

Moving Home?

Uncovering the trends in sourcing



ASIA PERSPECTIVE

Presenting today



JOHAN ANNELL

PARTNER

Johan Annell is Partner and manages the Beijing branch at Asia Perspective – a European Boutique Management Consultancy

He is fluent in Mandarin and has an M.Sc. in Industrial Engineering & Management from Chalmers University of Technology and a M.Sc. in Financial Economics from Gothenburg University.





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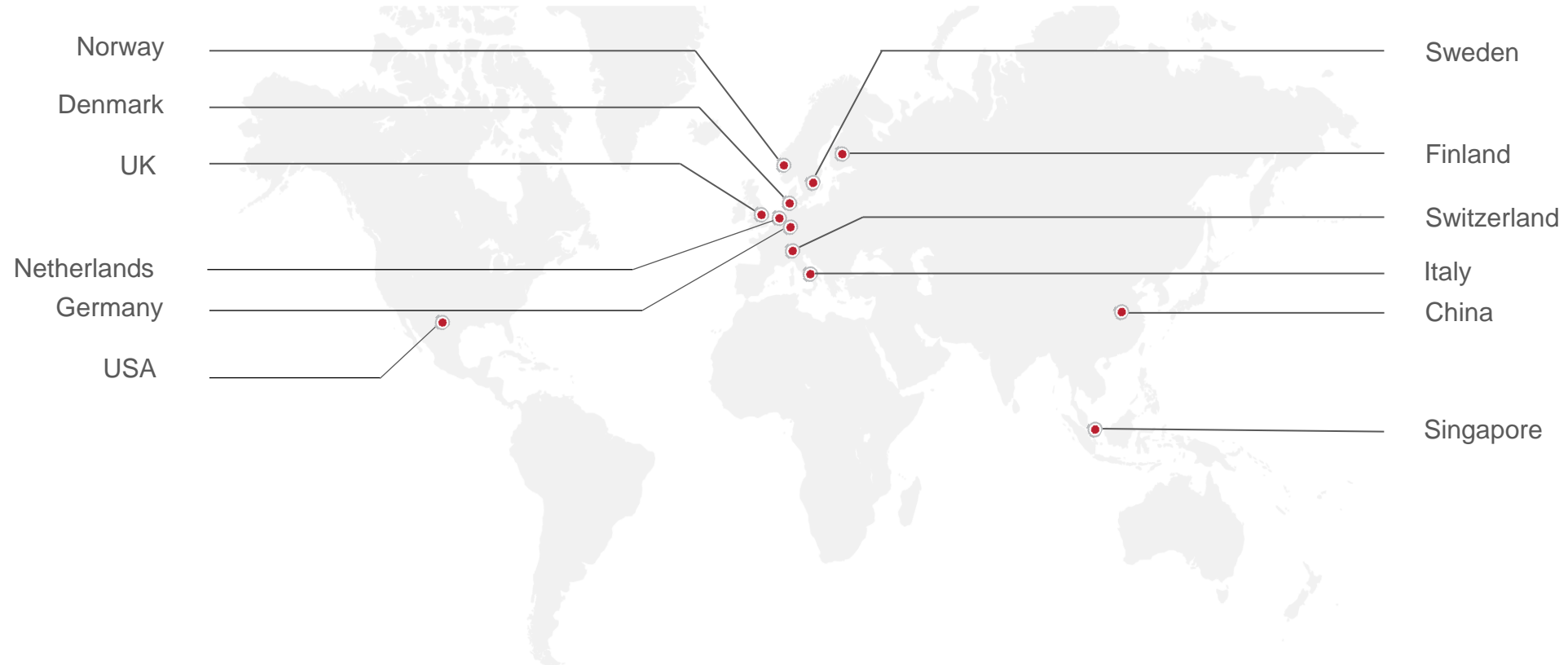
INTRODUCTION & METHODOLOGY



The respondents are in executive positions from all over the world

Survey participants by country

Asia Perspective has conducted sourcing surveys regularly since 2013, aiming to measure the perception of China as a sourcing market, and how this perception is changing over time. The research is based on a survey sent to **executives and purchasing managers around the world**, with the majority of respondents being headquartered in **Europe and Asia**.

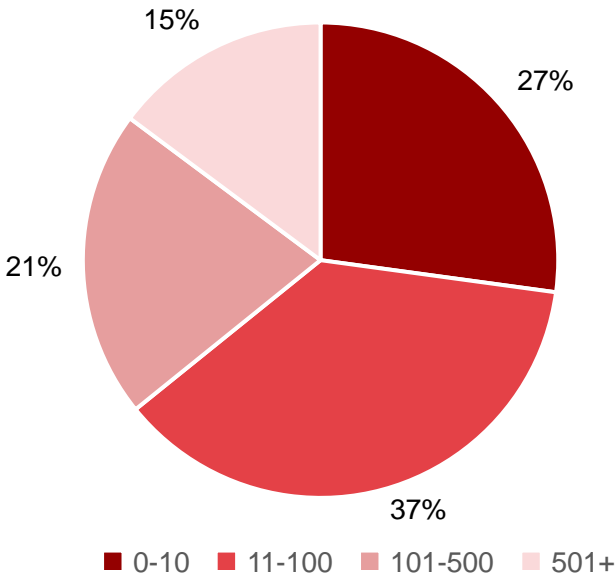


Survey respondents come from a diverse array of industries and companies

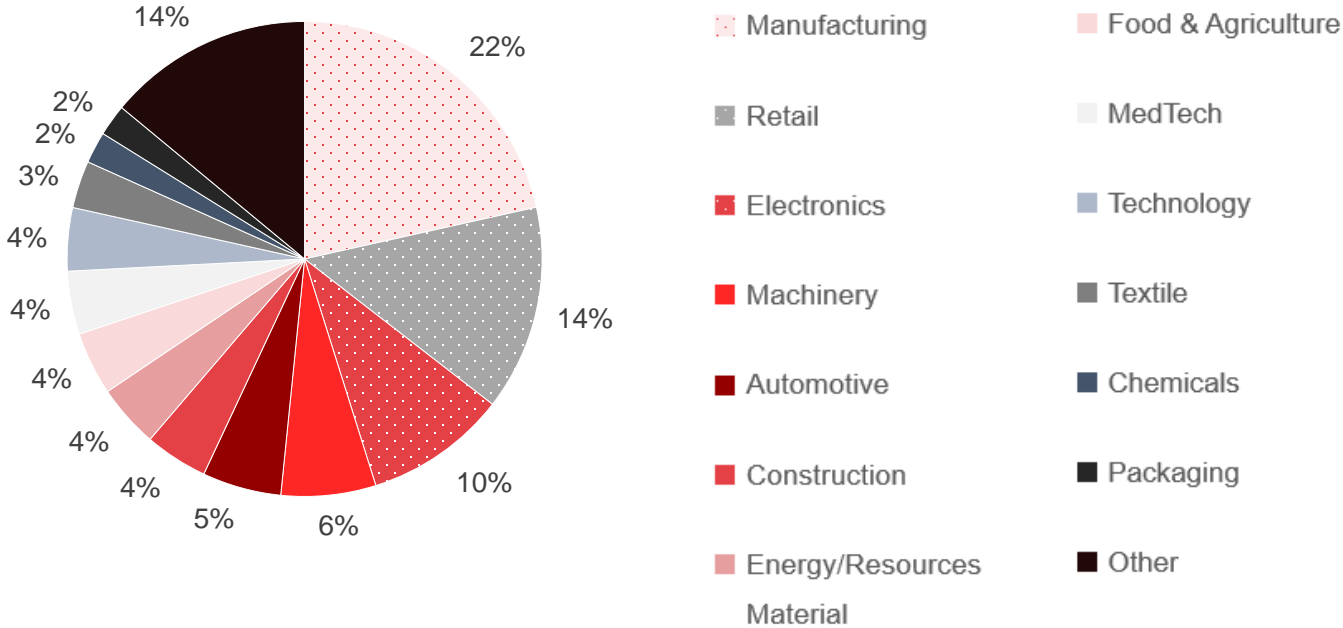
Survey participants by industry and purchasing amount in 2021

Over **36%** of the survey respondents have a purchasing value of over **100 million EUR per year**.

Survey participants by purchasing amount (million EUR)



