

Global Supply Chains - Networks of Tomorrow

Navigating the future of trade



Research report summary



HSBC

Opening up a world of opportunity

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Overview

Trade remains the bedrock of the global economy – having reached a record USD32 trillion in 2022¹ – despite prevailing recessionary concerns and the risks around deglobalisation. Corporates in Asia and around the world are rightfully following these developments closely and making supply chain decisions to ensure resilience and adaptability in their operations. Cost effective and efficiently managed trade networks are also crucial to achieve commercial success in an uncertain environment. For these reasons organisations are looking to understand how supply chains have changed and what they need to prepare for in the period ahead.

In researching for the ‘Global Supply Chains – Networks of Tomorrow’ report, HSBC teamed up with East and Partners to understand global supply chains and the future of supply chain financing and sustainability. HSBC has based this report on primary research conducted by East and Partners between August and October 2022, directly interviewing senior management from 787 corporations across 14 markets in Asia Pacific, Europe, North America, Latin America, and the Middle East, to gather direct feedback about how they are managing their supply chains and interacting with their suppliers.

Markets

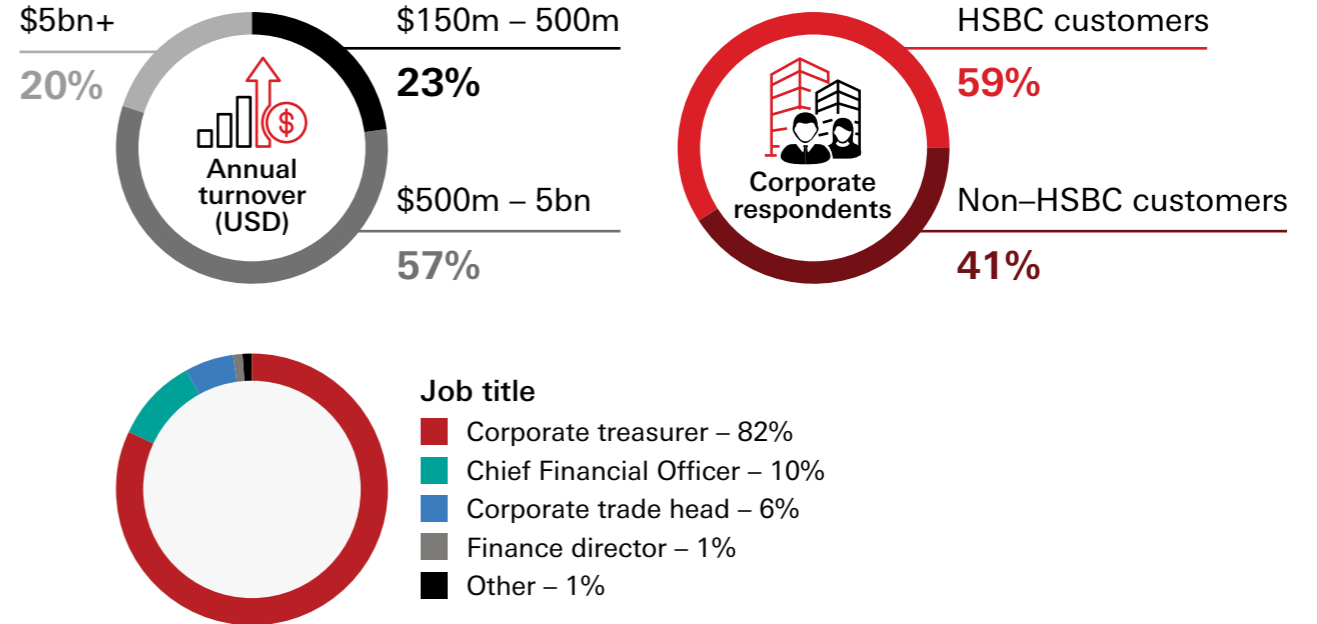
Respondents based in Asia Pacific

Market	# of respondents
Mainland China	68
Singapore	68
Hong Kong SAR	67
Malaysia	67
India	66
Japan	30
Indonesia	29
South Korea	29
Australia	26

Respondents based outside of Asia Pacific

Market	# of respondents
United Kingdom	69
United Arab Emirates	68
United States of America	68
Germany	66
Mexico	66

Who we spoke to



¹ <https://unctad.org/news/global-trade-set-hit-record-32-trillion-2022-outlook-increasingly-gloomy-2023>

From August to October 2022, we commissioned East and Partners to directly interview senior management from 787 corporations across 14 markets to find out how they are managing their supply chains. Respondents could select multiple answers for some questions.

