

MARKET REPORT AND UPDATE ON:

Does relocating production to cost-efficient countries form a suitable option for SME?

A quick spoiler: Yes, it does!

As globalization continues to reshape the business landscape, companies of all sizes are seeking ways to remain competitive and increase profits. Recent challenges such as a lack to find skilled labor, shortages in supply of vital components for manufacturing and the overall tense climate due to global developments e.g. due to wars, economic downturn and a strict green agenda in many parts of the world. For midsize companies, one of the most effective strategies is expanding their workbench to cost-efficient countries, which can include relocating full production or parts of the supply chain to locations such as Malaysia, Vietnam, Indonesia, Mexico, and Guatemala. However, as with any business decision, it is crucial to weigh the pros and cons of such a move.

Major advantages

One of the main advantages of outsourcing to cost-efficient countries is the potential for significant cost savings. For example, Vietnam offers some of the lowest labor costs in the world, making it a particularly attractive option for labor-intensive industries. Companies such as Nike, Adidas, and Apple have all established a significant presence in Vietnam, taking advantage of the country's large and young workforce. The German electronics company Siemens has had a manufacturing presence in Malaysia since the 1970s, and today, the country is one of the company's key production sites. On the other side of the ocean, Mexico and Guatemala have also become attractive destinations for outsourcing. Mexico offers proximity to the United States, a large pool of skilled workers, and a developed infrastructure. Guatemala, on the other hand, offers lower costs, a favorable business climate, and a skilled workforce. Especially the automotive industry, whether it be Volkswagen, Toyota or Tesla and adjacent suppliers have shifted production to this area.

Skilled workforce abroad

In addition to lower costs, outsourcing to skilled yet low labor cost countries can also provide access to a highly skilled and specialized workforce. For instance, Malaysia has become a hub for high-tech industries such as semiconductor manufacturing, thanks in part to the country's investment in education and infrastructure. Intel, for example, has had a manufacturing presence in Malaysia since the 1970s, and today, over 15% of the company's global workforce is based in the country.



This move is not restricted to multinationals. In fact, many midsize companies have done it as well and successfully relocated parts of production to cost-efficient countries. Examples include Uniqlo, a Japanese clothing brand that outsourced production also to Vietnam, and American tech company Intel, which has a large manufacturing facility in Malaysia. By relocating production to these countries, these companies have been able to reduce costs and increase profitability, while still maintaining high-quality standards.

Add flexibility and security to your production

Another benefit of outsourcing to cost-efficient countries is the potential for increased flexibility in the supply chain. By establishing a local presence in these countries, companies can react more quickly to changes in demand and adapt to new market conditions. For instance, in the wake of the COVID-19 pandemic, many companies shifted their supply chains to countries like Vietnam and Indonesia to take advantage of their lower labor costs and proximity to key markets.

Going abroad is also key to tap the potential access to new markets. Countries such as Indonesia and Mexico have large and growing middle classes, with increasing purchasing power. This presents opportunities for companies to expand their customer base and increase sales. According to the World Bank, the per capita GDP in Indonesia was \$4,114 in 2020, while in Mexico it was \$9,044. Furthermore, these countries have seen high economic growth rates in recent years, with Indonesia's GDP growth rate averaging 5.2% from 2016-2019 and Mexico's averaging 2.5%.

The downsides and how to mitigate

However, there are also potential disadvantages to outsourcing. One of the main concerns is the risk of quality issues and intellectual property theft. This is particularly true in countries with weak legal systems and lax intellectual property protections. Cultural and language barriers can also pose a challenge, particularly in countries where English is not widely spoken. In addition, there may be additional costs associated with training, sourcing, logistics, transportation, and communication.

When evaluating potential target markets for outsourcing, midsize companies should consider several factors. Firstly, they should consider the focus industries of the country, and whether they align with their own business goals. For example, Vietnam has a large and growing textiles industry, while Indonesia has a strong manufacturing sector. Secondly, companies should consider the per capita GDP of the country, as this can provide an indication of the potential customer base. Thirdly, they should consider the economic growth rate of the country, as this can provide an indication of the potential for future growth. Finally, they should consider the level of foreign direct investment (FDI) into the country, as this can provide an indication of the level of interest from other companies.



Overall, expanding your workbench to cost-efficient countries can be an effective strategy for midsize companies looking to reduce costs and increase profitability. However, it requires careful evaluation of the potential advantages and disadvantages, as well as consideration of the target market. By doing so, companies can take advantage of the opportunities presented by globalization and achieve sustainable growth.

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