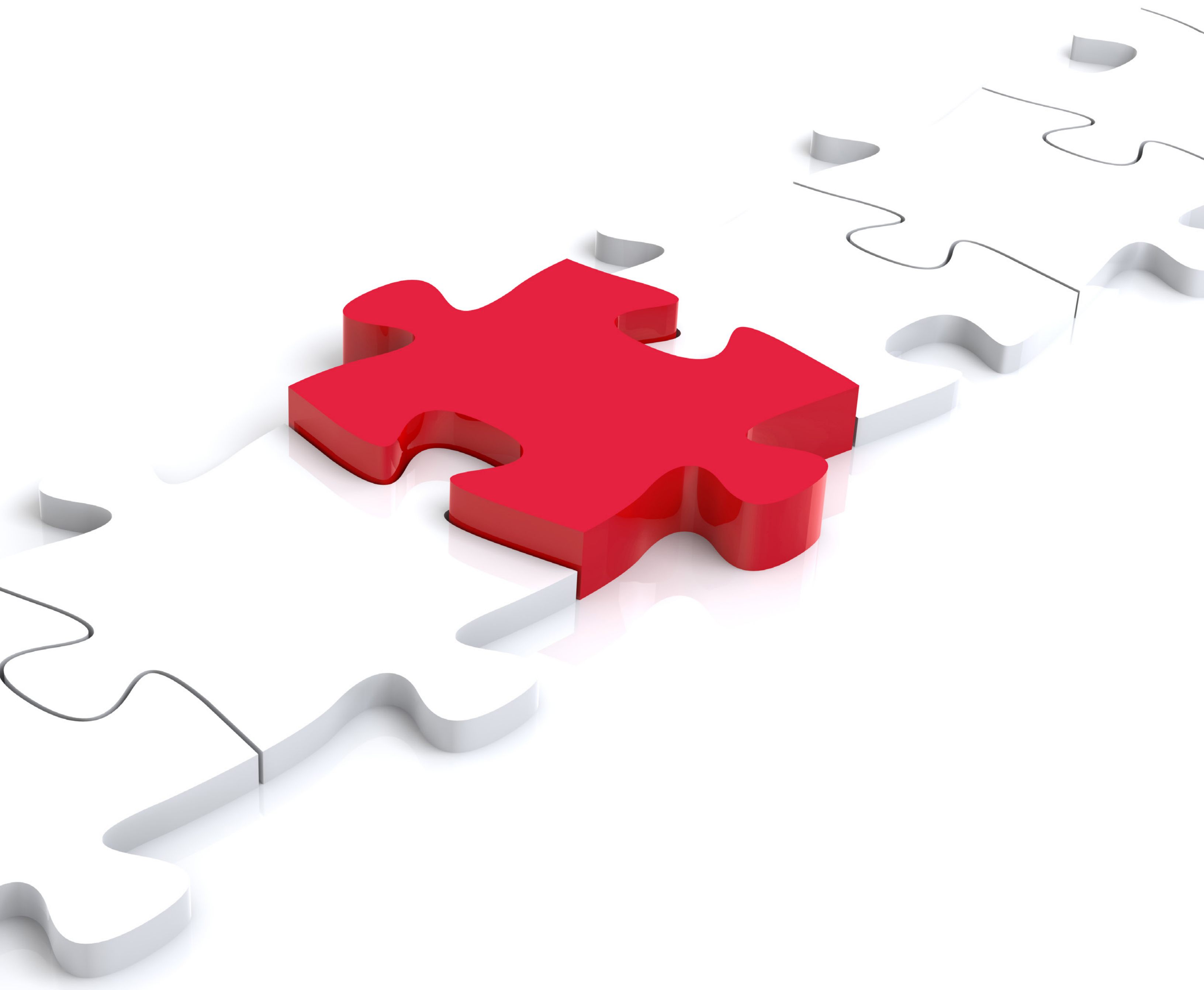
SPECIAL REPORT



BRINGING YOUR SUPPLY CHAIN CLOSER TO YOUR CUSTOMERS

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As global trade and consumer demands continue to grow, supply chains are facing a range of challenges, from rising labor costs to geopolitical instability. Because of this, nearshoring has emerged as a popular strategy for companies looking to optimize their supply chains. A survey conducted by Deloitte found that 54% of companies plan to nearshore some of their operations in the next two years.