Survey participants by industry



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SOURCING MARKETS OVERVIEW

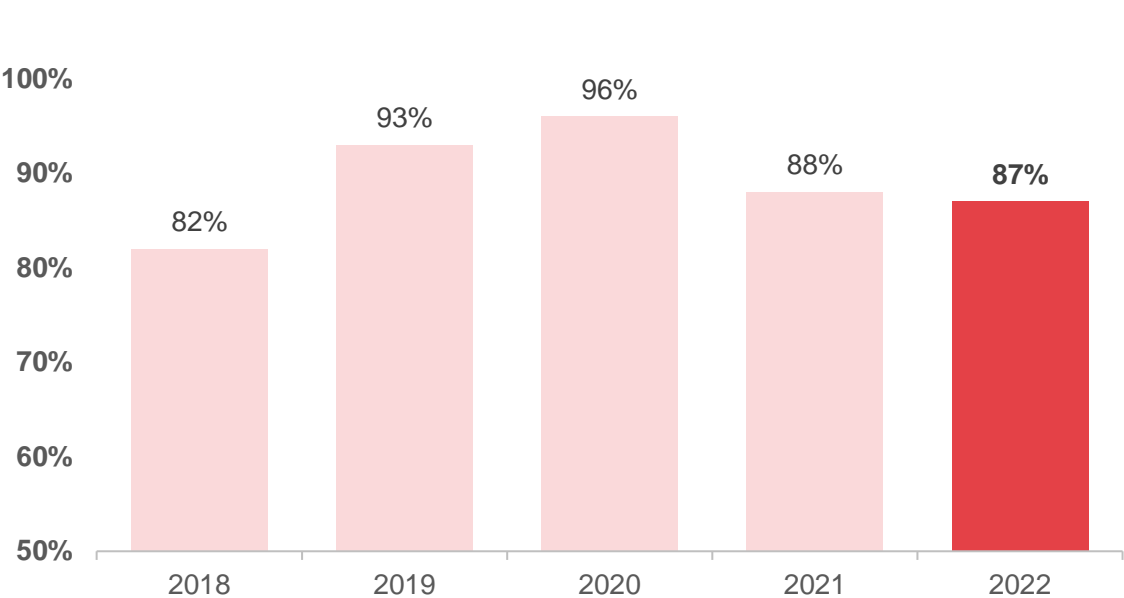


Companies share of spend in China is decreasing

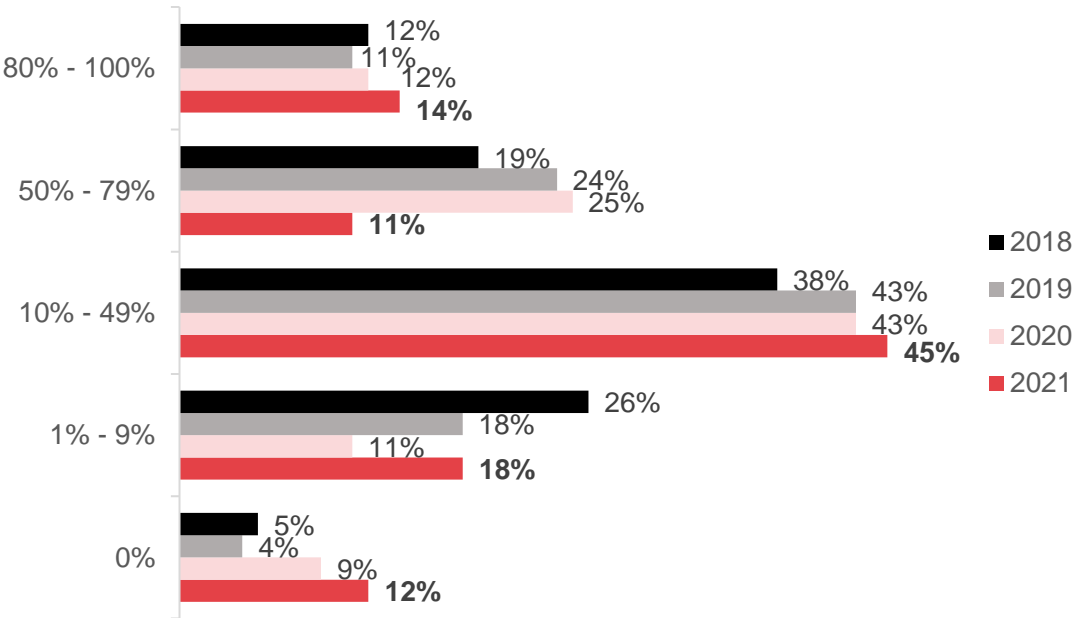
Current sourcing in China and share of purchasing spend in China

- This year's survey present similar trends as previous years. **China continues to be a key manufacturing hub** for the survey respondents with 87% of respondents currently sourcing in the country.
- The number of businesses that spend more **than 50% of their global purchasing spend on China has decreased** compared to the year before. At the same time, the share of respondents who source less than 10% has increased. Although a small change, the data indicates that companies are **taking moderate steps reducing their dependence on China**.

Share of respondents who source in China



Estimated share of companies purchase spend in China compared to global purchasing spend in 2021



Most companies already source significant share in Europe

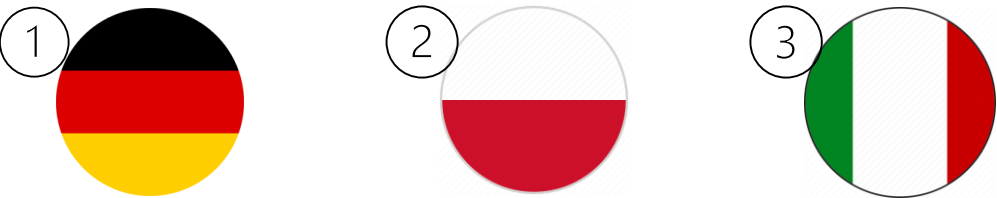
Current sourcing in Europe, share of purchasing spend, and sourcing location in the region

- As most companies are headquartered in Europe, **the majority of companies also source in the region** and most have sourcing activity in **Germany**.
- The companies' purchasing spend in Europe follow a **similar share distribution as China**. Most spend between **10% - 49% of their global purchasing value in Europe**. Notable difference is that a higher share spend between 50%-79% in Europe, a possible indication that companies' **European sourcing is growing in importance**.

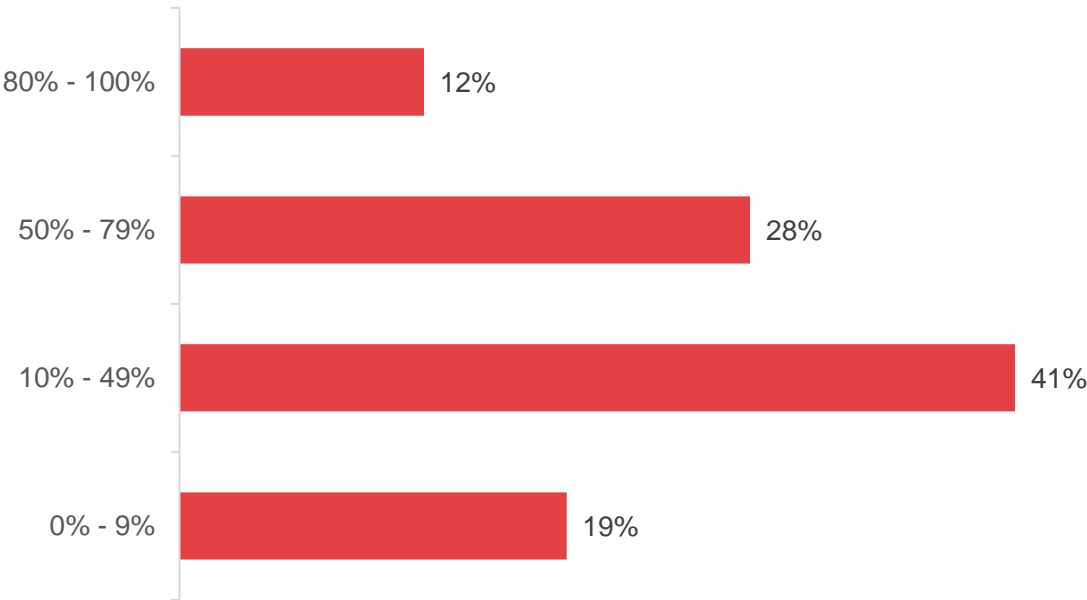
Share of respondents who source in Europe



Survey respondents listing top 3 countries they source



Estimated share of companies purchase spend in Europe compared to global purchasing spend in 2021



Sourcing in Southeast Asia accounts for a much lower share of purchasing spend, and many companies have not yet started

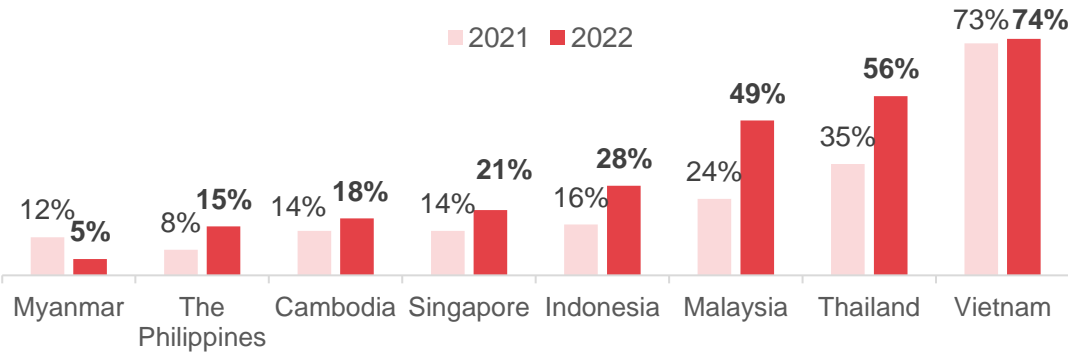
Current sourcing in Southeast Asia, share of purchasing spend, and sourcing location in the region

- A large number of companies are sourcing in Southeast Asia. However, the share of respondents who source in the region is **much lower compared to Europe and China**. As most companies are only recently looking at alternative sourcing locations, countries in the region have previously not been a primary sourcing destination.