Key takeaways

Global trends



- Organisations are realigning their supply networks closer to their headquarters
- **83%** of financial decision makers have held excess inventory over the past two years, due to logistical challenges
- The average increase in inventory holdings above normal levels is **39%**
- **67%** of organisations in Asia Pacific are planning to reduce their supply chain partners, **7pp** higher than those outside of Asia Pacific

Sustainability



- **40%** of all organisations have implemented environmental policies across their supply chains, while **32%** have put in place health and wellbeing policies
- Organisations in Asia Pacific are lagging in adopting metrics to track sustainability transition progress, **48%** have no metrics in place compared to **39%** for organisations outside of Asia Pacific
- The most common time to ensure sustainability compliance is during supplier onboarding
- The top focus areas for sustainable supply chain investment are energy efficiency and environment friendly plants and machinery

Trade finance and risk management



- **50%** of organisations view payment and financing terms as a major factor when reviewing existing suppliers
- The use of inventory financing and receivables financing among organisations in Asia Pacific both saw a **7pp** increase since 2020
- Currency risk, inflation risk and cash flow risks are the three largest supply chain concerns for organisations globally
- Organisations are using risk management solutions such as forwards and interest rate swaps to mitigate FX and interest rate risk

Payments, currency and digitisation



- The average "invoice to payment" period is **56 days**
- **96%** of organisations aim to keep their existing payment terms with their suppliers the same in the coming 12-24 months
- **83%** of organisations are paying their suppliers in USD, but nearly **80%** are settling in their supplier's local currency
- Visualising transactions and accessing and optimising working capital are the top two digital supply chain priorities

Shifting supply chain strategies

What has been influencing corporate supply chain strategies over the last year?



Organisations are expanding to new markets but also realigning their supply networks closer to their headquarters

Organisations outside of Asia Pacific are seeing higher degrees of change from expanding to new markets compared to those in Asia Pacific, while corporates based in Asia Pacific are looking to move their supply chains closer to home

Top three macro factors driving change in supply chains

► These factors were consistent across regions

(1 indicates the highest degree of change and 5 indicates the lowest)

Counter party risk



1.41

Expanding to new markets/trade corridors



1.57

Regulations and border restrictions

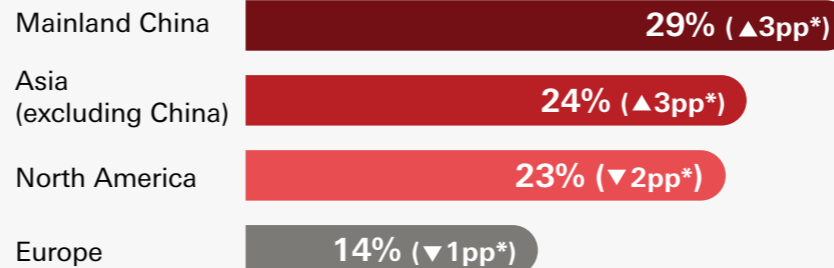


1.58



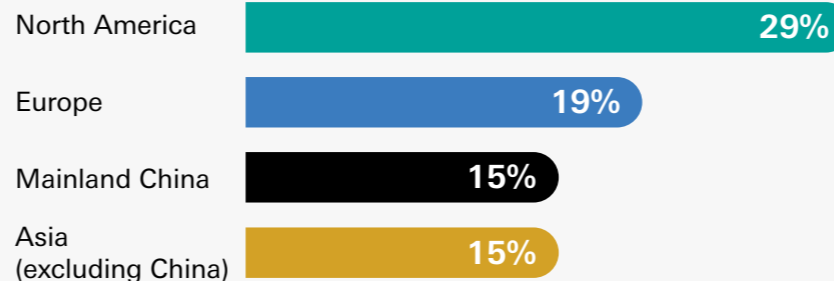
Top supplier locations by region

► Respondents based in Asia Pacific



*vs 2020

► Respondents based outside of Asia Pacific

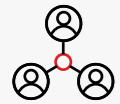


Corporates are planning for uncertainty. Equally, they're trying to find the balance between stocking up for just-in-case and carrying additional inventory costs."

Vivek Ramachandran
Head of Global Trade and Receivables Finance, HSBC

Organisations are continuing to rationalise their number of supply chain partners

A majority of organisations are reducing their number of supply chain partners, especially among organisations in Asia Pacific which are continuing a multi-year trend. However, outside of Asia Pacific there is a stronger drive to increase the number of supply chain partners.



Regional changes in supply chain partners

Respondents based outside of Asia Pacific are more inclined to increase supply chain partners in the next 12-24 months, than their counterparts in Asia Pacific.

Respondents based in Asia Pacific ◀

(▲ 20pp vs 2020)

67%

Reducing number of supply chain partners

(▼ 7pp vs 2020)

27%

Increasing number of supply chain partners

6% (▼ 13pp vs 2020)

Keeping the same number of supply chain partners

▶ Respondents based outside of Asia Pacific

60%

36%

4%



How HSBC customers within the Asia Pacific compare

HSBC customers in Asia Pacific are slightly more inclined to increase their supply chain partner count and less inclined to reduce them compared to the average for the region.

HSBC customers in Asia Pacific ◀

65%

Reducing number of supply chain partner

31%

Increasing number of supply chain partners

4%

Keeping the same number of supply chain partners

▶ Respondents based in Asia Pacific

67%

27%

7%



Reliability of supply has been a big problem over the past two years; a review of our supplier network has resulted in a 40% reduction in the number of partners we now regularly buy from, but resilience has improved.”

**Chief Financial Officer,
Indian Consumer Manufacturer**



Corporates are thinking about their supply chains as holistic ecosystems and collaborating with their suppliers to structure the most optimal financing solutions across the entire supply chain. They are cultivating deeper strategic relationships with a smaller set of suppliers as they reconfigure their supply chains and amplify their sustainability objectives.”