Nearshoring involves moving operations closer to the finished product's place of consumption. Most times, this means companies moving operations in Asia and Europe to North America. The goal is to reduce costs, increase speed to market, and improve efficiency by taking advantage of lower labor costs, shorter transit times, and closer proximity to your end consumer.

Research conducted by the Boston Consulting Group found that nearshoring can help companies to reduce lead times by up to 50% and cut logistics costs by up to 30%. These studies suggest that nearshoring can be an effective strategy for companies looking to optimize their supply chains.

Optimizing Supply Chains from Port to Door

In the past few years, many companies realized just how dependent they are on manufacturing and products in Asia and around the globe. Roadblocks, port delays, and factory closures meant empty shelves inside warehouses and distribution centers, and disgruntled customers

The need for nearshoring isn't a secret. However, until recently, many companies ignored the benefits of nearshoring products or, at the very least, diversifying their vendor portfolio with a multi-shoring strategy.

Today, supply chain executives recognize the fragility of operating in a single global region, and have the opportunity to create resiliency in their operation now, and for the future. Ultimately, companies want the flexibility to react to different demands of the end consumer, and nearshoring is one strategy that lets them.

Let's say a product from a consumer goods manufacturer isn't selling because it's not trendy among celebrities and influencers on social media channels. Or you need to entice the sale with additional gifts, such as free accessories.

Nearshoring gives you the flexibility to react to changing demand. Inventory can be easily transitioned and delivered because it is closer to the point of sale.

The overall goal is to create a more responsive supply chain that adjusts to meet consumer expectations and is resilient amidst disruption. By nearshoring, companies can customize, change or amplify any order to meet greater demand.

The Benefits of Nearshoring

Being closer to the U.S. market provides manufacturers a host of benefits, including:

Proximity. The value of proximity cannot be overstated. A shipper can move freight from Mexico to the U.S. by ocean in 48 hours; by truck, it can take 24 hours or less. This compares to two to six weeks from Asia via pan-Pacific ocean container carrier routes, leading to faster customer service cycle times, especially for customized products. Working in the same or proximate time zones also allows companies to dispatch personnel to factories or facilities often a few hours away by plane or truck. Moreover, proximity creates opportunity to strengthen collaboration and cultural understanding between the U.S. company and its in-country workforce.

Growing truck and rail traffic. More than 10 million trucks crossed the U.S.-Mexico border in 2022, up 2.9 percent from the same period the year before. The value of goods rose by 9 percent over the same time last year, noted the Journal of Commerce, citing U.S. Bureau of Transportation statistics.

Lower labor and production costs and the strengthening dollar. The low-cost labor pool that made China the darling of the global manufacturing sector has undergone a significant change compared to the Mexican market. In 2000, Mexican labor costs reportedly were 60 percent higher than those in China. Today, they're reportedly at par or lower than labor costs in China. With manufacturing output projected to grow upward of 6 percent by 2025, this could translate to between $20 billion and $60 billion in economic output, notes Boston Consulting Group. While Mexico saw a 67 percent increase in average manufacturing sector wages from 2004 to 2022, productivity gains and a depreciation of the peso against the dollar helped offset wage growth, BCG concludes.

A Cause for Caution

Though lower in cost and closer to home, nearshoring manufacturing operations to Mexico is not without its challenges. Among some areas of concern are:

Educating a young workforce. The country's young, relatively untrained population means many manufacturers must invest in training programs to create or improve labor skills. Additionally, the driver shortage that continues to challenge the U.S. market exists for cross-border operations as well.

Weak infrastructure and need for government investment. Suitable roads, telecommunications and other infrastructure are in short supply, especially outside established sourcing communities or in emerging, rural or less developed markets. Realizing this, Mexico launched the Transport and Communications Investment Program. That program would invest some $8 billion in more than 200 transportation infrastructure and communications projects. It will build and/or modernize some 82,000 miles of highways, almost 17,000 miles of railroad, 76 airports (64 with international flights), and 117 maritime ports, of which 68 are containers ports. By 2030, Mexico hopes to rank in the top 20 percent of the World Economic Forum's Infrastructure Competitiveness Index.

