Trends in Supply Chain & Friendshoring

– and what it could mean for Ukraine

Global Supply Chains and Friendshoring: Opportunities for Ukraine?

According to the German Federal Ministry for Economic Cooperation and Development (BMZ), approximately 80% of global trade relies on international supply and value chains. Companies in high-tech industries, aerospace, renewable energy, as well as traditional industrial enterprises, require raw materials from around the world to maintain production and reliably serve their customers.

In recent years, geopolitical tensions, trade conflicts, and military confrontations have increasingly destabilized global supply chains. In light of these challenges, nearshoring and friendshoring are gaining importance and Ukraine could play a key role for the European economy.

This article analyzes current trends in the global supply chain, explains the concept of friendshoring, and outlines the opportunities for German and Ukrainian companies. “We support companies in making their supply chains more resilient and in successfully implementing friendshoring strategies,” explains Nicolai Kiskalt, KPMG Partner and Private Sector Leader of the KPMG Ukraine Gateway, as well as an expert for Central and Eastern Europe.

The Changing World of Supply Chains

Recent crises such as the COVID-19 pandemic, geopolitical conflicts, trade sanctions, and natural disasters have profoundly transformed global supply chains. Companies are facing rising transportation costs, raw material shortages, and higher insurance premiums. These uncertainties are forcing many companies to fundamentally rethink their supply chain strategies.

A key response to these challenges is supplier diversification to reduce dependencies on individual regions and countries. Here, nearshoring and friendshoring are gaining importance, strategies that help companies build resilient and geopolitically stable value chains. In addition to geographic diversification, digitalization plays a crucial role in transforming global supply chains. “Technologies such as artificial intelligence and blockchain create transparency, optimize processes, and make international flows of goods more resilient,” explains Henning Witte, KPMG Partner for Consulting and Technology Transformation.

Nearshoring and Friendshoring

While offshoring - relocating production processes abroad - has been practiced for decades, nearshoring and friendshoring have gained attention in recent years. Both approaches offer companies the opportunity to reduce dependencies, minimize risks, and make their supply chains more resilient.

In nearshoring, a company relocates parts of its production or services to a nearby country, often within the same economic region. Typical nearshoring locations are characterized by low labor costs, an available workforce, efficient transport routes, and stable communication infrastructure. Compared to traditional offshoring, where production is relocated to distant countries such as those in Asia, nearshoring offers the advantages of shorter transport routes, easier collaboration, and often similar legal and regulatory environments. For German companies, Turkey, the Western Balkans, North Africa, and Eastern Europe – particularly Ukraine – represent attractive nearshoring destinations. Ukraine offers competitive production costs, a strong industrial base, well-educated specialists, and close economic cooperation with the EU.

Beyond geographic proximity, political and economic stability of production countries is increasingly important. In international trade, the concept of friendshoring or allyshoring is gaining traction. Companies intentionally relocate their processes to countries considered geopolitical allies, sharing similar values and economic interests. Ukraine is considered a key market for friendshoring: as a strategic partner of Germany and the EU, the country receives financial and diplomatic support – both during the war and for reconstruction.

Additionally, democracy, the rule of law, and close economic integration are essential factors for the stability and attractiveness of the location. Friendshoring is based not only on economic advantages but also on long-term technological cooperation, innovation partnerships, and mutual trust.

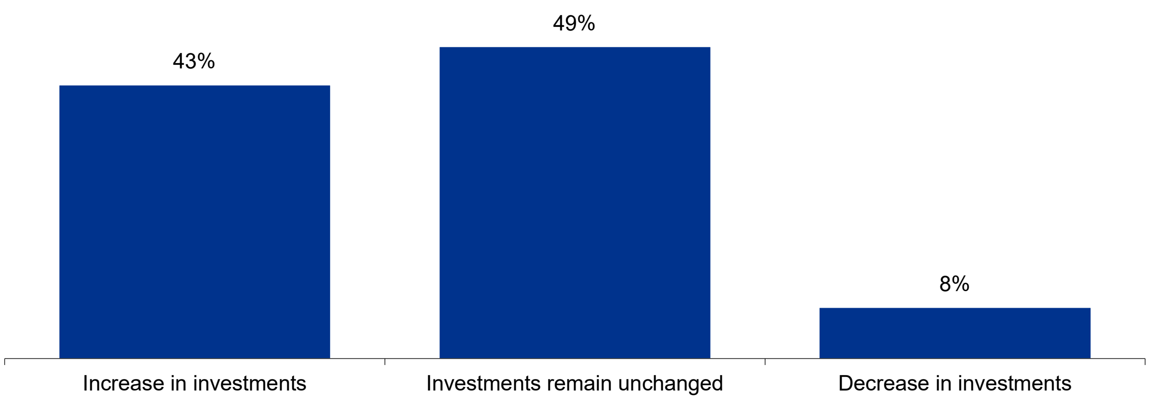
Opportunities and Potential in Eastern Europe

Eastern Europe's geographic proximity to Germany and other EU states offers Central European companies the opportunity to establish stable and resilient supply chains. Our whitepaper highlights the opportunities and challenges of this development. Despite ongoing hostilities, Ukraine demonstrates remarkable economic resilience and could benefit in the long term from the reorganization of global supply chains. As an emerging European market, the country offers potential for companies looking to adapt their supply chain strategies with a focus on security and resilience.