**Vinay Mendonca
Chief Growth Officer, Global Trade and Receivables Finance, HSBC**

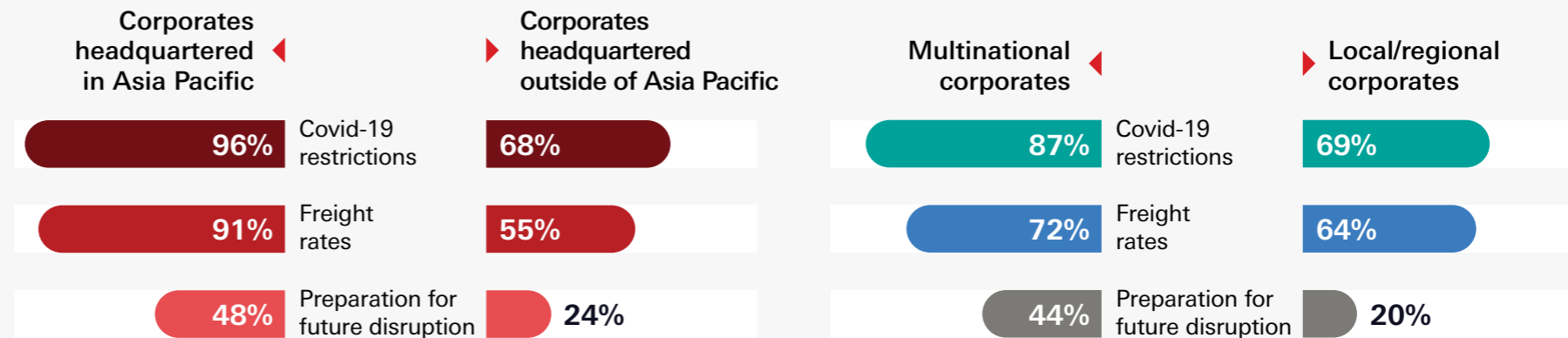
Logistical challenges have caused organisations to hold more inventory

Over the past two years, holding excess inventory has been a consistent trend among the majority of corporates as they navigate the lingering impact of Covid-19 and volatile freight rates, among other disruptions. Corporates outside of Asia Pacific are reporting that they feel less of an impact.

Inventory management



Why corporates have been holding excess inventory



Average excess inventory held by different types of corporates

Traditional retailers and multinational corporates have comparatively higher average holdings



Our board has insisted we continue to build up inventory onshore “whatever the cost”. We found the whole Covid period to be a near death experience as we’re going down the just-in-time inventory route; we’re a business that if we don’t have product available on demand, we don’t have a business.”

Treasurer
Singapore Wholesale Distributor

Navigating new market conditions

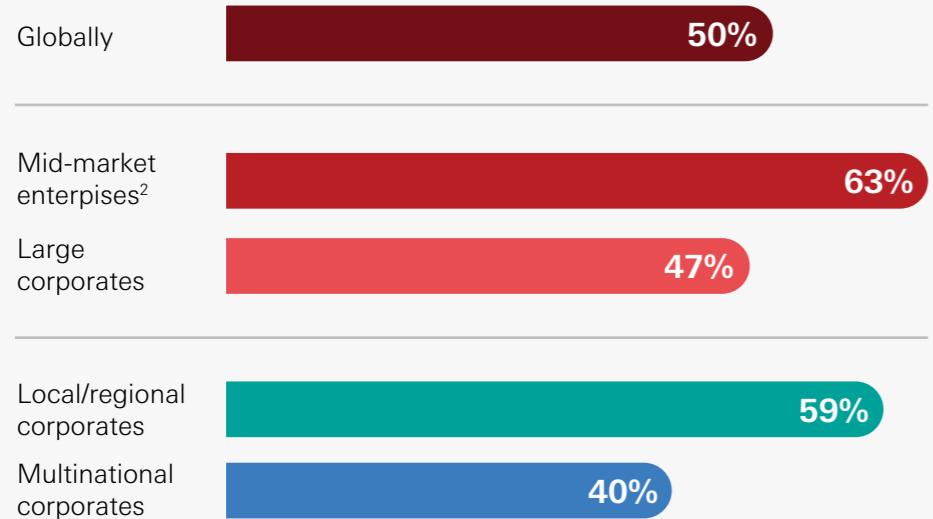
How are financial decision makers financing trade, managing risk and streamlining payments across their supply chains?



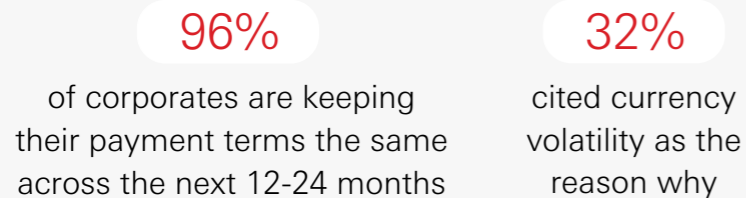
Supplier payment terms are being considered carefully

The importance of payment and financing terms is central to buyer and supplier relationships, particularly among local and regional corporates. Organisations outside of Asia Pacific generally pay their suppliers faster than those in Asia Pacific.

Corporates citing payment and financing terms as a priority when reviewing suppliers



Payment terms remain stable due to high currency volatility



Average number of supplier 'invoice to payment' days varies by region and business size



Managing cash flow and seamlessly making payments globally is key to successful treasury operations. No matter what the length of supplier payment terms is, there is often an opportunity to maximise working capital between the buyer and supplier."