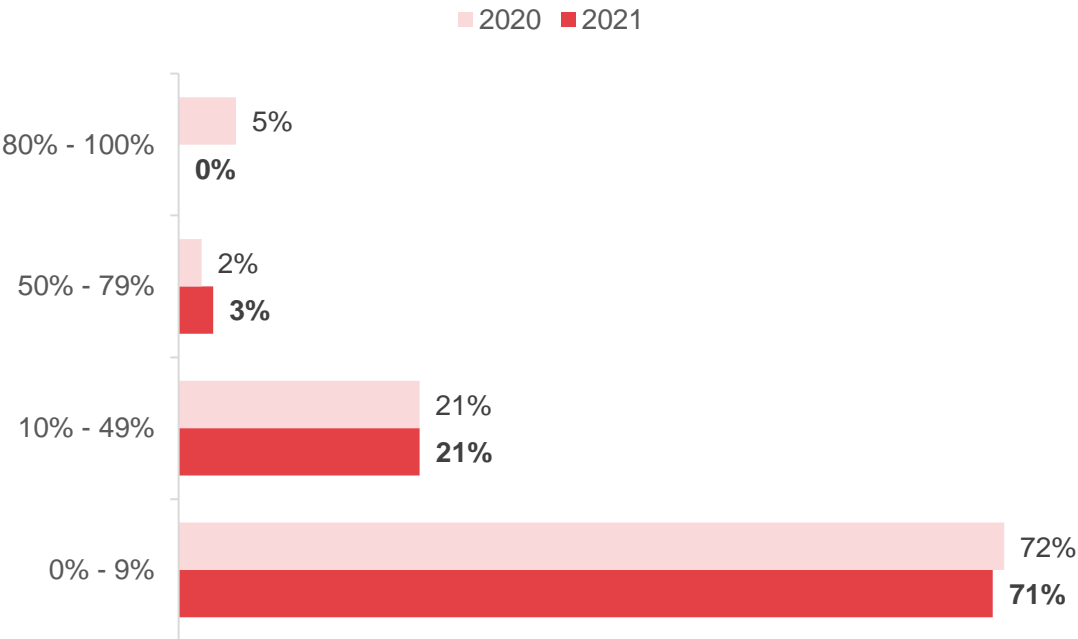
Share of respondents who source in Southeast Asia



Survey respondents listing in which country they source



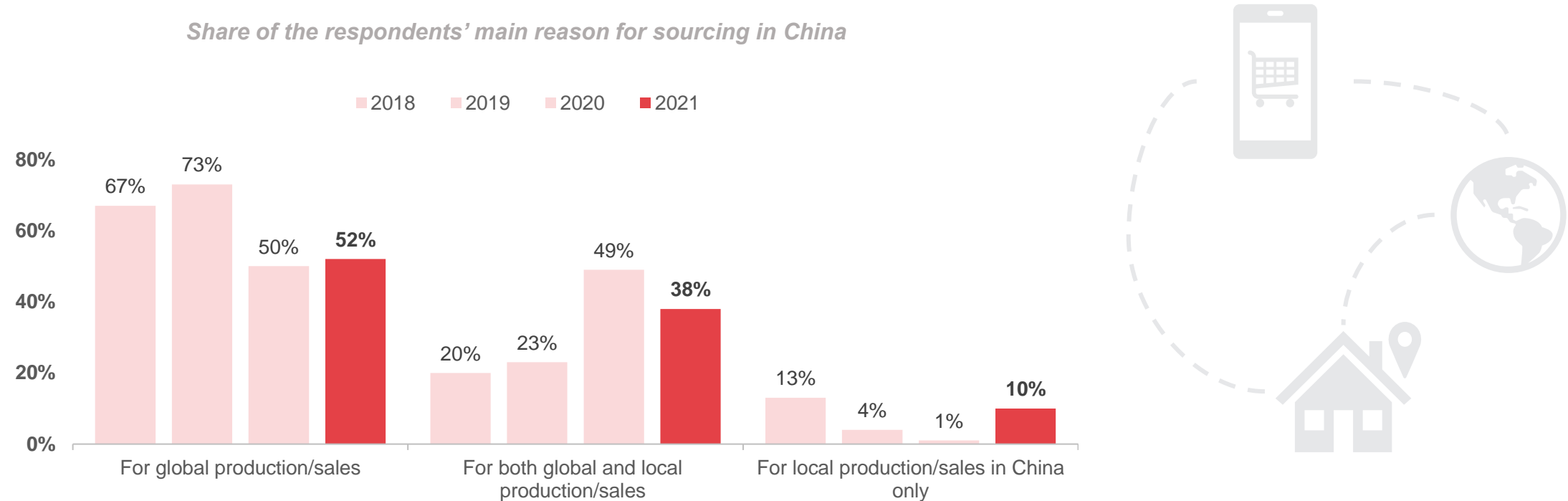
Estimated share of companies purchase spend in Southeast Asia compared to global purchasing spend in 2021



Sourcing in China is still mainly to serve global production, but local market increases in importance

Reason for sourcing in China – to serve local demand or for global supply

- Most survey respondents recognize that **China is mainly a market for their global supply**. At the same time, respondents stating that their sourcing in China is solely to serve local production and sales increased notably compared to 2020.

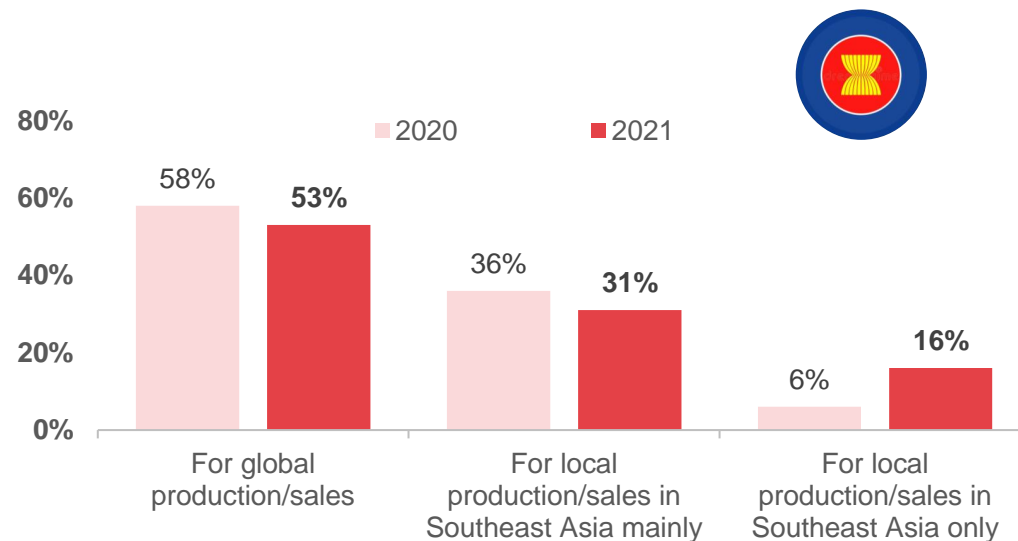


Southeast Asia often supplies mainly global production system, while Europe sourcing is usually for European and global demand

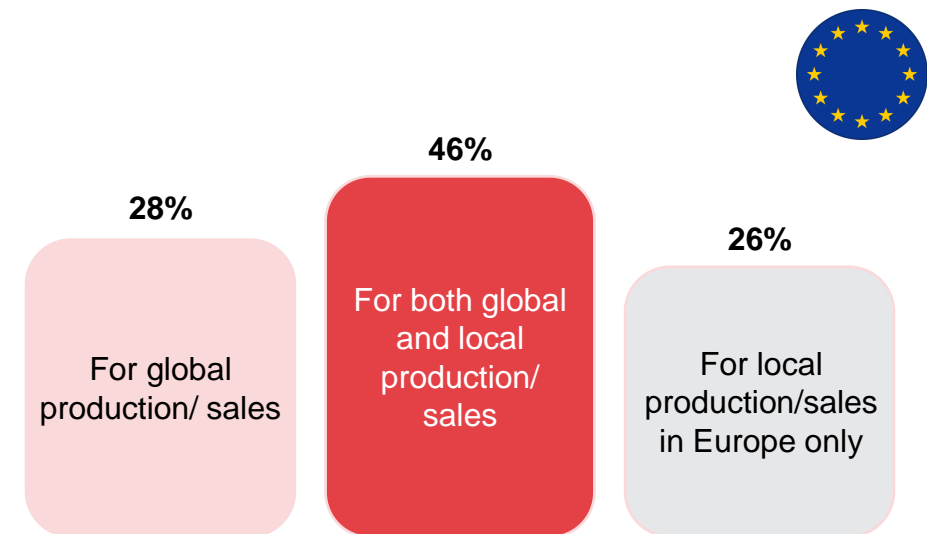
Reason for sourcing in Europe & Southeast Asia – to serve local demand or for global supply

- Similar to China, **companies source in Southeast Asia mainly for their global production and sales**. There is also an increase in respondents that are sourcing in the region solely for local production and sales, but this is still not so common.
- The majority of the companies' sourcing activity in Europe is to meet the global and local production and sale. **The share of companies that source in Europe solely for the local demand is significantly higher compared to the data from China and Southeast Asia.**