Border crossing delays and capacity issues. Border crossings historically have been fraught with compliance issues that create long transit times and delays. Southbound shippers need a Mexican customs broker for all freight imported into Mexico. Northbound shippers need a U.S. broker, a mastery of Mexico's Customs for exportation, as well as Customs-Trade Partnership against Terrorism (C-TPAT) certification to help expedite border crossings. Additionally, for every three loaded trailers headed north from Mexico, only one loaded trailer heads south. This ongoing equipment and LTL network capacity unbalance and resulting crunch leaves both trailers and LTL networks in short supply.

Overcoming New Challenges

While the move to nearshore operations has opened a new avenue for companies, supply chains continue to grow in complexity forcing companies to adjust their strategies in order to have a world class supply chain. Here are a few examples of challenges companies face and the solutions used to help overcome the disruption:

CHALLENGE: There is a lack of door-to-door visibility because multiple providers run different portions of your transportation. You have limited visibility to loads in-transit, and have no visibility to loads at Mexico/ U.S./Canada points of consolidation.

SOLUTION: Integrate multiple GPS providers with a third-party logistics (3PL) transportation management system. You can also outsource to an experienced 3PL to take on the role of border manager, coordinating the efforts of all stakeholders.

CHALLENGE: Border crossings historically have been fraught with compliance issues that create long transit times and delays. Between Mexico and the U.S., southbound shippers need a Mexican customs broker for all freight imported into Mexico. Northbound shippers need a U.S. broker, a mastery of Mexico's Customs for exportation, as well as Customs-Trade Partnership against Terrorism (C-TPAT) certification to help expedite border crossings. In Canada, having a customs broker with knowledge of the process can expedite border crossings.

SOLUTION: Work with a 3PL that is familiar with Mexico/ U.S./Canada rules for imports and exports. The right 3PL can ensure your carriers are C-TPAT, FAST, AEO Mexico, and Safety Act certified, as well as prepared with ready documentation, established schedules, and able to monitor the physical flow of freight.

CHALLENGE: There is a lack of centralized part and packaging data making it difficult to build loads and maximize trailer capacity.

SOLUTION: Spend the time needed to collect good data. Actively engage both suppliers and customer resources for part/packaging information. Having the right data leads to a strong plan for every part.

CHALLENGE: Prioritizing critical inventory has become difficult because of the use of multiple providers during transit and limited bridge hours.

SOLUTION: Partner with a 3PL to act as the end-to-end border manager, as well as to contract or perform border crossings and dedicated dray services directly.

World Class Operations

By partnering with Ryder, you can have a world-class, end-to-end logistics solution that moves your products seamlessly between Mexico, the U.S., and Canada. At Ryder, we do this by working with you to incorporate best-in-class solutions to provide you with a single point of access to all the services, tools, and expertise necessary for successful cross border supply chain operations.

Our network is supported by innovative technology, one of North America's largest fleets of trucks, an expansive infrastructure of maintenance facilities and warehouses, and some of the most talented people in the industry. We develop relationships with local authorities across North America, recruit and manage drivers and technicians, invest in the latest and most efficient vehicles, excel in safety, and comply with associated regulations, all on our customers' behalf.

We are uniquely positioned to meet the demands of customers with operating footprints across Mexico, the U.S., and Canada. Our solutions include dedicated Mexico carrier pickups, leveraged multi-client distribution centers – including cross-docks – to deconsolidate/consolidate freight, dedicated international shuttles including border dray, customs brokerage, and U.S. transportation.

We are one of the largest, and most influential, logistics players in Mexico. Having key relationships with the highest quality providers – carriers, customs brokers, equipment providers, and engineers – we are able to simplify operations of organizations that have complex networks and various brokers.

Through a strong security organization focused on safety and innovative technology, we have developed proprietary procedures to secure facilities and freight while in transit. Additionally with the use of innovative technology, you gain end-to-end visibility of your freight and ensure it is secure at all times.

Because of these capabilities, we are able to provide multi-client border crossing services to lower security risks and improve efficiencies. In fact, we facilitate over 30,000 North American border crossings every month – with an average border crossing time between 2 and 4 hours in Mexico and under 20 minutes in Canada. These solutions help improve speed to market, get you closer to customers, and allows you to gain access to new markets by leveraging an established infrastructure and geographic footprint.

Discover how our technology driven supply chain solutions can make you *Ever better*™ at **ryder.com**.

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