

# THE CHANGING LANDSCAPE – THE RESHORING OF MANUFACTURING SUPPLY CHAINS

November 18, 2020

## Presenters:

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**25**

COUNTRIES WORLDWIDE



MORE THAN  
**19,000**  
ENGAGEMENTS  
PERFORMED IN 2019



**13,500**

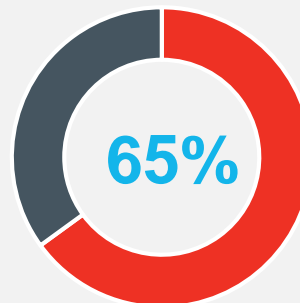
CLIENTS GLOBALLY  
INCLUDING NEARLY

**50%** OF THE  
**S&P 500**



**AWARD WINNING  
EXPERTISE**

Consistently awarded best service provider, including in cybersecurity, compliance and regulation, risk, investigations and valuation



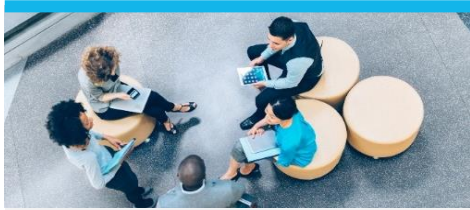
We serve almost two thirds  
of Fortune 100 companies

## SOME OF OUR RANKINGS

- ✓ **#1** Forensic Consultant in North America
- ✓ **#1** IP Litigation Consulting Firm in the U.S.
- ✓ **Largest independent** valuation advisory firm

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Valuation and consulting for financial reporting, tax, investment and risk management purposes

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- Alternative Asset Advisory
- Real Estate Advisory
- Tax Services
- Transfer Pricing
- Fixed Asset Management and Insurance Solutions



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Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions

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- Fairness and Solvency Opinions
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# PRESENTERS



## MEEGAN SPICER

Director in the [Site Selection and Incentives Advisory](#) practice, working in Cleveland, Ohio. Meegan leverages 20 years of experience working with companies that are in the process of expanding or consolidating their businesses, making acquisitions, creating or retaining jobs and making capital investments.



## KURT STELTENPOHL

Managing Director in the [Transaction Advisory Services](#) practice, based in the New York office, and leads Operations Advisory for the [Corporate Finance](#) practice. Kurt leverages over 17 years of transaction advisory services experience advising industry executives, corporations and private equity firms on company strategy, operations and transactions.



## DANIEL M. HARTNETT, CPIM

Associate Managing Director with Kroll, a division of Duff & Phelps, based in the Reston, VA office. Daniel specializes in advising clients on third-party risk management. He currently chairs the firm's [Supply Chain Risk Management Services](#).



# LEARNING OBJECTIVES

Comprehend how the various factors impacting a decision to offshore/reshore have been impacted by COVID-19 and which industries are likely to reshore operations

Learn about governmental policies and programs in effect that could support a move to reshore and what changes might be on the horizon under a new administration

State the key benefits and challenges of shifting the geographic footprint of a company's supply chain in the current market

Identify the various types of vendor and third-party risks inherent in shifting supply chains from one jurisdiction to another

Understand supply chain due diligence best practices that can be used to minimize exposure to vendor and third-party risks when reshoring supply chains

# AGENDA

01

Industries likely to reshore and incentivizing policies

02

Supply chain operations strategy and design

03

Risks of reshoring and mitigation strategies

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**01**

# **Industries Likely to Reshore and Incentivizing Policies**





# RESHORING

## The Current Landscape

- 64% of companies across the manufacturing and industrial sectors are likely to bring manufacturing production and sourcing back to North America
  - Thomas Survey, April 2020
- 28% of manufacturing respondents saying they were "extremely likely" to bring more production and sourcing back to North America following the pandemic
  - Thomas Survey, April 2020
- 33% of global supply chain leaders had moved sourcing and manufacturing activities out of China or plan to do so in the next two to three years
  - Gartner Survey, February and March 2020

# RESHORING

## Background

### WHAT IS IT?

- Bringing manufacturing and services back to the U.S. from overseas
- Adding new supply and production capacity in the U.S. instead of overseas
- Realigning supply chains for U.S. operations, from overseas

### WHY ARE WE TALKING ABOUT IT NOW?

- Major disruptors over last 5 years show weaknesses
  - Brexit
  - U.S.-China Trade War
  - COVID-19