Share of the respondents main reason for sourcing in Southeast Asia



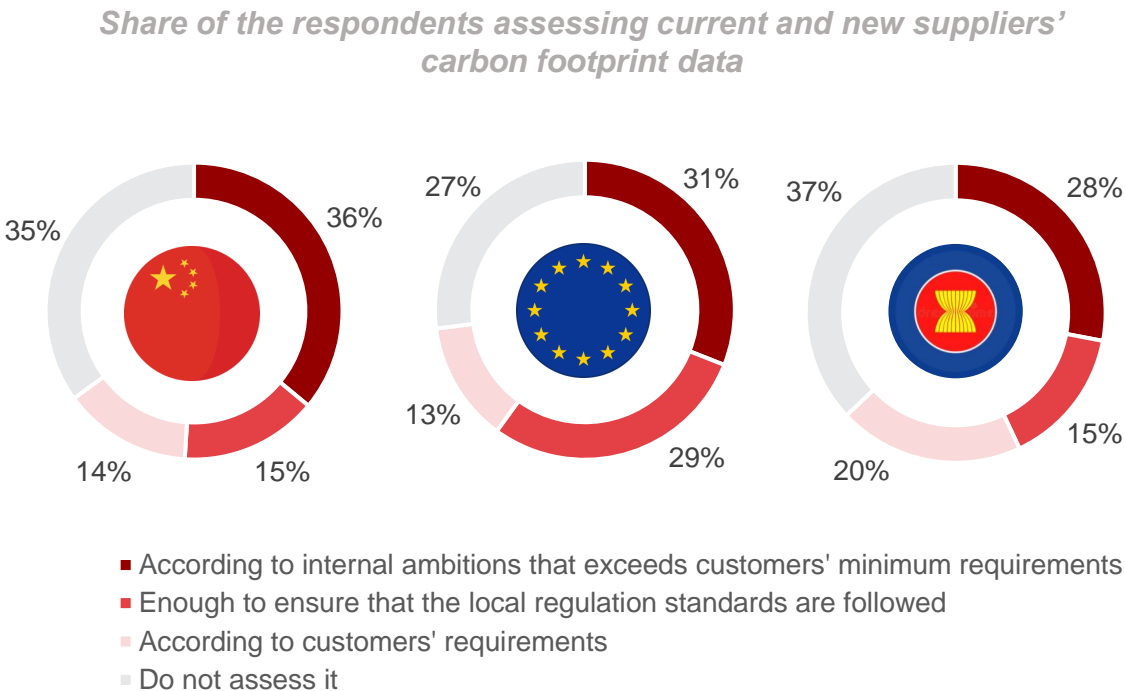
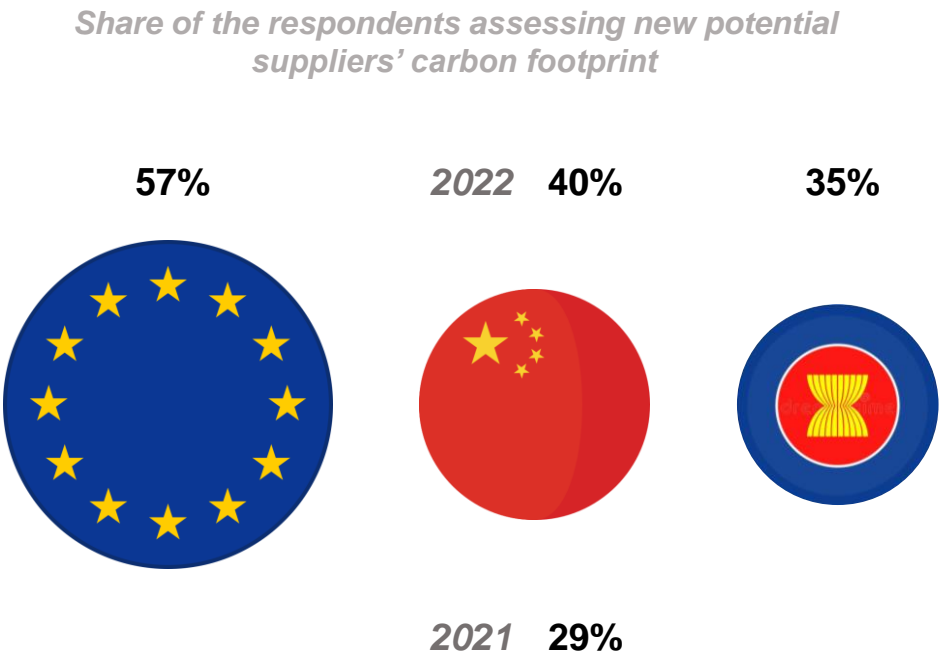
Share of the respondents main reason for sourcing in Europe



Companies are increasingly conducting carbon footprint assessments for suppliers

Assessment of current & new suppliers carbon footprint

- Companies assess their European suppliers to a larger extent than in China and Southeast Asia
- Many companies have not implemented routines for assessing all new suppliers carbon footprint



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RESHORING TRENDS



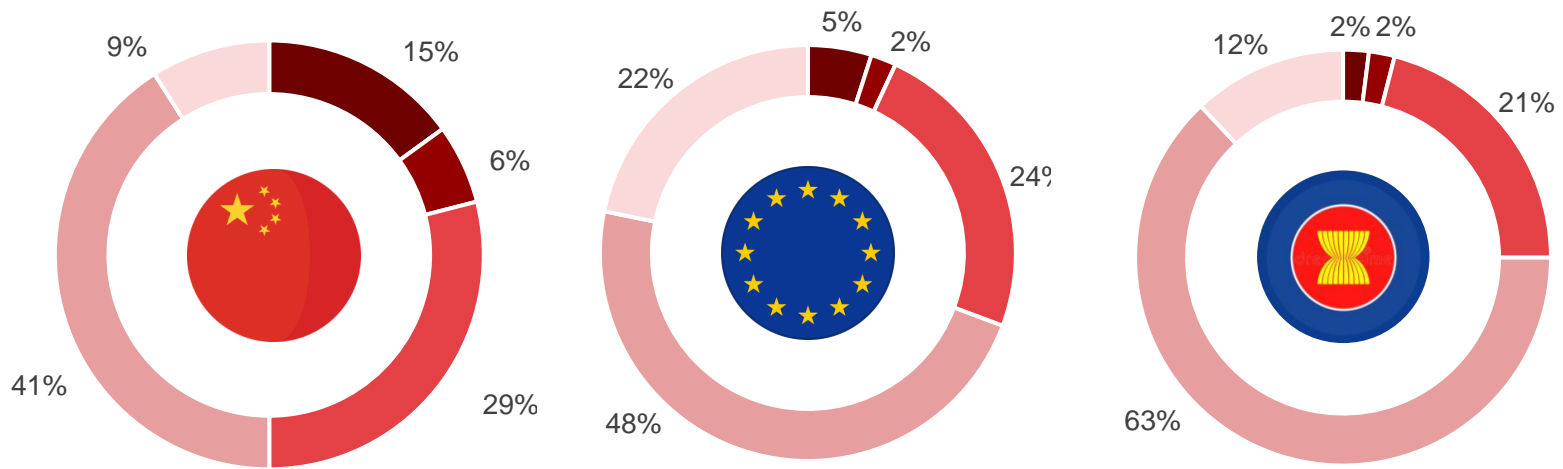
Many companies say they are likely move sourcing out of China, and a limited group of 15% have done so in the past 12 months

Likeliness to relocate sourcing activities

➤ Southeast Asia and Europe have a much larger percentage of respondents who were likely to keep their sourcing in the regions. Europe being a mature home market that previously saw off-shoring and South East Asia being new market with less suppliers to begin with can be part of explanation

Likeliness to completely or partially relocate sourcing out of the region in the near future

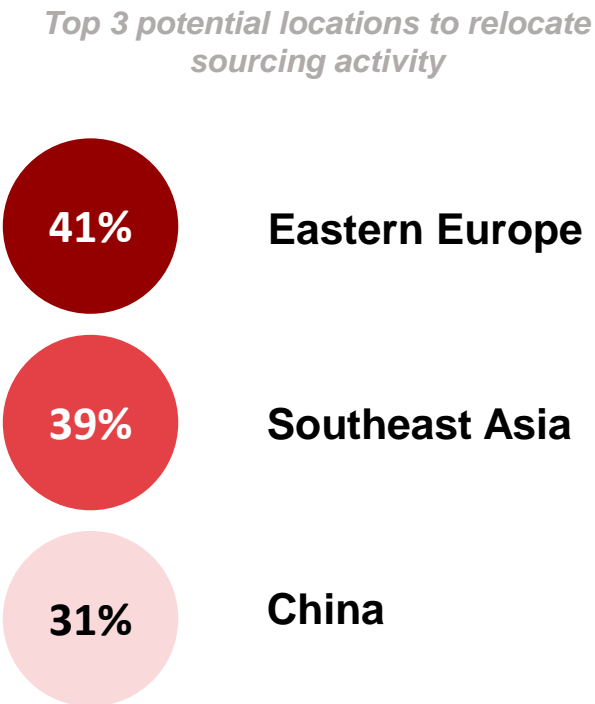
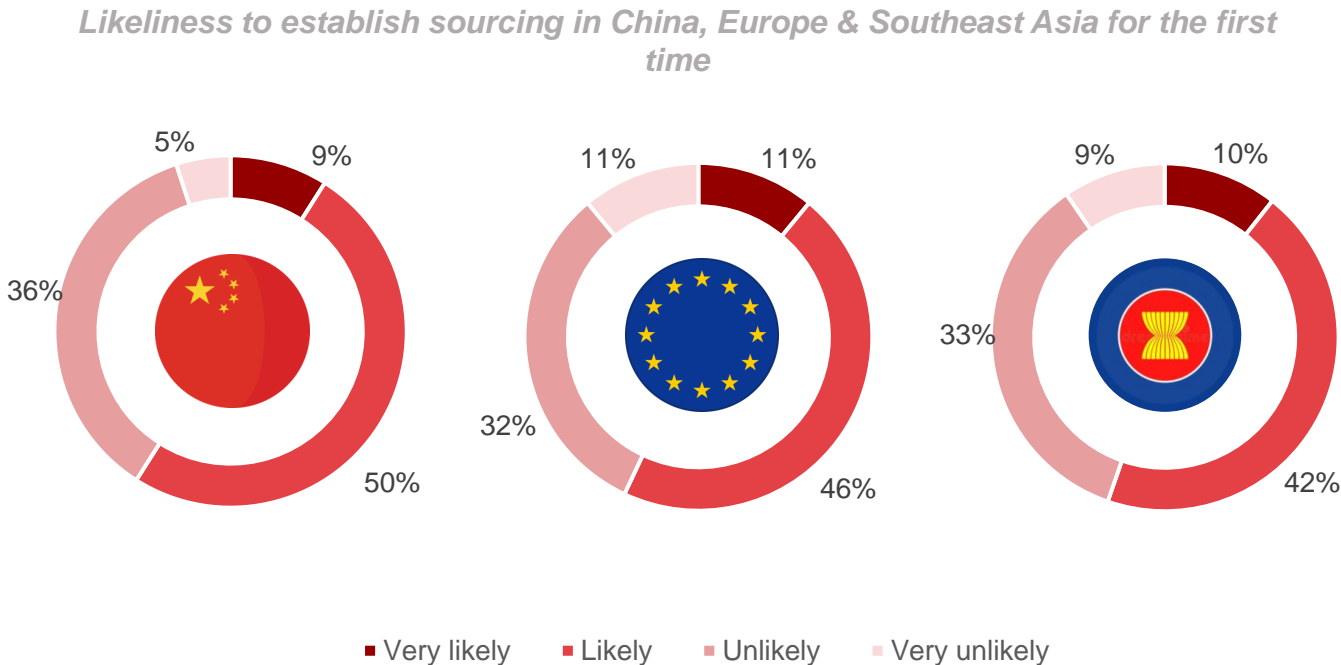
- Respondents have already planned to/moved their sourcing activity out of the region within the past 12 months
- Very likely
- Likely
- Unlikely
- Very unlikely