Manish Kohli
Head of Global Payments Solutions, HSBC

²Mid-market enterprises includes corporates with USD150m – 500m annual turnover. Large corporates includes corporates with USD500m+ annual turnover.

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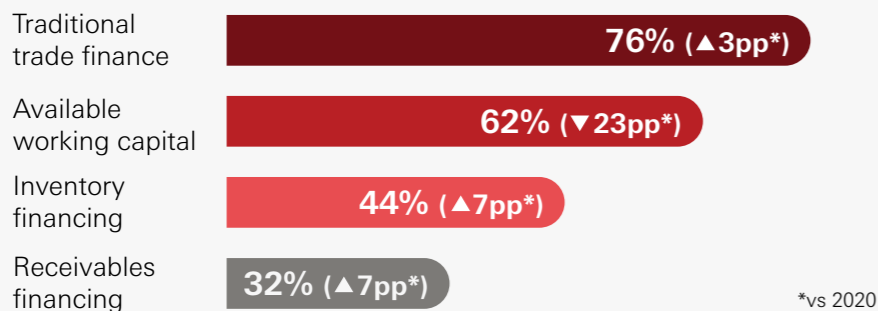
Organisations are funding their supply chains in a variety of ways to drive expansion

While traditional trade finance³ and available working capital⁴ remain the most popular methods for organisations to fund their supply chains, inventory finance and receivables finance are being used on an increasing basis

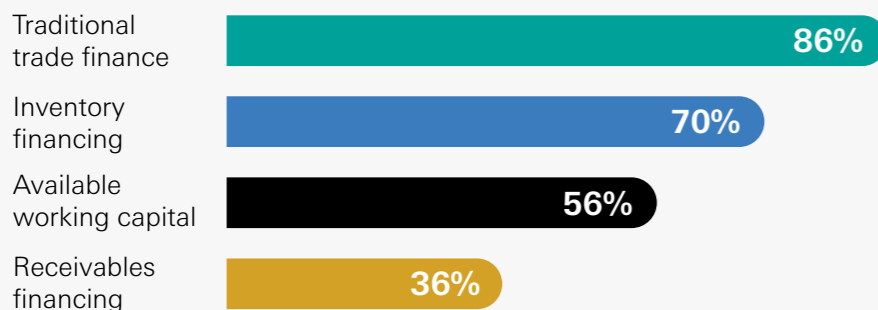


Preferred supply chain funding methods

▶ Respondents based in Asia Pacific

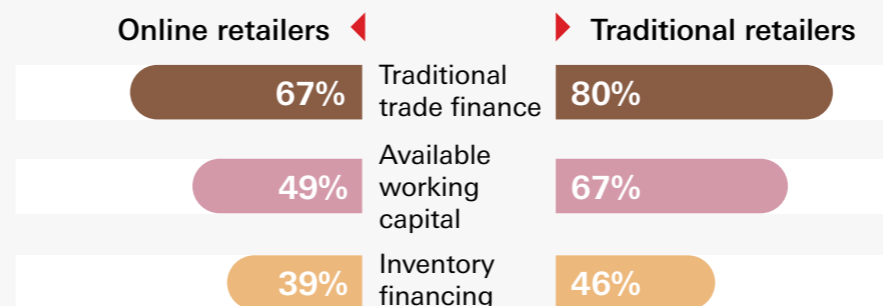


▶ Respondents based outside of Asia Pacific

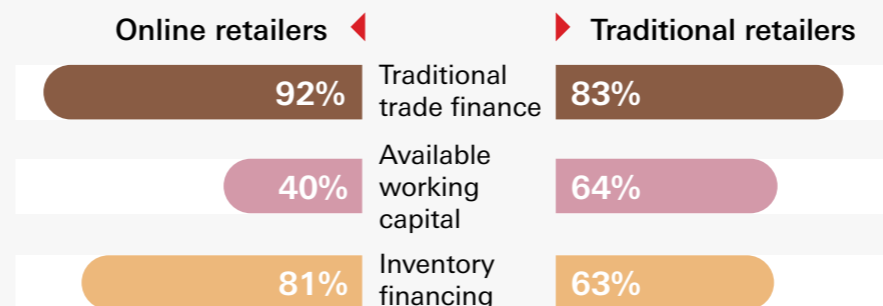


Online retailers prioritise different supply chain funding methods

▶ Respondents based in Asia Pacific



▶ Respondents based outside of Asia Pacific



Our procurement teams have been building up buffer inventory onshore, the cost of which is really starting to bite. We don't use inventory financing so it's being funded with working capital."

Treasurer, Japanese Manufacturing Group



Inflation has increased the amount of funding customers require. We have seen a huge spike in customer demand for working capital solutions, whether it's supply chain finance or receivables finance."