# DUFF & PHELPS RESHORING ANALYSIS

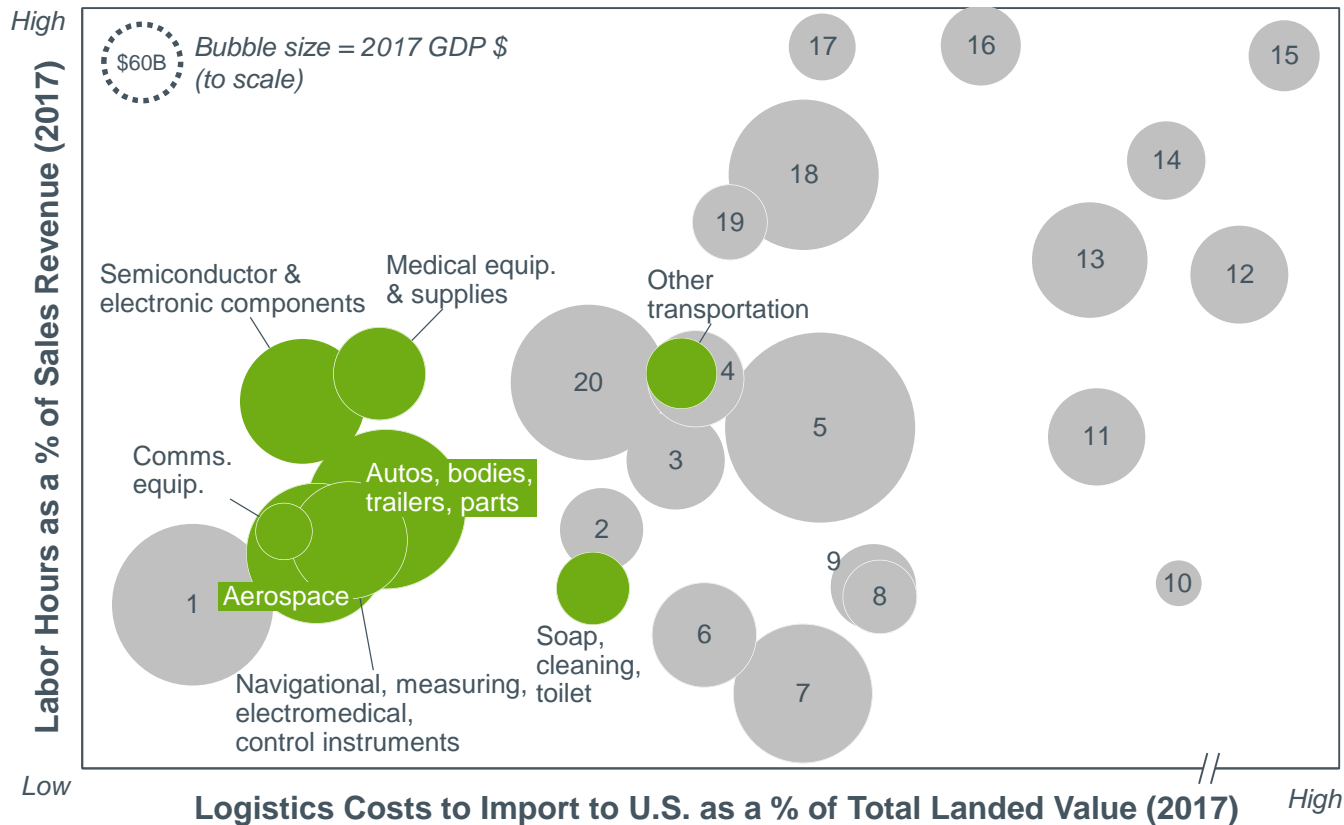
## Process

- Reshoring manufacturing back to the U.S. from China in light of the COVID-19 pandemic
- Developed index to evaluate 28 industries to score and rank the best candidates for reshoring:
  - ✓ COST
  - ✓ LEVEL OF AUTOMATION
  - ✓ INNOVATION / INTELLECTUAL PROPERTY
  - ✓ PRODUCT QUALITY / SAFETY
  - ✓ ENVIRONMENTAL REGULATIONS
  - ✓ CRITICAL INFRASTRUCTURE SECTOR DESIGNATION