For new sourcing destinations – China, Europe and South East Asia are all considered

Likeliness to move parts of sourcing to China, Europe & Southeast Asia & potential destination to relocate to

- Companies are seemingly intending to relocate out of China at a larger scale than compared to Europe and Southeast Asia. At the same time, **the three regions stand very similar when it comes to where companies are more likely to establish new sourcing activity for the first time.**



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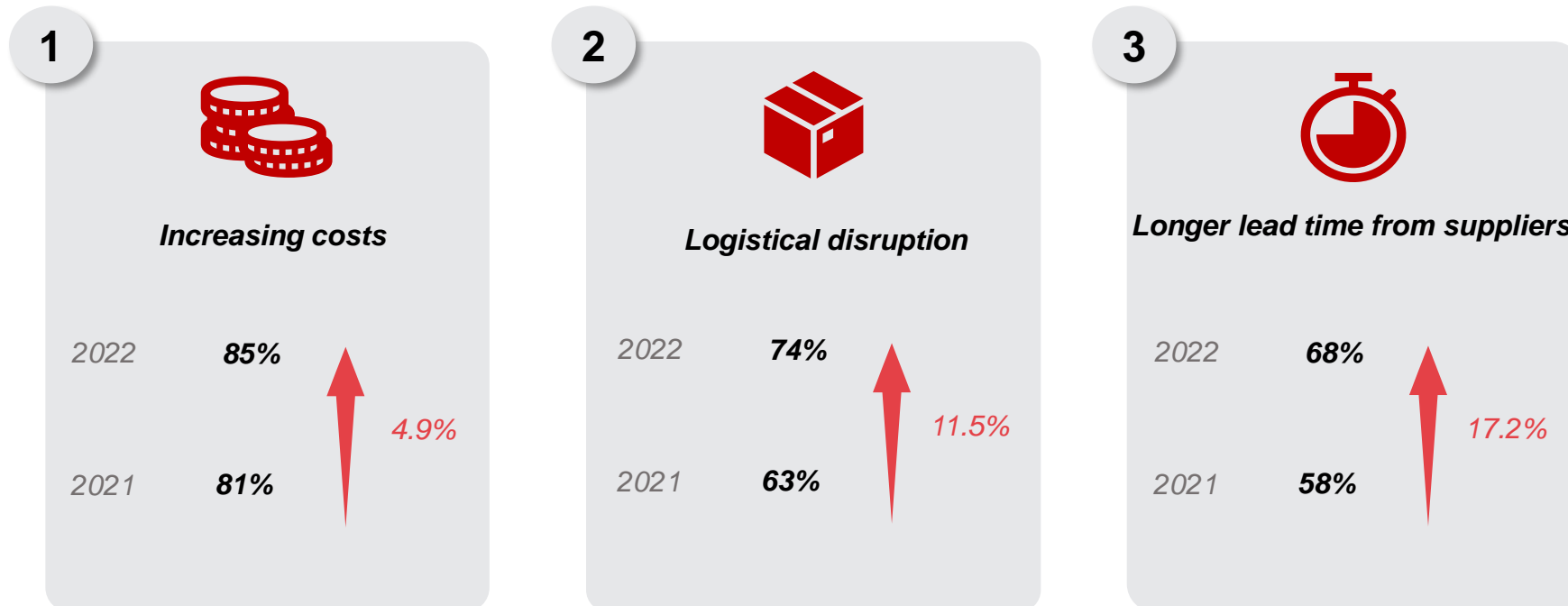
REASONS TO RELOCATE OR STAY



Costs and logistics have been the biggest supply chain concerns

Biggest sourcing problems faced in 2022

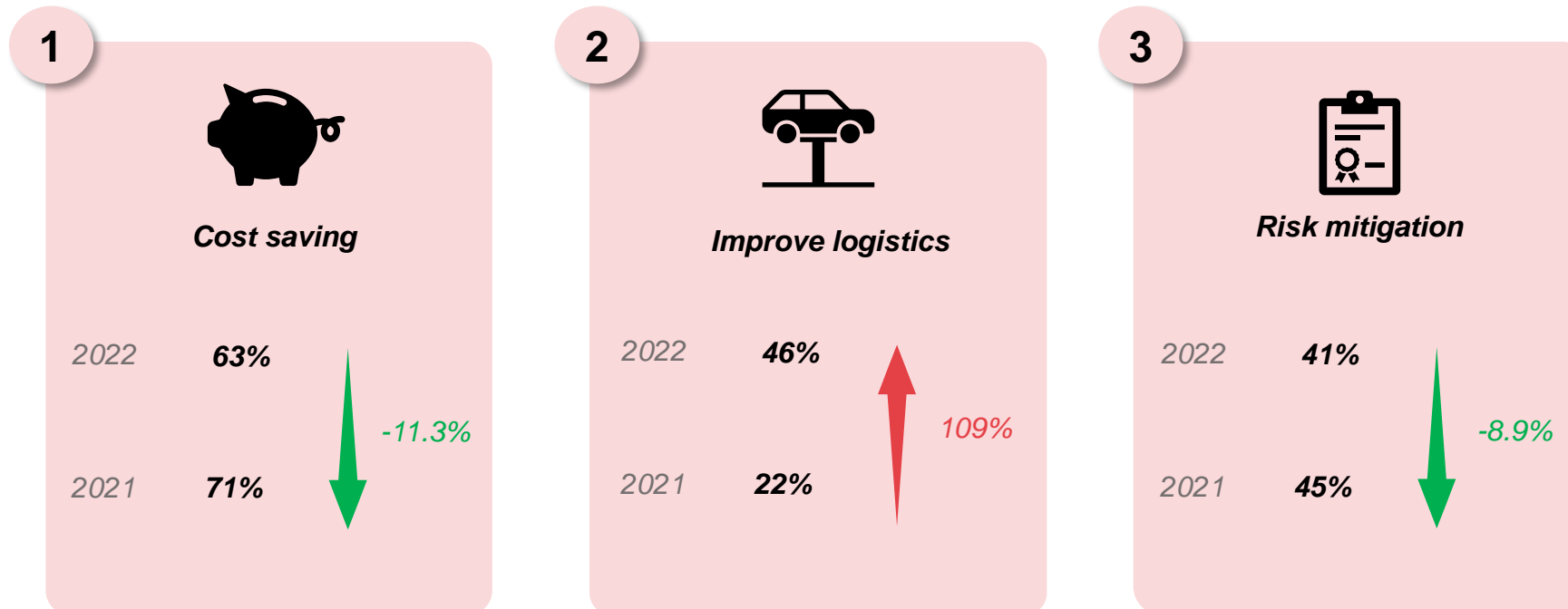
- 85% of respondents find their **key sourcing problem to be increasing costs**, followed by delays and logistical disruptions, and longer lead time from suppliers, with 74% and 68% of respondents experiencing this respectively
- Covid-19 is still influencing the global market. In addition, the **Russia-Ukraine war has further fuelled the rising cost of raw materials and commodities**. Hence, **companies' top concerns are cost and logistics-related issues which have all increased in concern** compared to the previous year.



