, industrial infrastructure, logistics links, customs regimes and available capacities. The selection should be based on a structured supplier portfolio and audit data, not merely on price comparisons.

Is nearshoring economically worthwhile?

That depends on the total cost calculation. Although unit costs in nearshore countries are often higher

than in Asia, transport costs, inventories and expedited freight fall significantly. In practice, relocations for high-volume series parts frequently pay for themselves within one to three years – provided quality and on-time delivery of the new supplier are right.

What are the risks of nearshoring?

Key risks are limited supplier capacity, rising wages in the target countries, skilled labour shortages and currency fluctuations. The qualification phase also typically takes six to twelve months. Mitigation is provided by second sources, contracts with price adjustment clauses, bank guarantees for advance payments and continuous supply chain monitoring.

What is the difference between nearshoring and reshoring?

With nearshoring, procurement or manufacturing is relocated to nearby but foreign regions. With reshoring, value creation returns entirely to the home country. Nearshoring is usually the first step, because wage and capacity advantages are retained while the supply chain is already significantly shortened.

How do you start a nearshoring project in procurement?

Start with a potential analysis: which part groups are suitable, and where are the full costs? This is followed by supplier identification via RFQs or marketplaces, qualification with audits and first-article samples, and a gradual volume transfer via framework orders. Consistent stakeholder management involving quality, engineering and logistics internally is essential.