# DUFF & PHELPS RESHORING ANALYSIS

## Results

U.S.-China trade flows based on both economic and strategic viewpoints



Priority Industries to Reshore	
1	Navigational, measuring, electro-medical, and control instruments
2	Other transportation equipment
3	Medical equipment and supplies
4	Communications equipment
5	Semiconductor / electronic components
6	Aerospace products and parts
7	Autos, bodies, trailers, parts
8	Soap, cleaning, toilet preparation
Potential Industries with Regulatory Action	
1	Pharmaceuticals and medicines
2	Paint, coating, adhesive, other chemical
3	Primary metals
4	Electrical equip., appliances, components
5	Food
6	Basic chemicals
7	Petroleum and coal products
9	Beverage and tobacco products
10	Pesticide, fertilizer, other ag. Chemicals
13	Plastics & rubber products
20	Machinery

For more information, view the Reshoring Analysis on the Duff & Phelps website [here](#).

# FEDERAL POLICY AND INCENTIVES

President Trump Administration

## EO #13922

Issued 5/19/20 Delegating Authority Under Defense Production Act (DPA) to Development Finance Corp (DFC) to Respond to the COVID-19 Outbreak

- Loans to private business enterprises

## EO #13944

Issued 8/14/20 Combatting Public Health Emergencies and Strengthening National Security by Ensuring Essential Medicines, Medical Countermeasures and Critical Inputs Are Made in the U.S.

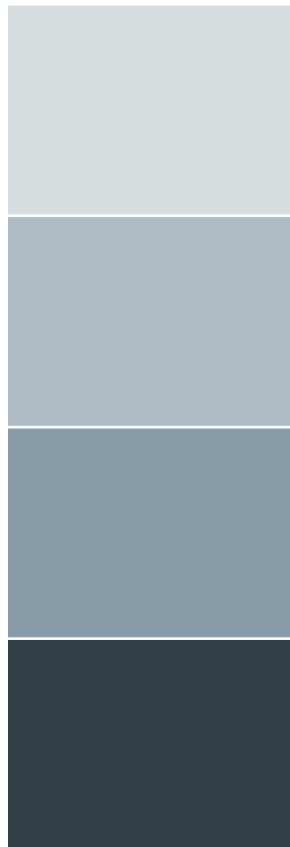
## EO #13953

Issued 9/30/20 Addressing Threat to Domestic Supply Chain From Reliance on Critical Minerals From Foreign Adversaries

- Consideration for grant and loan

# FEDERAL POLICY AND INCENTIVES

President-Elect Biden Administration



NEW OFFSHORING TAX PENALTY – 10% SURTAX

STRONG ANTI-INVERSION REGS AND PENALTIES

NEW MADE IN AMERICA TAX CREDIT – 10%

STRENGTHEN BUY AMERICAN POLICIES



# STATE AND LOCAL INCENTIVES



## TAX CREDITS, EXEMPTIONS AND ABATEMENTS

- Income / franchise / gross receipts taxes
  - Refundable
  - Non-refundable
- Property taxes
- Payroll taxes
- Sales/Use and value added taxes

## GRANTS

- Infrastructure
- Training
- Wage subsidies
- Fixed assets
- Research & Development

## FAVORABLE FINANCING

- No or low-interest loans
- Forgivable loans
- Tax Increment Financing (TIF)
- Sale-Leaseback
- New Market Tax Credits (NMTCs)