Logistics has become an increasing concern for companies and a driver for re-sourcing, but cost most important

Reasons for switching to a new sourcing market

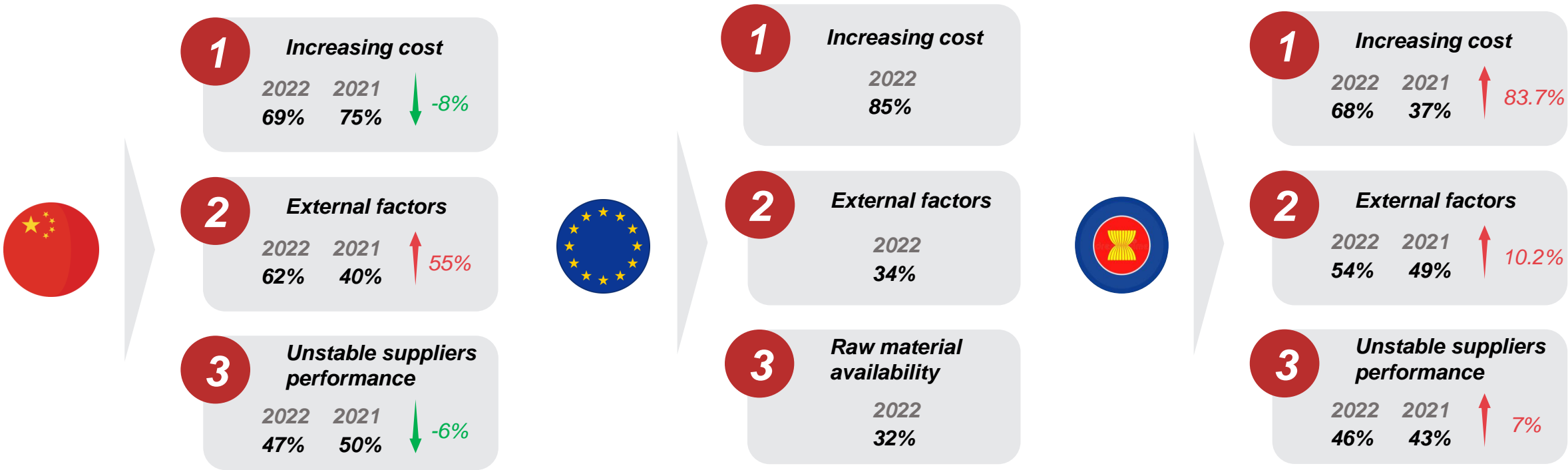
- Companies' reason for relocating their sourcing largely corresponds to the problems they have faced in their sourcing activity.
- **Cost saving remains the top reason why companies are relocating to new sourcing markets.** Alternative markets can provide lower cost production and countries closer to home can benefit companies by saving on transport-related costs.
- "Improve logistics" rose significantly in importance this year. **Near-shoring is rising as a strategy to regain control and avoid unstable deliveries.**



Increasing cost is the top risk factor across all regions

China, Europe & Southeast Asia sourcing risk factors of most concern compared to 2021

➤ Rising cost on freight, labour, operations and raw materials are possible contributor to “increasing costs” being the most significant risk factor for sourcing in all three regions. **External factors stand as the second most common factor**



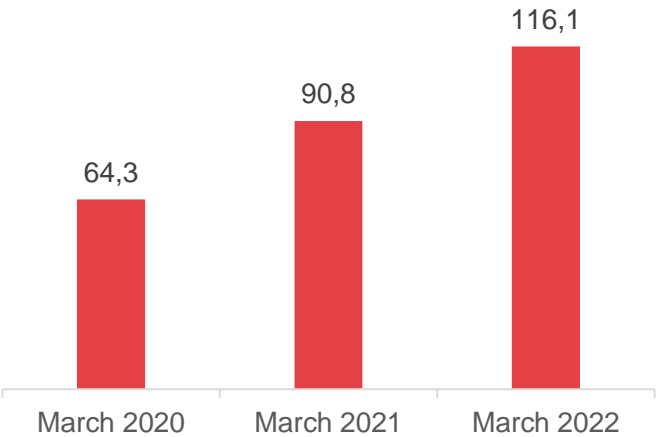
Europe sourcing risk factors have not been measured before

Logistics prices remain high and delays have been major

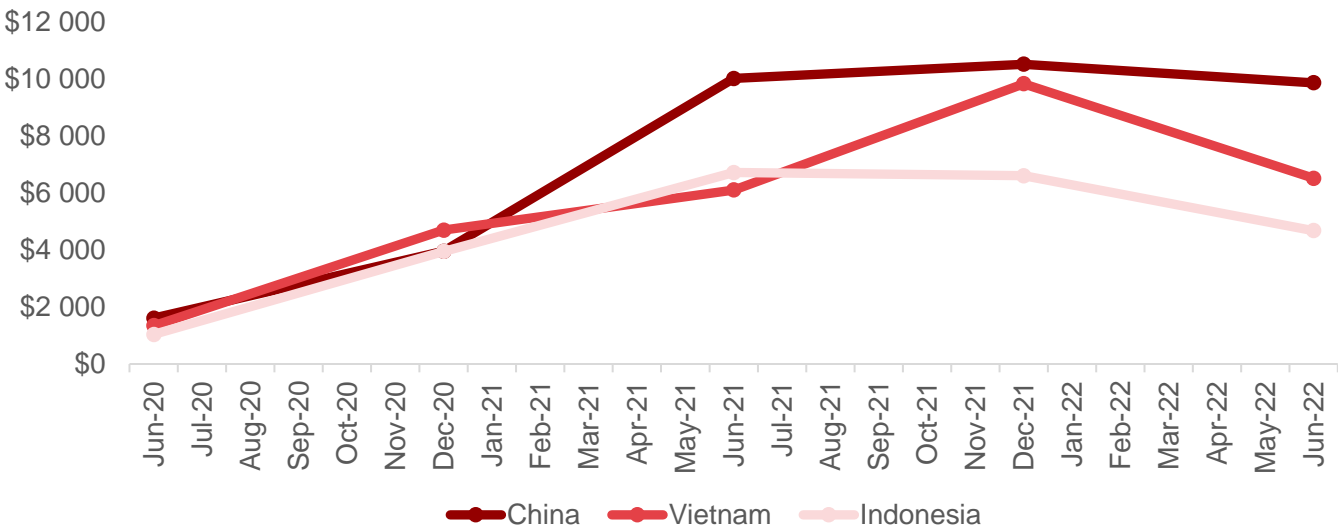
Current shipping times and regions' logistics situation

- **Shanghai shut again for two months in 2022**, threatening supply chains, and putting additional strain on global supply chains. Backlogs are caused by the lack of inland transportation, labor, and facilities.
- **Container pricing from Southeast Asia has been slightly decreasing in recent month**, similar to China. However, **pricing of containers in 2022 is still multiple times higher for all trade routes compared to 2020**. Surging fuel prices, reduced capacity of shipping lines, and lack of containers are deemed the main reasons for the current high pricing.

Number of delivery days for a shipping container from China to Europe



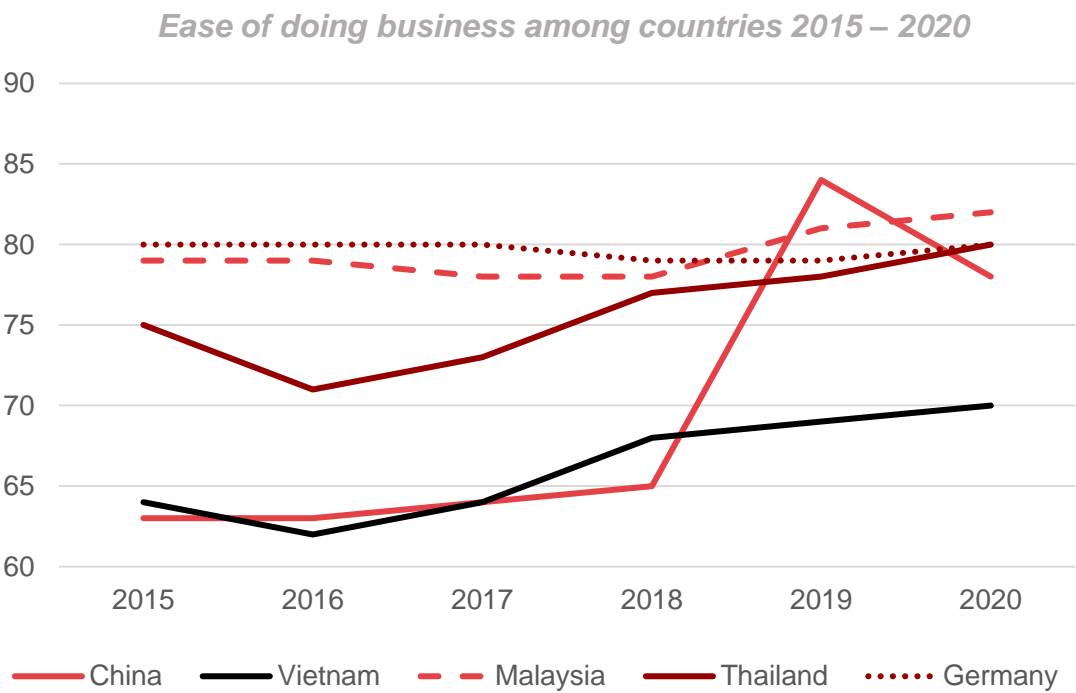
20FT Container Pricing China, Vietnam, Indonesia to Sweden



Sources: Statista, Adnavem, 2022

Vietnam has the most competitive labor cost, and catching up in ease of doing business