Ajay Sharma
Head of Global Trade and Receivables Finance, Asia Pacific, HSBC

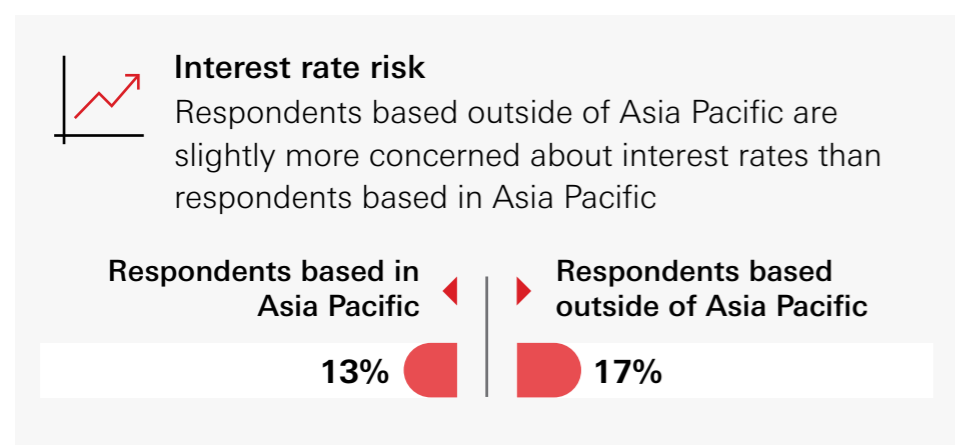
³Traditional trade finance includes documentary credit/collections, open account and trade loans

⁴Available working capital includes the organisation's own cash, marketable securities and optimisation of receivables/payables terms

From August to October 2022, we commissioned East and Partners to directly interview senior management from 787 corporations across 14 markets to find out how they are managing their supply chains. Respondents could select multiple answers for some questions.

Currency risk and inflation risk are top supply chain concerns

Organisations are managing a variety of risks and taking steps to realign their trade networks as a result



“We’ve realigned a lot of our procurement to more onshore sourcing as a way of stabilising delivery times and reducing some of our foreign currency risk management.”

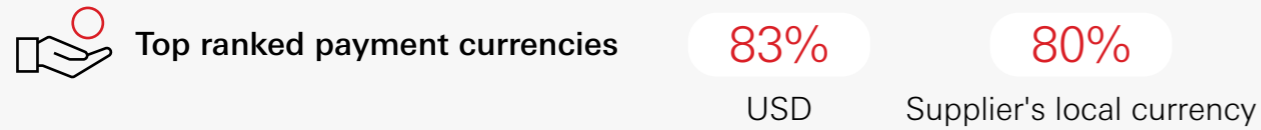
Treasurer, China Light Manufacturer

“A stronger or weaker currency can add financial stress to one or both parties involved in an international transaction, particularly when such FX moves are concurrent with other factors like rising interest rates and inflation.”

Holger Zeuner
Head of Thought Leadership EMEA, Corporate Sales, HSBC

Organisations are still settling in USD, but many are open to using other currencies

While USD is still the preferred payment currency, a large number of organisations are also willing to settle using their supplier's local currency



Top markets where buyers are willing to pay suppliers in their local currency



Payment trends across business types

Large corporates⁵ are more willing to pay using their supplier's local currency



"We're working across over thirty different currencies and the combination of cross rate volatility and delays in shipping / payments is causing a lot of cost grief for us."

Corporate Treasurer, China Online Marketplace



Cross-border transactions always involve FX risk, but corporate risk managers need to assess in contract negotiations whether they or their commercial partner (supplier or client) is better equipped to manage such risk. HSBC has the expertise and long experience in cross-border business to help clients identify, quantify and mitigate such risk."

Holger Zeuner

Head of Thought Leadership EMEA, Corporate Sales, HSBC

⁵Mid-market enterprises includes corporates with USD150m – 500m annual turnover. Large corporates includes corporates with USD500m+ annual turnover.

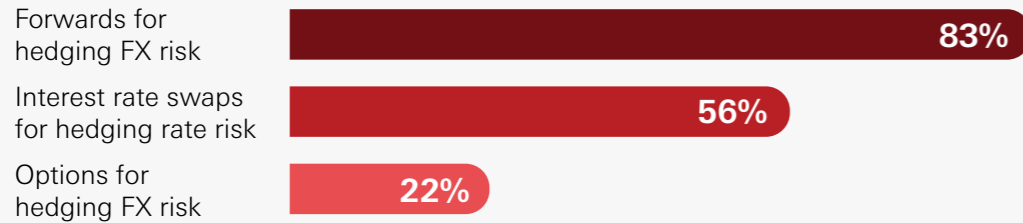
From August to October 2022, we commissioned East and Partners to directly interview senior management from 787 corporations across 14 markets to find out how they are managing their supply chains. Respondents could select multiple answers for some questions.

Organisations are using a range of solutions to hedge against financial risk

Organisations are prioritising the use of forwards and interest rate swaps for hedging against FX risk and interest rate risk respectively

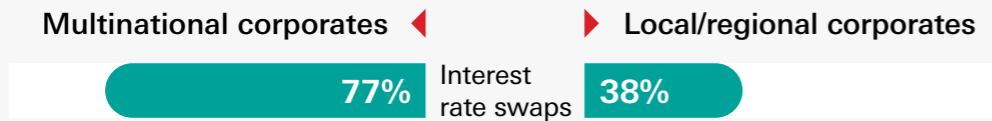


Most cited financial risk management solutions to be used in the next 12-24 months

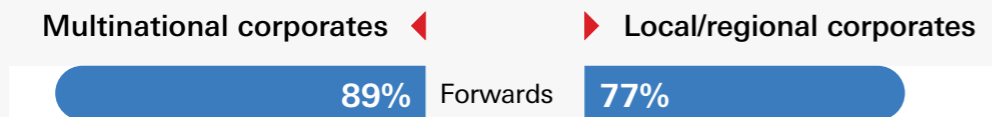


Different priorities across business types

Multinational corporates are leading local/regional corporates in using interest rate swaps to hedge interest rate risk



A similar pattern can be seen when it comes to the use of forwards to hedge FX risk



Our FX hedging is becoming very difficult as our physical supply chain is still trying to normalise and simplify things like matching delivery/receipt times to our FX exposure tenors has become almost impossible."