## UTILITIES

- Rate reductions
- Cash grants
- Low interest loans

## IN-KIND CONTRIBUTIONS

- Training
- Land
- Paving work



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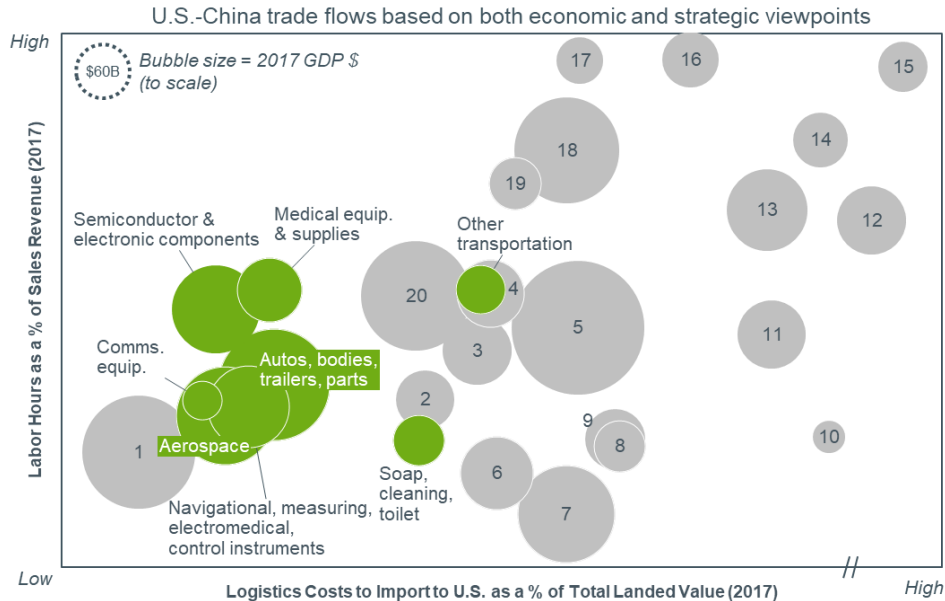
**02**

# **Supply Chain Operations Strategy and Design**



# SUPPLY CHAIN RESHORING

## Design Considerations



### Priority Industries to Reshore

- ✓ Navigational, measuring, electro-medical, and control instruments
- Other transportation equipment
- Medical equipment and supplies
- Communications equipment
- Semiconductor / electronic components
- Aerospace products and parts ✓
- Autos, bodies, trailers, parts ✓
- Soap, cleaning, toilet preparation

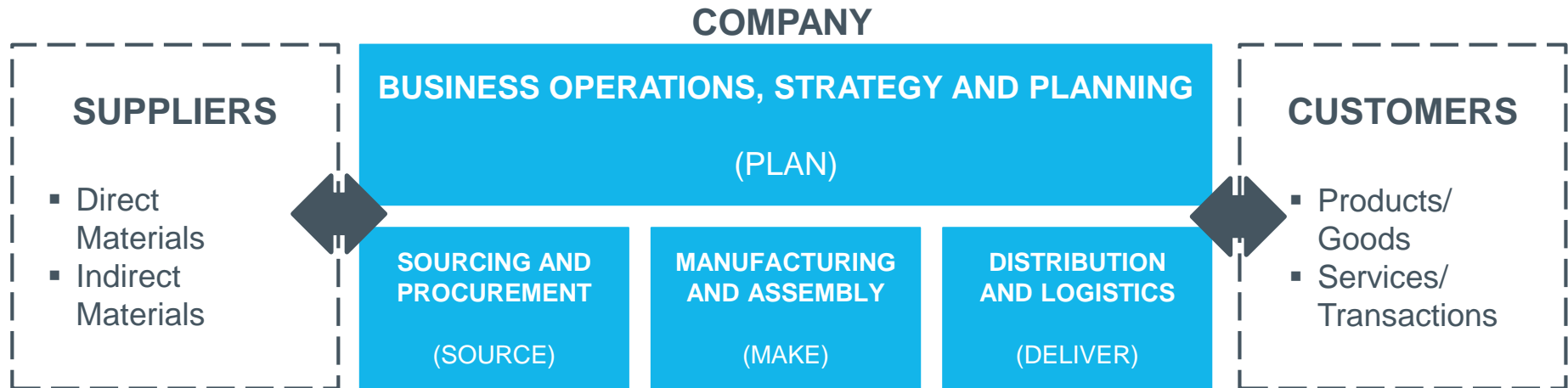
### Criteria for Reshoring:

- **Cost:** high logistics and low labor costs ✓
- **Automation:** step-increase in labor productivity ✓
- **Innovation / IP:** High R&D spend and patent applications ✓
- **Product Quality / Safety:** Strict quality/safety regulations ✓
- **Essential Business:** Designated essential (US DHS) ✓
- **Environmental:** Require significant investment to meet U.S. emissions regulations ✓