Comparing markets by labor cost & ease of doing business ranking

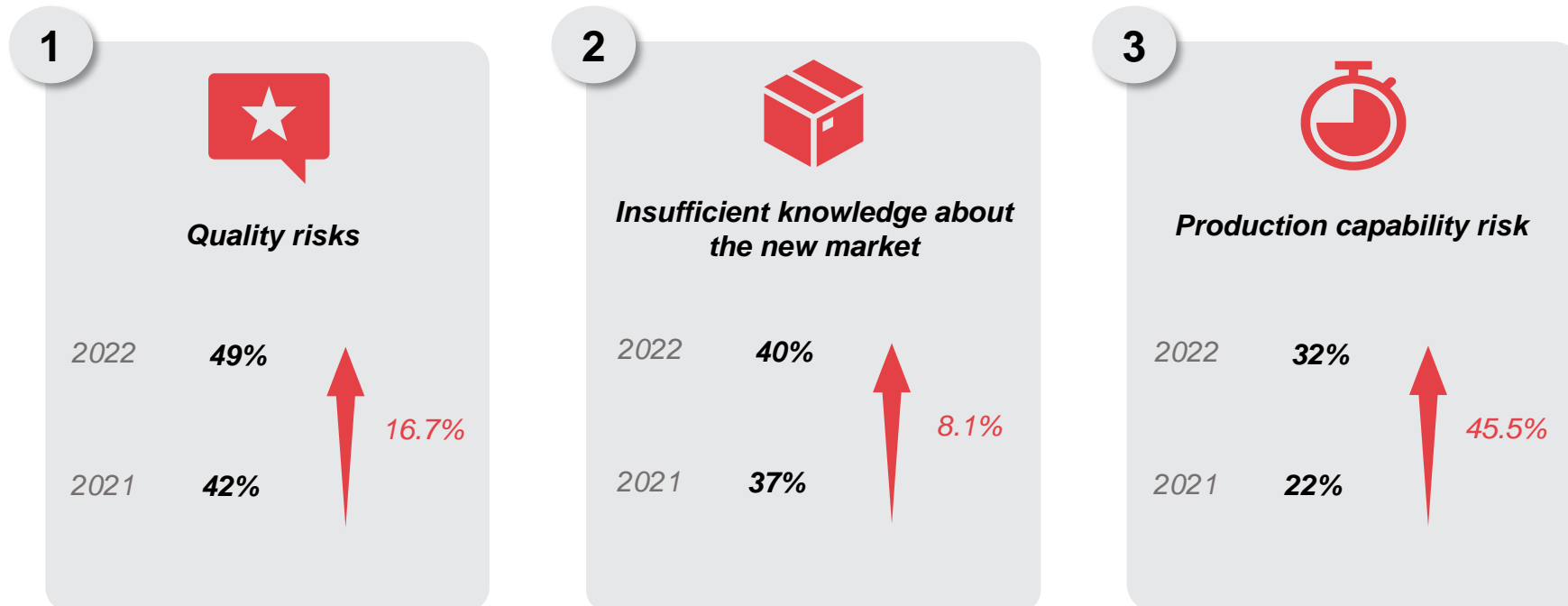


Sources: The World Bank, Doing business 2015 – 2020, Trading Economics, 2021; International Labor Organization, 2021; CNBC, 2020

Companies face many barriers when trying to enter new sourcing markets

Main barriers to consider when entering a new sourcing market

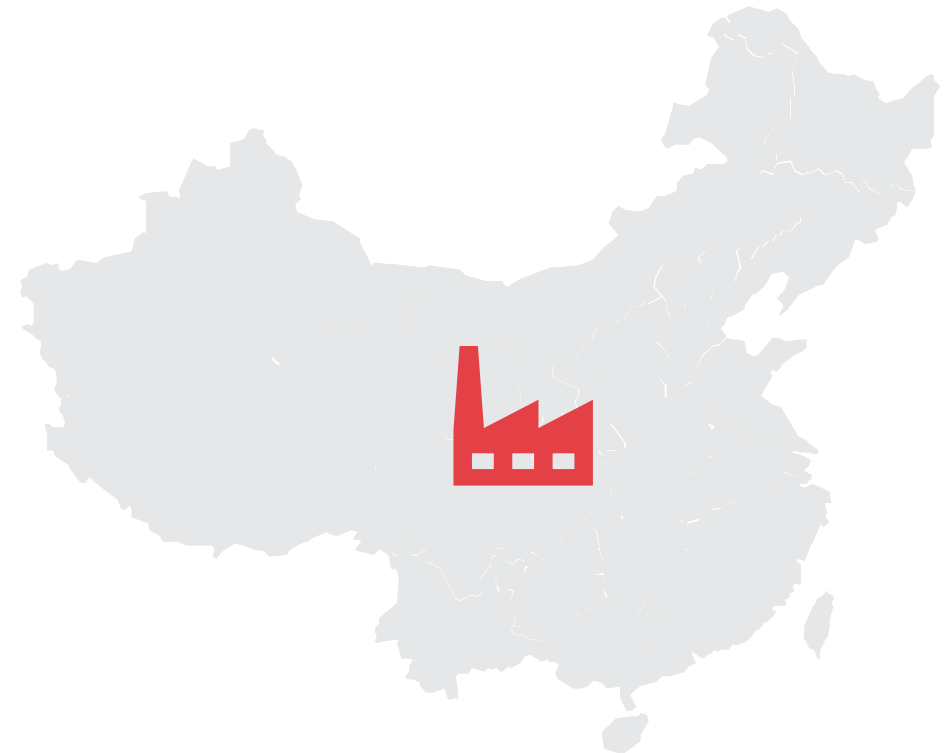
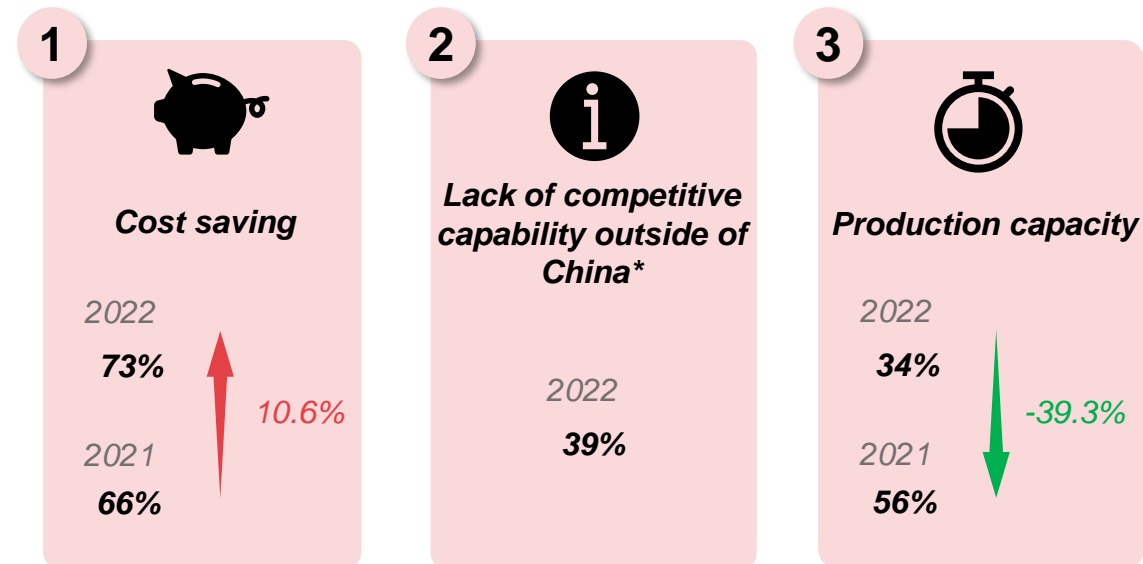
- **Quality risks** is considered the most significant barrier when entering a new market which should be mitigated by performing extensive quality controls.
- **Insufficient market knowledge** is the second most common concern for businesses. Many companies might lack the resources to perform the necessary research necessary to understand the market as it can be both time consuming and complicated without a local presence.
- **Concerns over production capability** increased by 45.5%, making the factor the 3rd most concerning barrier amongst the respondent.



China remains competitive thanks to cost-efficient manufacturing and its capacity

Reasons for keeping sourcing in China

- Despite the rising costs, **China remains competitive in terms of cost savings** for the four consecutive years, thanks to comprehensive supply chain ecosystem and experience. This allows economies of scale, cost efficiency, and cheap supply chain scalability within the country.
- 39% of respondents stated that their **reason for continuing to source in China is due to difficulties in finding competitive capability in alternative markets**, indicating that other markets are not mature enough for some companies' needs
- **China is still highly regarded for its manufacturing capacity, advanced technology, and well-established industrial base.** Nevertheless, there is a sharp decline compared to previous year.