Many German companies maintain production in Ukraine despite the war or are planning new investments. This is confirmed by the current study "German-Ukrainian Economic Outlook 2024," conducted by KPMG in collaboration with the German-Ukrainian Chamber of Industry and Commerce (AHK Ukraine).

"Corporate management has recognized the opportunities the country offers with its natural resources, highly skilled workforce, and strategically advantageous location," explains Nikolai Kiskalt. At the same time, he warns: "There are also risks and challenges that companies must consider when making new investments and developing supply chain strategies. Detailed analyses and professional support are crucial for success."

Investment plans of German companies in Ukraine for 2024/25



Source: KPMG in Deutschland und AHK Ukraine, 2024/25, n=103

Key Factors for Successful Supply Chain Strategies

The successful implementation of new supply chain strategies requires holistic planning and consideration of multiple critical factors:

Transparency: A resilient supply chain must be seamless and traceable. Automated processes and digital workflows should allow every step to be mapped in real time, ensuring better connectivity among all participants across the entire value chain, beyond company and national borders.

Digitalization: Technologies such as blockchain, AI, RPA, and data analytics play a central role in optimizing global supply chains. Digital tracking tools enhance efficiency, reduce errors, and ensure high quality throughout the end-to-end supply chain.

Sustainability: European supply chain legislation imposes high standards on companies. Topics such as CO_2 neutrality, climate protection, human rights, and environmental standards must be consistently integrated into supply chain strategies to meet legal requirements and societal expectations.

Resilience: A resilient supply chain must be agile and clearly structured. Companies need to detect disruptions early and respond quickly to minimize risks. An organizational structure that efficiently stores and provides access to data and critical information while integrating multiple communication channels is crucial.

Flexibility: A successful supply chain strategy relies on short decision-making paths, effective communication, and rapid responses to external influences. Companies must dynamically adapt to changing conditions through new suppliers, alternative transport routes, or innovative production methods.

Conclusion and Recommendations: KPMG Advice for a Future-Proof Supply Chain

An efficient supply chain strategy minimizes risks, ensures stable operations, and provides companies with a decisive competitive advantage. Agility, sustainability, and digitalization are central to succeeding in a volatile market environment. Companies should treat supply chain management as a strategic priority and actively develop it.

In addition to optimizing existing supply chains, friendshoring can help mitigate risks. Relocating production to economically and politically allied countries allows companies to reduce supply shortages, address workforce shortages, and optimize cost structures.

KPMG recommends the following measures for successful implementation:

Risiken aktiv managen und als Chance einer strategischen Neuausrichtung nutzen.

- Actively manage risks and leverage them as opportunities for strategic realignment.
- Uphold due diligence toward employees and business partners.
- Promote decarbonization of the supply chain through sustainable processes.
- Integrate ethics and sustainability throughout the value chain.
- Encourage supplier diversification to reduce dependencies.
- Utilize funding and subsidies strategically to facilitate investments.

Proactive supply chain management not only strengthens corporate resilience but also opens new growth opportunities in future-oriented markets.

How KPMG Supports Companies

KPMG experts have developed whitepapers, programs, and solutions to help companies select appropriate strategies, investments, and measures for future-proof supply chains. Geopolitical aspects, ESG criteria, and legal and regulatory requirements are also considered. The goal is to empower companies to act decisively and to avoid or quickly remedy supply chain disruptions.

KPMG's Supply Chain Transformation Program supports the design of sustainable and future-ready supply chains. Tailored solutions are offered for industries such as automotive, manufacturing, and transportation. Companies can leverage digital transformation to enhance efficiency, reduce risks, and comply with regulatory requirements such as the Supply Chain Act.

Given current geopolitical developments and new legal requirements, stable supply chains and efficient supply chain management are crucial – not only for delivery reliability and reduced operating costs but also for long-term competitiveness. Detailed information can be found in the KPMG whitepaper "The Supply Chain of the Future."

Data-Driven Analysis for Informed Decisions

"To underpin our analyses and recommendations, we rely on robust statistics and data. This provides not only arguments but also a solid basis for decision-making," emphasizes Henning Witte.

KPMG uses recognized statistics from data providers such as Germany's Federal Statistical Office, the Ukrainian State Statistics Service, the World Bank, Eurostat, the international fuel price platform Fuelo, and numerous other reputable sources. Additionally, KPMG maintains an extensive global network of companies and decision-makers. Insights from this worldwide collaboration feed into KPMG's knowledge database, providing extensive findings on the various challenges almost every business faces.

Success Strategies in Practice: How Companies Transform Their Supply Chains

KPMG supports companies worldwide in optimizing and realigning their supply chains – from initial analysis to successful implementation. Successful nearshoring and friendshoring projects demonstrate that strategic adjustments reduce risks and create new growth opportunities.

- A German automotive supplier relocated part of its production to Eastern Europe, reducing transportation times by 30% and costs by 20%, while benefiting from local expertise.
- A mid-sized machinery manufacturer expanded production in Ukraine to access new markets and gain greater independence from Asian suppliers.
- A global logistics provider implemented AI-driven transparency solutions in its supply chain, enabling early detection of bottlenecks and significantly improving response times.

These examples demonstrate that proactive planning, digital technologies, and strategic location decisions can make supply chains more resilient and profitable.

„*We guide German investors through all planning phases and support them with our expertise and strong business networks throughout the process with tailored solutions",*

explains Nicolai Kiskalt.

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