✓ Examples

# SUPPLY CHAIN OPERATIONS

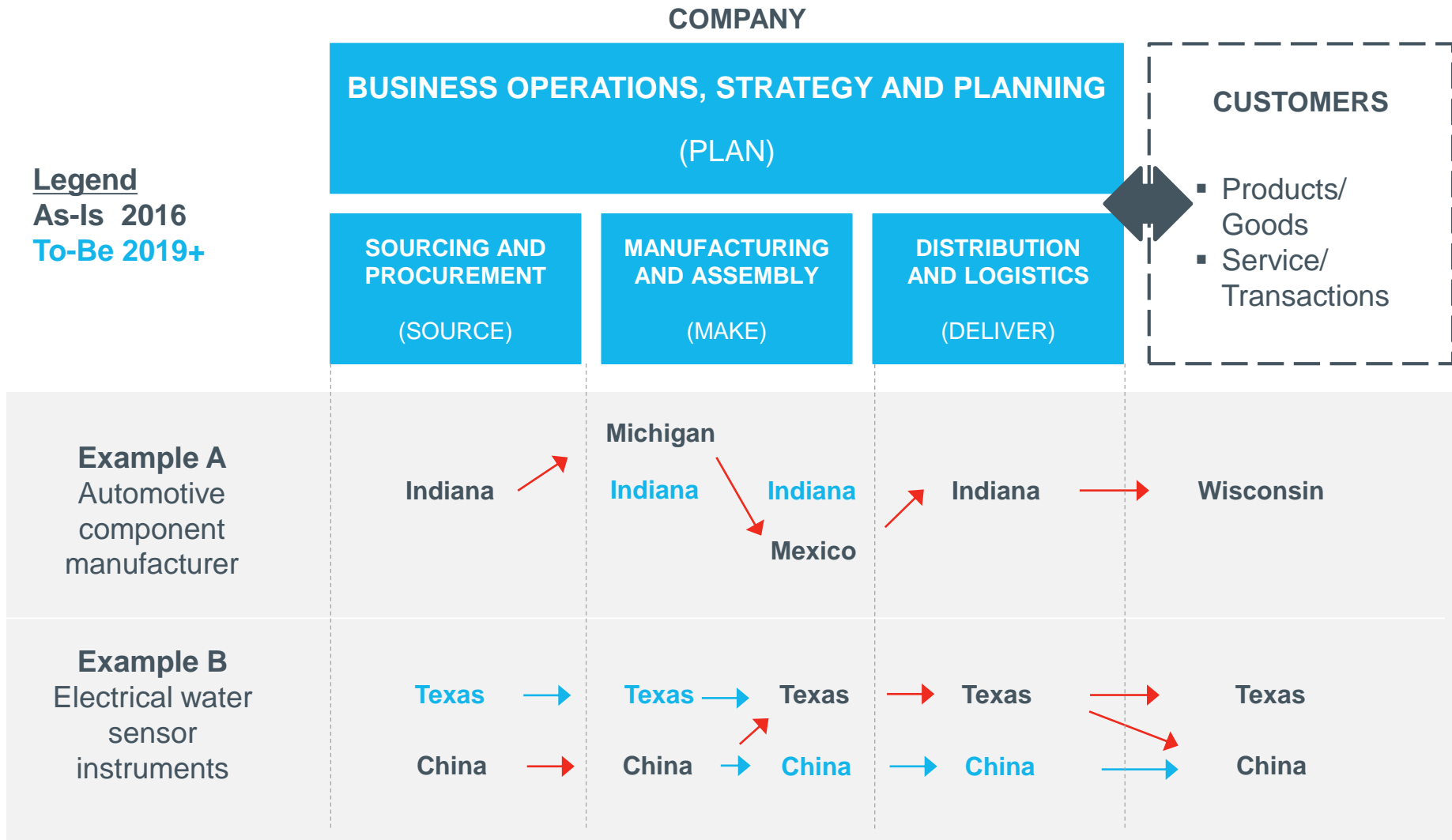
## Framework



*Note: Source, Make, and Deliver refer to the SCOR reference model, which is maintained and managed by the Supply Chain Council (SCC).*

# SUPPLY CHAIN OPERATIONS

## Examples



# MARKET OBSERVATIONS AND COMPANY CHALLENGES

## MARKET OBSERVATIONS

- Customer service aligned with time zone of consumers
- 'Back office' employee services and AI
- Manufacturing and logistics automation trend
- Human capital co-location:  
Manufacturing + Innovation + Customers

## COMPANY CHALLENGES

- Activity-based cost structure
- Knowledge transfer
- Remote collaboration

## SUPPLY CHAIN OPERATIONAL ROADMAP

- Develop decision criteria and conduct analyses to rank sites for greenfield or brownfield expansion
- Evaluate opportunities to maximize tax incentives
- Assess performance of existing sites to identify operational efficiency improvements across the network
- Develop business case and detailed execution plans, including timing, resources and capital allocation