Treasurer, German Light Manufacturer



Companies with flexible risk management policies are more quickly able to react to some of the big changes we've seen in global currency markets, using a range of FX tools for risk mitigation."

Holger Zeuner

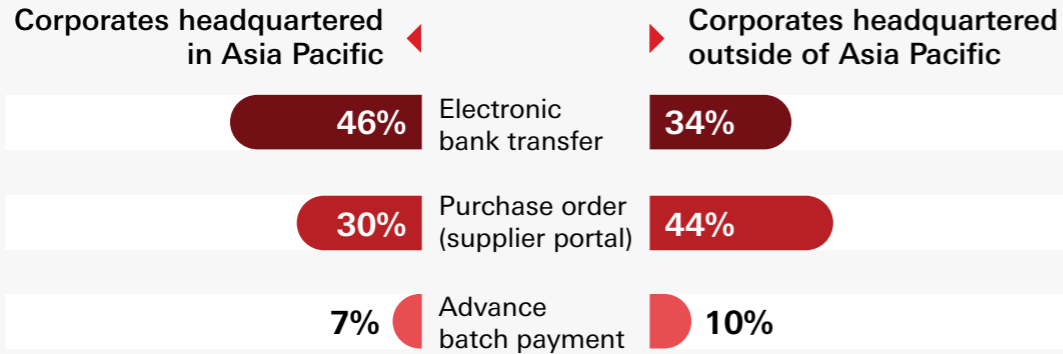
Head of Thought Leadership EMEA, Corporate Sales, HSBC

Organisations are paying their suppliers through a combination of digital and traditional channels

A variety of methods are being used to pay suppliers with third-party platforms seeing increased usage

Preferred payment methods by region

Purchase orders and electronic bank transfers remain the primary methods



Paying with third-party platforms

Globally, online retailers are using third-party payment platforms like GTC, SWIFT and SAP to pay their suppliers compared to traditional organisations

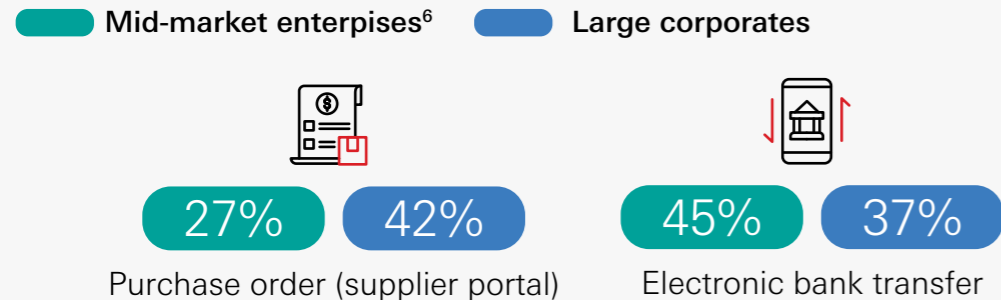


Mid-market enterprises have a slight preference for these platforms compared to large corporates



Payment preferences based on corporate size

Large corporates prefer to use purchase orders compared to mid-market enterprises, who prefer electronic bank transfers



⁶Mid-market enterprises includes corporates with USD150m – 500m annual turnover. Large corporates includes corporates with USD500m+ annual turnover.

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Ensuring supply chain resilience

How are the foundations for a more digital and sustainable supply chain being developed?



Digital banking solutions are used by organisations to better visualise their supply chain transactions

Organisations are prioritising better visualisation of transactions along their supply chains, as well as improving access to banking solutions and managing their working capital

Top 5 digital supply chain priorities globally



46%

Better visualise transactions / supply chain



42%

Access and optimise working capital



39%

Seamlessly connect with banking solutions through online platforms



34%

Implement enhanced cybersecurity protection



39%

Understand their markets / industry



Accessing and optimising working capital

Respondents based in Asia Pacific are prioritising this more than those based outside of Asia Pacific

Respondents based in Asia Pacific

45%

Respondents based outside of Asia Pacific

38%



Cybersecurity

This is a greater priority among corporates headquartered in Asia Pacific

Corporates headquartered in Asia Pacific

37%

Corporates headquartered outside of Asia Pacific

33%



The better we can see the status of transactions across our supply chain, ideally real time, the better we can manage things. Out trade bank's portal gets part of the way there, but we need a dashboard across all outstanding transactions."

