Untangling the knots in the new Silk Route

A growing number of companies are opting to bring back part or all of the production that they had previously outsourced to China.

January 1, 2012

By Jaume Ribera

For nearly eight years, the Spanish toymaker, Injusa, had been operating in Guangdong, a province in southern China that is one of the world's biggest manufacturing bases, especially for toys. In 2010, Injusa produced some 350,000 electric vehicles at that location.

But recently Injusa decided to pull out of China and centralize production once again at its factory in Spain. And Injusa isn't alone: A growing number of companies – up to 90 percent, according to an Archstone Consulting survey of U.S. and European manufacturers – are considering or have opted to bring back part or all of the production that they had previously outsourced. Apparently, things haven't gone as swimmingly as planned.

While China remains the world's factory, and probably will continue to be so over the short to medium term, some companies are starting to realize that the extraordinary margins they once enjoyed are steadily being eroded. Why?

Foreign companies frequently cite the rising costs of raw materials and wages, which have nearly doubled in three years. Certainly these are determining factors.

But there are other issues related to postproduction processes, mainly to do with shipping, which are equally concerning.

The ordering process tends to be informal, leading to communication breakdowns, and international freight costs are not as cheap as they used to be. The supply chain between

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China and Europe is riddled with so many inefficiencies that companies are starting to give up, rather than put up with them any longer.

Under the auspices of the Port of Barcelona Chair of Logistics at the China Europe International Business School (CEIBS) in Shanghai, we recently analyzed the role of each agent in the supply chain between China and Europe. We evaluated where most of the value was added, and assessed the nature of the relationships between all of the key agents and actors involved. In this article, we identify which aspects could be improved and recommend ways to enhance efficiency, in order for business people to reap the rewards without the headaches.

This article is published in IESE Insight Issue 12 (Q1 2012).

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