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**03**

## **Risks of Reshoring and Mitigation Strategies**



# META-RISKS

Irrespective of jurisdiction or industry, modern global supply chains have inherent risks that manifest when major shifts occur

## COMPLEXITY OF SUPPLY CHAINS – AND THE COMPLEX ENDEAVOR TO RESHORE THEM

- Not as simple as just saying you are going to shift your supply chain

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## IT'S THE JOURNEY, NOT THE DESTINATION

- Shifting a supply chain likely takes a lot of time

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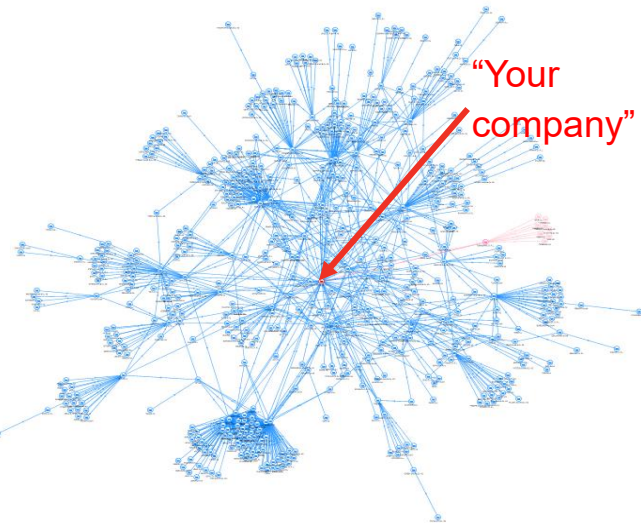
## HERE TODAY, GONE TOMORROW?

- Shifting decision factors and drivers
- “Commitment concerns”

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## UNKNOWN FOLLOW-ON EFFECTS

- Often likely discovered after a new supply chain is up and running
- 





# DE-LINKING RISKS OF RESHORING

## THE LONG LEAD TIME OF RESHORING OPENS A FIRM UP TO LINGERING RISKS FOR IN-COUNTRY OPERATIONS AND SOURCING

- Maintaining continued support from outgoing suppliers
- IP security risks
- Contractual obligations with outgoing suppliers and employees
- Political influence or legal action over your efforts to wind down operations



# RESIDUAL RISKS OF RESHORING

## UNLESS AN ENTIRE SUPPLY CHAIN IS RESHORED, IT WILL CHALLENGE YOUR RESHORING EFFORTS

- Increased complexity of supply chain operations during long lead time to fully reshore
  - Especially for operations and logistics
- Weakened connections with remaining supply base
  - Decreased loyalty and trust may lead to less desire to support your needs
- Geopolitical and trade issues
  - Impossible to escape fully unless fully out
- Brand damage/loss of future sales potential
  - Tarnishing of brand in China if seen as “abandoning” it



# EMERGENT RISKS OF RESHORING

## ESTABLISHING A NEW SUPPLY CHAIN IN THE UNITED STATES ISN'T WITHOUT RISK EITHER

- New, potentially unknown supply chain partners open the door to new risks
- Tighter regulatory environment
- Increased influence of U.S. export controls and economic sanction laws
- Burrowing of risk further upstream
- Geographic concentration risk 2.0



# SOME SUGGESTIONS TO MINIMIZE RESHORING RISKS

## WHILE YOU CAN'T ELIMINATE RISK, YOU CAN MINIMIZE EXPOSURE

- Plan, plan and plan some more – covertly!
- Engage a law firm to understand your de-linking risks
- Review the security of your IP and your existing contractual obligations
- Engage a supply chain risk management services provider to help identify and mitigate potential risks
- Take small, incremental steps – and remain flexible
- Ensure comprehensive due diligence on your new supply chain partners
- Conduct supply chain risk exercises and stress tests



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Meegan is a director in the [Site Selection and Incentives Advisory](#) practice at Duff & Phelps, working in Cleveland, Ohio. Meegan leverages over 20 years of experience working with companies that are in the process of expanding or consolidating their businesses, making acquisitions, creating or retaining jobs and making capital investments.

