

Onshoring: Relocating Procurement Onshore

Onshoring refers to the deliberate relocation of production, procurement or services back to the domestic market, often from abroad. For purchasers and supply chain managers in the DACH industry, onshoring is a strategic instrument for shortening supply chains, spreading risks and improving response times. The term is distinguished from nearshoring, where relocation takes place to neighbouring countries such as Eastern Europe. The article explains the definition, approach, KPIs, risks and current developments from a procurement perspective.

Key facts

- Onshoring relocates manufacturing or procurement back to the domestic market, usually from the Far East or from niche suppliers.
- Typical drivers are supply chain risks, transport costs, geopolitical uncertainties and quality requirements.
- Higher unit costs are frequently partially offset by shorter distances, lower capital tie-up and fewer defect claims.
- In practice, onshoring and offshoring coexist; multiple sourcing is usually retained.
- Success is measured using Total Cost of Ownership, delivery times and Quality (PPM) rather than the pure material price.
- Implementation typically comprises a feasibility check, supplier selection, qualification and step-by-step volume transfer.

Definition: Onshoring

Onshoring is the relocation of value creation – production, purchased parts or services – back to the domestic market, typically to the country of the company's registered office. It is the counter-movement to offshoring and closely related to nearshoring and reshoring.

Distinction from Nearshoring and Reshoring

Nearshoring relocates procurement to nearby but foreign regions, for example from Germany to Poland or the Czech Republic. Onshoring, by contrast, remains entirely onshore, which further reduces legal and logistical complexity. Reshoring describes the return of previously outsourced manufacturing and is often used synonymously with onshoring in practice, but it can also relate to a company's own depth of production.

Placement within the Procurement Strategy

Onshoring is not an end in itself but part of the sourcing strategy, which uses multiple sourcing and the Second Source Threshold to define how suppliers are managed on a portfolio basis. The decision also influences in-house production depth: whoever pursues onshoring decides between domestic external sourcing and partial relocation back into in-house production. Both variants affect capacity planning, investment requirements and economies of scale.

Methods and Approach in Onshoring

A structured approach reduces implementation risks and ensures that decisions can be traced by management. A multi-stage process from analysis to series production handover has proven its worth.

Portfolio and Risk Analysis

First, purchased parts and assemblies are assessed by criticality, volumes and supplier dependency. Parts with long lead times, high transport costs or strict quality requirements are typical candidates. A cleanly maintained procurement data model forms the basis so that costs, lead times and risks are comparable. A Data Steward ensures that master data, classifications and supplier information remain up to date and consistent.

Feasibility and Cost Comparison

The second step is a Total Cost of Ownership assessment: material price, tooling costs, transport, customs, capital tie-up, quality costs and the effort involved in defect claims are weighed against each other. Internal aspects such as available capacity, engineering costs and the handling of changes via an Engineering Change Notice (ECN) are also factored in. In practice, the relative cost disadvantage of the domestic price is often in the low single-digit percentage range compared with the Far East, which can be offset by reduced risks and shorter distances.

Supplier Selection and Contract Award

Selection takes place via a structured request for quotation in which technical requirements, capacities, declaration of conformity and certifications are queried. For sensitive drawings or manufacturing know-how, a Non-Disclosure Agreement (NDA) is standard before data exchange. Price negotiation techniques and volume tiers help to moderate higher domestic costs. Finally, Payment Terms and ramp-up plans are contractually fixed.

Key KPIs for Onshoring

Onshoring projects are not managed via the individual price but via a set of KPIs combining costs, quality, delivery capability and capital tie-up. Without defined metrics, success cannot be verified.

Cost KPIs

The key metric is Savings Realized – the savings actually achieved versus baseline, including logistics and quality costs. In addition, Total Cost of Ownership, payment terms and the early payment discount rate are monitored, as domestic invoices often allow shorter Payment Terms and higher discount utilisation. The accounts payable reconciliation provides the actual payment data for this.

Delivery and Quality KPIs

On-time delivery, lead time and inventory coverage show whether the desired effect of short distances is achieved. Quality (PPM) measures the defect rate of the new supplier and should be closely monitored during ramp-up. Typically, lead times improve with onshoring from several weeks to a few days, while replenishment can be switched to smaller, more frequent lot sizes – with a corresponding effect on capital tie-up and warehouse space.

Risks and Control Measures in Onshoring

Onshoring reduces geopolitical and logistical risks but creates its own challenges: higher unit costs, a restricted supplier base and conversion risks during the series production ramp-up. Controls must address these risks early.

Supplier Risks and Dependencies

Onshoring that completely replaces an offshore supplier can create new monopoly risks. A Second Source Threshold has proven effective, whereby critical parts remain at least partially dual-sourced. Multiple sourcing reduces dependence on a single provider but requires uniform specifications and clear declaration of conformity obligations for both sources.

