

Offshoring: Relocating production and procurement abroad

Offshoring refers to the relocation of value creation stages such as manufacturing, development or services abroad, frequently with the aim of lower costs. For technical buyers, this fundamentally changes supply chain structures, qualification processes and risk profiles. The term is distinguished from nearshoring, where relocation takes place to countries that are geographically and culturally closer. Well-considered offshoring requires, in addition to cost analysis, above all a solid supplier evaluation, risk control and reliable delivery date tracking across the entire supply chain.

Key facts

- Offshoring relocates production or services abroad on a permanent basis, typically for cost reduction or to access new capacity.
- In practice, cost savings are frequently 15–30 % at unit cost level, but are partially offset by logistics, quality and coordination effort.
- Key success factors are carefully defined qualification criteria, a robust supplier shortlist and a structured qualification process.
- Typical risks are longer lead times, higher cost of poor quality (COPQ) and dependencies on individual supply regions.
- Risk diversification and a Supplier Code of Conduct reduce dependencies and safeguard compliance requirements.
- Current developments such as rising transport costs and supply chain due diligence obligations are leading to nearshoring revisions of existing offshoring strategies in some industries.

Definition: offshoring

Offshoring is the systematic relocation of value creation activities to another country, regardless of whether the activities are transferred to own facilities (captive offshoring) or outsourced to external suppliers.

Distinction from nearshoring and reshoring

While offshoring accepts large geographical distances, nearshoring relocates value creation to nearby countries with shorter transport routes. Reshoring refers to the relocation back of previously offshored processes. In practice, transport costs, delivery time, exchange rate risk and regulatory requirements determine the choice of model.

Forms of offshoring

Captive offshoring means establishing own production or development sites abroad. With offshore outsourcing, services are awarded to external suppliers, for example in contract manufacturing or IT services. A hybrid form is participation in joint ventures, which combines control and local market knowledge.

Methods and approach for the offshoring decision

The decision for offshoring follows a structured process from potential analysis to operational implementation.

Portfolio analysis and cost reduction potential

First, a portfolio analysis of procurement determines which product groups are suitable for relocation. A total cost of ownership analysis takes into account not only unit costs but also tooling costs, logistics, customs, quality and support effort. Offshoring is economically sensible only if the net procurement lever remains sustainably positive.

Supplier search and qualification

On the basis of defined qualification criteria, market exploration is carried out and a supplier shortlist is created. On-site audits, sample inspections and a First Article Inspection (FAI) before series start safeguard the supplier's capability. Contract content is ideally documented and versioned via digital contract management.

Implementation and ramp-up

The series ramp-up takes place in stages with pilot batches, defined acceptance criteria and accompanying expediting for delivery date tracking. Close communication, clear interfaces and a documented deviation workflow for price recalculations are part of operational management.

Key KPIs for offshoring

The success of offshoring is monitored using hard metrics that are regularly measured against the baseline of the original site.

Cost and quality metrics

Central metrics are the cost reduction achieved compared with the country of origin, the cost deviation from the business case and the cost of poor quality (COPQ) such as scrap, rework and complaints. On-time in-full delivery (OTIF) and throughput time to goods receipt are also relevant indicators.

Process and risk metrics

Metrics such as the share of late deliveries, the number of open deviations and the result of supplier sanctions screening reveal operational and regulatory risks. In the finance area, GR/IR clearing supports the clean reconciliation of order, goods receipt and invoice data across national borders.

Risks and controls in offshoring

Offshoring entails considerable risks that can only be managed through systematic control mechanisms.

Supply chain and quality risks

Longer transport routes increase the susceptibility to delays, damage and inventory costs. Quality deviations can be mitigated through clear specifications, regular audits and an ongoing FMEA as early as the development phase. A documented deviation workflow for prices and technical release processes prevent subsequent disputes.

Compliance and ethics

A binding Supplier Code of Conduct governs working conditions, environmental standards and anti-corruption. Supplier sanctions screening is a mandatory component of supplier qualification and is repeated periodically. Supply chain due diligence laws increase the documentary requirements for offshoring relationships in Germany and the EU.