**Group Treasurer,
Singapore Logistics Group**

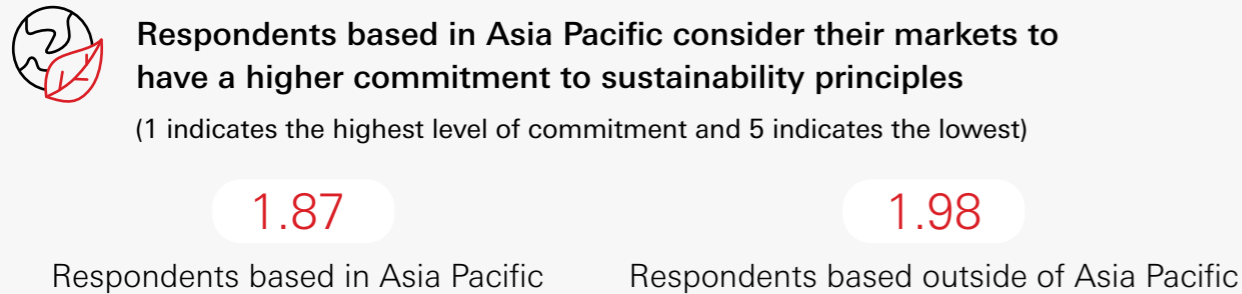
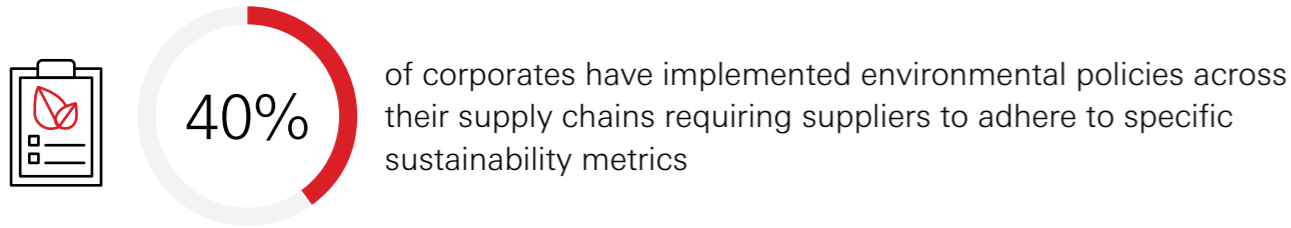


At the moment we can only track and trace transaction by transaction and have no analytics across all of them. Knowing things like average days to delivery by region of source would be incredibly helpful."

**Treasurer,
Hong Kong SAR Importer/Distributor**

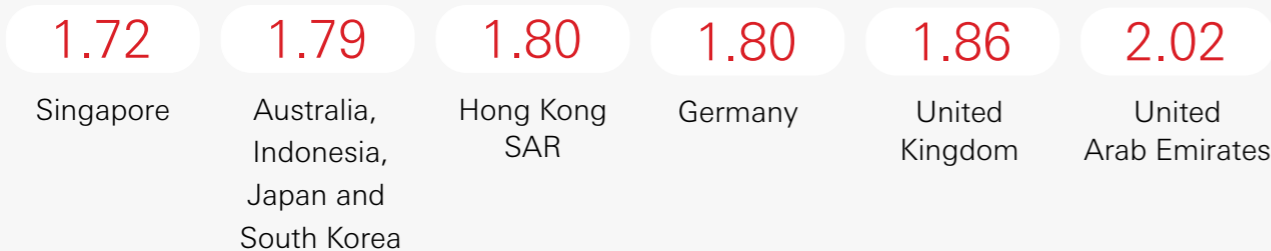
Sustainability commitment levels differs across regions and markets

Organisations outside of Asia Pacific are leading in the adoption of environmental policies, while those in Asia Pacific are more focused on health and wellbeing policies



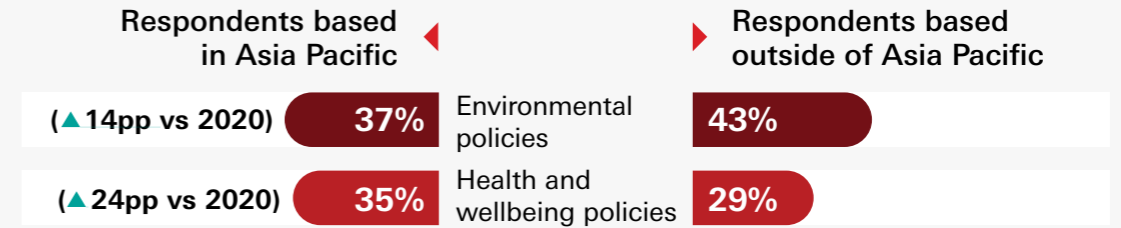
How markets see their commitment to sustainability principles

(1 indicates the highest level of commitment and 5 indicates the lowest)

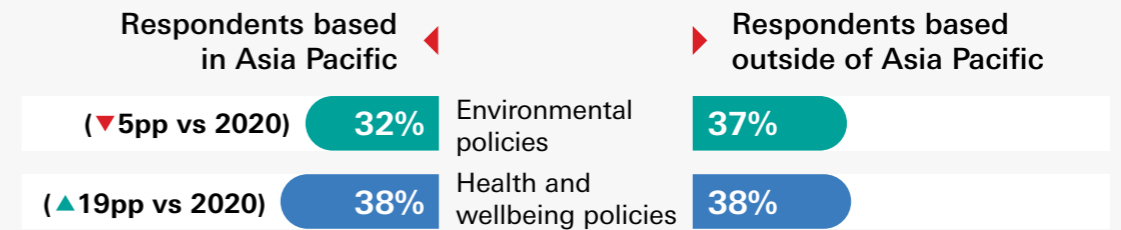


Policy implementation across regions

▶ Already implemented:

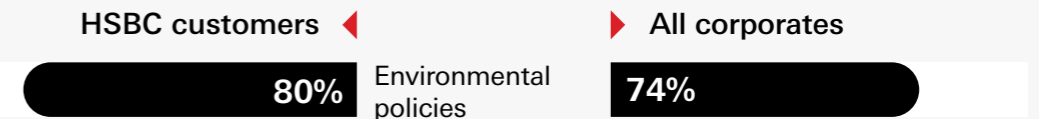


▶ Plan to implement within two years:



How HSBC customers compare

HSBC customers are slightly ahead of the global average in environmental policy implementation

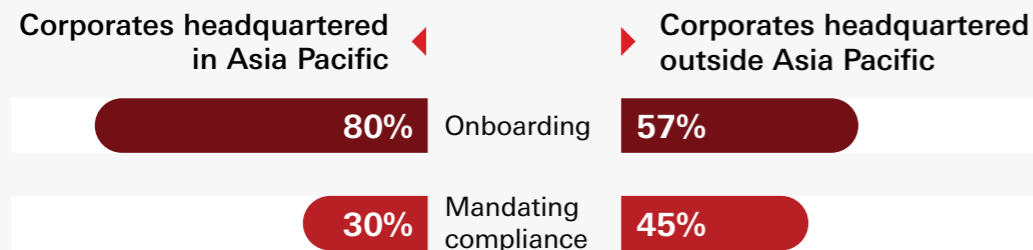


Sustainability is becoming essential to supplier relationships

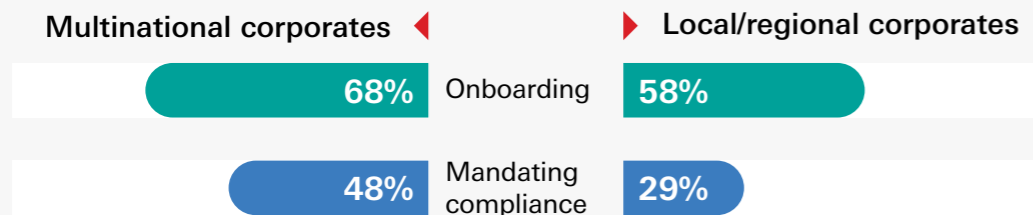
Organisations are still in the process of adopting metrics to track their sustainability transitions, using various ways to encourage sustainable practices among their suppliers. The most common supplier metrics used are regulatory compliance, competitor benchmarking and sustainability ratings.

Differences in approach to encouraging sustainability among suppliers

More corporates headquartered in Asia Pacific are requiring suppliers to align with their sustainability policies during onboarding, while those headquartered outside of Asia Pacific are showing a preference for mandating compliance before transacting

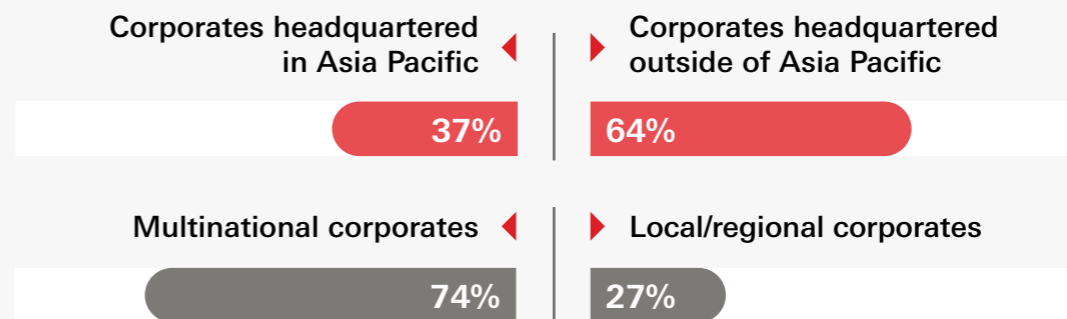


Multinational corporates have a strong preference for using onboarding to align suppliers to sustainability requirements, while local/regional corporates prefer to mandate compliance before transacting



Corporates with metrics in place to measure sustainability projects

Multinationals and corporates headquartered outside of Asia Pacific are the most likely to have sustainability metrics in place across their supply chains



Many clients understand the importance of sustainability, but face challenges in getting started. Our international network allows us to connect them to clients who are further down the sustainability journey, thus we support with not only the financing but also the networking."

Aditya Gahlaut

Co-head of Global Trade and Receivables Finance, Asia Pacific, HSBC

Organisations are investing in sustainable supply chains

Investments in supply chain sustainability are rising with many organisations either already investing or planning to do so within the next two years



Sustainable investments are seeing increased interest globally

47% are currently investing in supply chain sustainability

37% are planning to do so in the next 12-24 months

Corporates are investing in several key sustainability areas

Currently investing

38%

Energy efficiency

35%

Environment friendly plants and machinery

15%

Sustainable buildings

Planning to invest

34%

28%

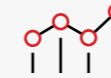
10%

Top sustainable supply chain areas banks can support with



75%

Carbon credit trading advice



72%

Industry best practices/ benchmarking performance against competitors



70%

Sustainable finance solutions



56%

Tracking and traceability



41%

Green/energy efficient equipment



We're working with many of the world's leading companies to embed sustainability objectives in their supply chain financing."

Vivek Ramachandran
Head of Global Trade and Receivables Finance, HSBC

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