Meegan has extensive experience negotiating and securing state and local economic development incentives for her clients. Such incentives include free or reduced cost land, grants, property and sales tax abatements/exemptions, corporate income/franchise tax credits, favorable financing, infrastructure assistance, utility rebates and training support. Meegan's clients represent a broad range of industries including manufacturing, financial services and information technology. She has several Fortune 500 clients, which she has served for many years, and on whose behalf she has secured tens of millions of dollars in incentives. Representative projects include expanded and new manufacturing operations, headquarters, and research and development facilities. Meegan's team utilizes a strategic approach to incentives negotiation by working closely with clients to develop a business case for incentives that aligns with the objectives of the company while furthering the interests of the communities involved.

Prior to joining Duff & Phelps, Meegan was a senior attorney in the Public Finance practice at Squire, Sanders & Dempsey LLP. Prior to that time, she was a senior manager in Ernst & Young's State and Local Tax practice. Meegan started her career in economic development with the Ohio Department of Development in the Governor's Economic Development Office in Cleveland, Ohio under Governor George V. Voinovich.

Meegan received her J.D. from Cleveland-Marshall College of Law and her B.S. from Bowling Green State University. She is licensed to practice law in Ohio and is a public speaker at various economic development conferences around the country.

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Kurt is a managing director in the [Transaction Advisory Services](#) practice at Duff & Phelps, based in the New York office, and leads Operations Advisory for the [Corporate Finance](#) practice. Kurt leverages over 17 years of transaction advisory services experience advising industry executives, corporations and private equity firms on company strategy, operations and transactions.

Prior to joining Duff & Phelps, Kurt served as a director with Alvarez & Marsal Private Equity Services, where he led operations diligences identifying EBITDA and working capital opportunities in mid-market companies for private equity clients. Before that, he held the title of strategy and operations consultant with the boutique firm PRT, where he drove enterprise and shop floor transformations. As part of his team's turnaround of a \$4B train manufacturer, he served as the interim program manager of an \$80M railcar refurbishment operation. He restored cash flow by stabilizing material flow, fixing supplier management, and implementing scheduling practices. When his firm merged with PricewaterhouseCoopers, Kurt served as lead director responsible for business development efforts on a major global, multi-service line account. Prior to that, he served as a U.S. Navy submarine officer.

Kurt specializes in operations improvement in the consumer, industrial, and healthcare sectors, specifically promoting performance improvement through effective and efficient strategy and planning, production, and distribution and logistics. Kurt has contributed to articles published in Aviation Week and Space Technology Magazine. He also participated in industry events specific to his client base where, for several years, he was a regular speaker at aerospace and industrial market conferences.

Kurt received an MBA, M.S. and B.S. in mechanical engineering from the Massachusetts Institute of Technology.

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Daniel is an associate managing director with Kroll, a division of Duff & Phelps, where he currently chairs the firm's [Supply Chain Risk Management Services](#). Daniel specializes in assisting clients with their supply chain due diligence needs, especially as it relates to third- and fourth-party risks across the end-to-end supply chain. He also oversees several regulatory due diligence research teams in Kroll's [Compliance Risk and Diligence](#) practice.

Previously, Daniel served in various positions in and out of the U.S. government, where he has advised on Asia-focused national security issues. Most recently, he concluded a two-year assignment at the Pentagon as a special advisor to the Deputy Commandant of the Marine Corps for Programs and Resources, where he provided analytical and research support on budgeting and programmatic decisions related to the U.S. Marine Corps presence in the Western Pacific region. Prior to this, he worked as a research scientist for the U.S.-military affiliated think tank, CNA, where he directed large, complex research projects on national security issues and the defense industrial base on behalf of the U.S. Department of Defense. Daniel also served as the Senior Policy Analyst for Military Affairs at the U.S.-China Economic and Security Review Commission, a Congressional body mandated with investigating the national security implications of the bilateral U.S.-China relationship. Daniel began his career in the U.S. Army, where he supported U.S. military efforts during the various conflicts in the former Yugoslavia. He speaks several foreign languages, and has attended advanced language training for Chinese, German, Russian and Serbo-Croatian.

## RELEVANT EXPERIENCE

- Advised multiple Fortune 500 companies on implementing a risk-based approach to screening various types of third parties.
- Directed the production of hundreds of reports for financial institutions, Fortune 500 companies and law firms investigating risks associated with corruption, fraud, money laundering and political exposure.
- Oversaw research process improvements for report quality, efficiencies and turnaround times.
- Worked with clients to develop advanced technological solutions to improve the efficiencies of their supply chain third party due diligence processes.



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