Quality and Process Risks

When changing suppliers, manufacturing processes, tools and inspection processes shift. Without a defined first article inspection and a documented returns process, errors during the series production handover threaten. Defect claims should be contractually stipulated with clearly regulated deadlines, rectification obligations and recoverable costs. Regular supplier evaluations supplement the control.

Cost and Capacity Risks

Domestic price levels can develop dynamically, for example through labour and energy costs. Long-term contracts with indexation mechanisms mitigate this risk. Internal capacity planning must also be reviewed if part of the production is brought back in-house: investment in machinery or personnel then stands alongside the procurement volume and influences synergies within the group.

Current Developments in Onshoring

Supply chain disruptions, geopolitical tensions and regulatory requirements have brought onshoring into focus as an industrial strategy. This creates changed requirements for purchasers regarding sourcing, digitalisation and sustainability.

Resilience and Diversification

Many companies combine onshoring with nearshoring to diversify their supply base rather than reducing it entirely. This hybrid strategy exploits the economies of scale of established offshore sources for standard parts and secures critical components onshore. The optimal mix is determined on a portfolio basis and updated regularly.

Digitalisation of Procurement

Digital marketplaces and AI-supported RFQ tools simplify the identification of domestic suppliers, which was previously a major effort factor. A fully maintained procurement data model and automated price and supplier comparisons shorten project durations. Open innovation with domestic partners can additionally accelerate product development, for example in joint manufacturing optimisation.

Sustainability and Compliance

Shorter transport routes reduce logistics CO2 emissions and simplify proof obligations along the supply chain. Sustainability aspects such as the recyclability of packaging can also often be checked and jointly developed more easily with domestic partners. Legal requirements on supply chain due diligence must be assessed on a case-by-case basis; onshoring can reduce the depth of scrutiny but does not replace

compliance documentation.

Typical metrics

Savings Realized: > 0 % TCO

Realised savings including logistics and quality costs versus baseline

Quality (PPM): < 500 PPM

Usual target value for series-production mechanical parts, depending on industry

Lead Time: 5–15 days

Typical value for domestic procurement instead of several weeks with long-distance sourcing

On-Time Delivery: > 95 %

Delivery date and quantity reliability of the onshore supplier in series production

Early Payment Discount Rate: 30–80 %

Proportion of domestic invoices settled with early payment discount, depending on Payment Terms

Practical Example

A medium-sized mechanical engineering company previously sourced a high-quality aluminium die-cast component from the Far East with lead times of more than ten weeks. After repeated delays and quality fluctuations, the company examined onshoring to a foundry specialist in southern Germany.

- TCO comparison including transport, capital tie-up and quality costs instead of a pure unit price calculation
- Supplier qualification with first article inspection, an agreed ECN process and NDA prior to drawing handover
- Step-by-step volume transfer to a 60 per cent domestic share; the remainder remained as a second source with the previous supplier
- Conversion of replenishment to smaller lot sizes with seasonal balancing across the new lead time

Conclusion

For the DACH industry, onshoring is an effective instrument for shortening supply chains and reducing procurement risks. It does not replace the sourcing strategy as a whole but broadens the spectrum between offshore, nearshore and domestic sourcing. Decisive factors are a robust TCO analysis, clean supplier qualification and a set of KPIs that goes beyond the individual price. Those who implement onshoring step by step and with second sources can effectively balance costs and risks. Purchasers who build data quality and processes early achieve the most sustainable results in practice.

Frequently asked questions

What does onshoring mean in simple terms?

Onshoring means relocating production or procurement from abroad back to the domestic market. A German company that previously bought parts in Asia and now commissions a domestic supplier is practising onshoring. The goals are shorter distances, fewer risks and greater flexibility.

What is the difference between onshoring, nearshoring and reshoring?

Onshoring relocates value creation entirely to the company's own country, while nearshoring moves it to

neighbouring countries. Reshoring describes the return of previously outsourced manufacturing, often to in-house production. In practice, the terms are sometimes used interchangeably; what matters is the location of value creation.

Is onshoring worthwhile despite higher prices?

Often yes, when total costs are considered: lower transport and capital costs, fewer defect claims and shorter lead times typically compensate for part of the higher unit price. The decision should be based on a Total Cost of Ownership analysis, not on the material price alone.

Which parts are suitable for onshoring?

Suitable parts are primarily critical, urgently needed or quality-sensitive components with moderate unit costs and a high expediting effort. Simple standard parts under strong price pressure often remain with offshore sources. A portfolio analysis by criticality and supplier risk provides the prioritisation.

What risks does onshoring involve?

The main risks are higher unit costs, a narrower domestic supplier base and conversion errors during the transition to series production. These can be reduced through multiple sourcing, clear qualification processes and contractual safeguards. Internal capacity planning must also be adjusted when production is brought back in-house.

How does an onshoring project typically proceed?

It starts with risk and portfolio analysis, followed by a TCO comparison and supplier search. This is followed by NDA, request for quotation, negotiation and supplier qualification including first article inspection. Volumes are transferred step by step while KPIs such as on-time delivery and Quality (PPM) are monitored.