Dependency and flexibility

Monocultures in procurement increase the risk of failure. Risk diversification across several countries or suppliers, clearly defined evaluation criteria and a prepared supplier change as a fallback option safeguard the ability to act. Cost avoidance through early risk prevention is frequently more valuable in this context than subsequent cost reduction.

Current developments: offshoring in transition

Geopolitical tensions, rising transport and energy costs as well as sustainability requirements are changing the offshoring calculations of many companies.

Sustainability and CO assessment

The supply chain carbon footprint (SCF) comes into sharper focus with long transport routes. Transport emissions, local energy sources and production standards are increasingly integrated into evaluation criteria and influence award decisions.

Re-evaluation of location strategies

Many companies are currently evaluating nearshoring or dual sourcing models to increase resilience. Category governance ensures that such strategic changes are implemented consistently within the procurement organisation and with clear responsibilities.

Typical metrics

Unit cost reduction: 15–30 %

typical benchmark compared to high-wage country, before transport and customs

Cost of poor quality (COPQ): < 2 % of revenue

target value after stabilised series production phase

On-time in-full delivery (OTIF): > 95 %

lower acceptance threshold for offshore suppliers

First Pass Yield at FAI: > 98 %

indicator for process capability of the new supplier

Practical example

A medium-sized mechanical engineering company relocated the manufacturing of sheet steel assemblies from Germany to Asia. After one year, both cost advantages and quality problems became apparent, which partially eroded the business case.

- Introduction of a structured First Article Inspection (FAI) before every assembly release
- Establishment of a dual sourcing strategy with a European second supplier for risk diversification
- Weekly expediting with standardised reporting for delivery date tracking

- Contractual anchoring of a Supplier Code of Conduct including annual re-audit

Conclusion

Offshoring remains an effective procurement lever for many companies, but only delivers its benefits when implemented consistently along the entire procurement process. What is decisive are a realistic total cost assessment, stringent supplier qualification and active risk management. Companies that view offshoring solely as a cost reduction project often carry hidden subsequent costs in the form of COPQ, expediting effort and reputational damage. Those who alternatively evaluate nearshoring or reshoring should weigh this in a structured manner against the existing offshoring strategy. The balance between cost efficiency, supply capability and compliance determines long-term success.

Frequently asked questions

What does offshoring mean in simple terms?

Offshoring means that a company relocates production, services or development activities to another country, typically to reduce costs. This can be done through own facilities or through external suppliers. The opposite is nearshoring, where the relocation takes place to countries located closer by.

What advantages does offshoring offer companies?

The main advantage is typically lower wage and production costs, often in the range of 15–30 % on a unit cost basis. In addition, there is access to specialised competencies and greater capacity. Longer transport routes, higher coordination costs and quality risks have a negative impact.

What is the difference between offshoring and outsourcing?

Outsourcing describes the delegation to external providers, regardless of location. Offshoring describes the geographical relocation abroad, regardless of whether it is internal or external. The combination of both – offshore outsourcing – is frequently encountered in practice.

What risks are associated with offshoring?

The main risks include longer lead times, higher cost of poor quality, exchange rate fluctuations, geopolitical dependencies and compliance violations in the supply chain. These can be reduced through dual sourcing, regular audits, sanctions screening and binding codes of conduct.

When is nearshoring worthwhile instead of offshoring?

Nearshoring is worthwhile when short response times, low transport costs or high agility are more important than maximum unit cost savings. This is frequently the case in industries with frequent changes, small batch sizes or high sustainability requirements. The decision should be made on the basis of a total cost of ownership analysis.

How does an offshoring project typically proceed?

Typically there are five phases: potential analysis, supplier search with shortlist, qualification including audits and sample approval, pilot series with defined acceptance criteria and finally series ramp-up with continuous monitoring. In practice, the entire process takes between six and eighteen months depending on complexity.