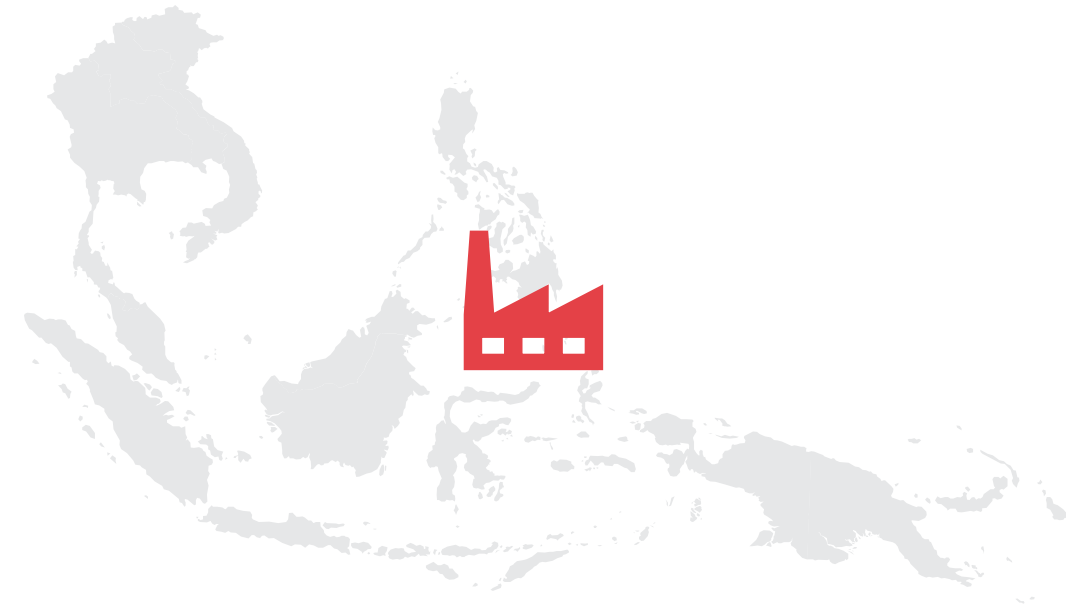
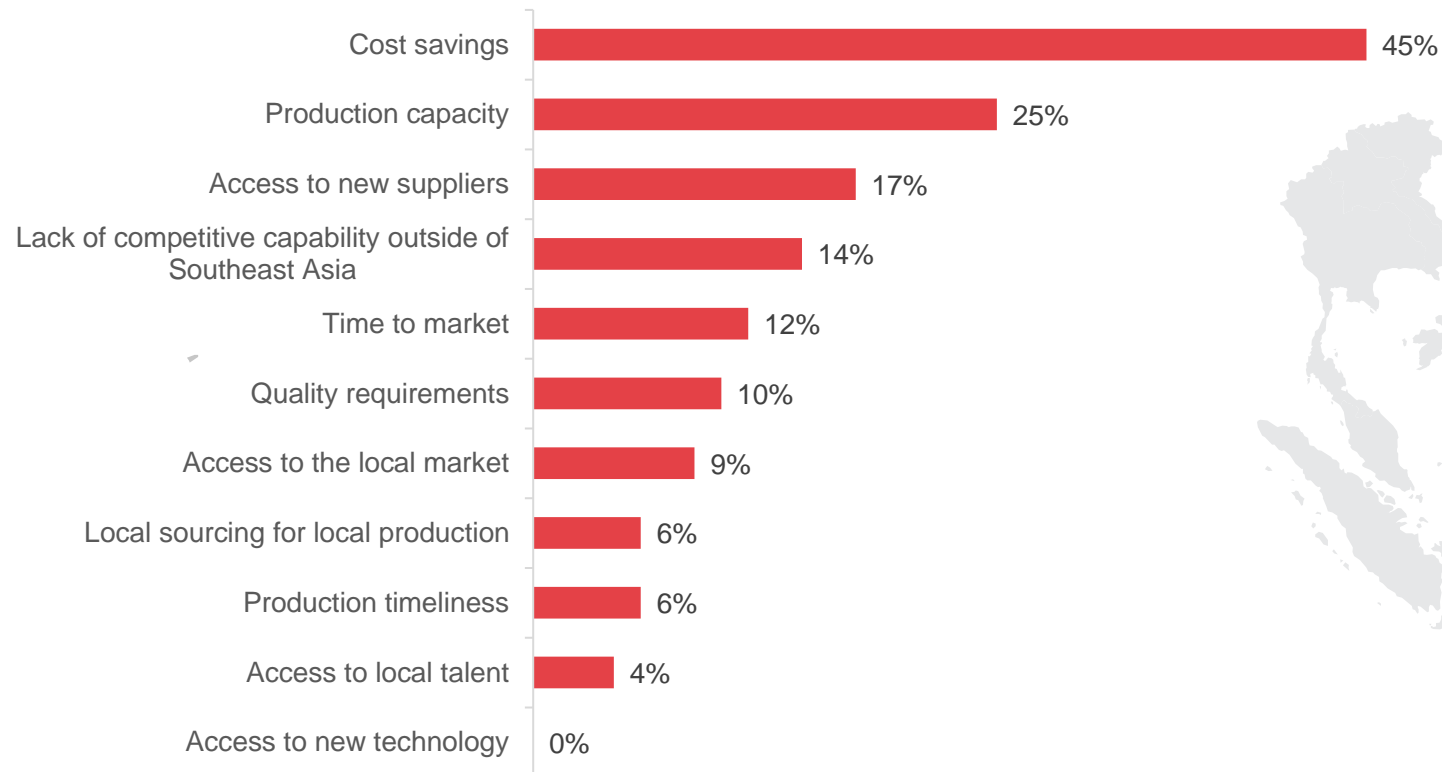


*"Lack of competitive capability outside of China" was not included in the previous surveys

Cost savings is the top reason companies choose to stay in Southeast Asia

Reasons for keeping sourcing in Southeast Asia

- Similar to China, **cost savings and production capacity top the list of reasons why companies choose to stay in Southeast Asia**
- **Access to new suppliers stands as the top third reason** indicating new suppliers is beneficial for diversifying one's supplier base and providing opportunities to discover new innovations and products. New suppliers can also introduce more favourable contract terms, communication alternatives, and improved quality and sustainability factors.



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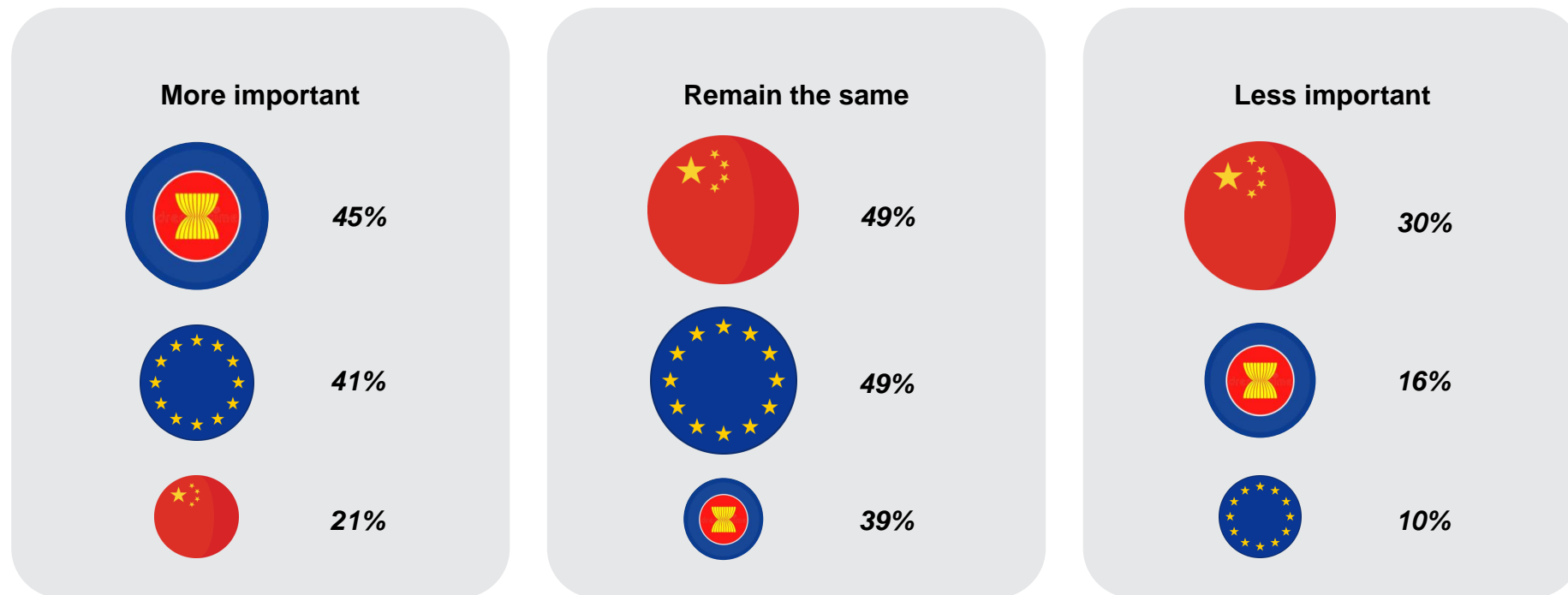
FUTURE SOURCING



China is expected to become less important in the future of sourcing

Expectations on China's, Europe's and Southeast Asia's importance as a sourcing market in the future

- The majority of the surveyed companies believe that both Southeast Asia and Europe will rise in importance. While Europe already has a developed and established sourcing market, Southeast Asia is just starting to grow as a sourcing destination.



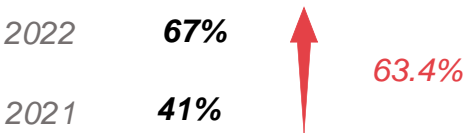
Many companies want to diversify and source closer to home

Risk mitigating strategies for companies' sourcing 2022

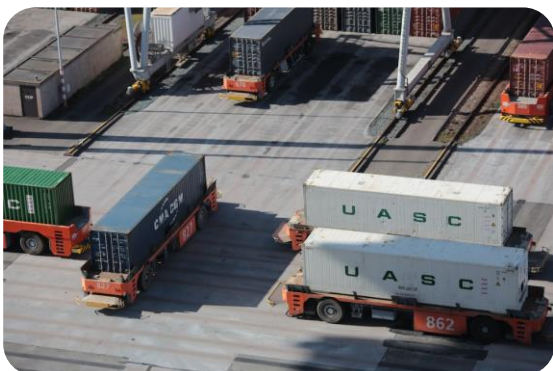
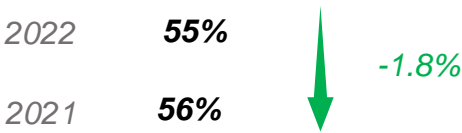
- The majority of companies plan on **diversifying their supplier base to another country as a risk mitigation strategy**, a sharp increase compared to the previous year, partly explained by countries just starting to reopen after the pandemic, allowing businesses to access the previously restricted markets during the pandemic.
- **Enhancing communication with current suppliers helps ensure that orders are fulfilled and prepare for any risks that might be approaching.** Due to the many logistical issues and delays, reshoring closer to home helps mitigate those issues, ranking the 3rd position.



Diversifying the suppliers base to other countries



Enhancing communication with suppliers



Reshoring sourcing activity to the closer market*



*"Reshoring sourcing activity to the closer market" was not included in previous surveys

6

CONCLUSION



Executive summary

- **China is still highly regarded as the most important sourcing market globally, but its perceived importance is declining.** Alternative markets are often unable to compete with China's manufacturing strengths and benefits.
- **There is a discrepancy between companies' stated preferred sourcing destination and their actual sourcing decisions.** While companies may look to move out of China, the share of companies sourcing and establishing new sourcing in the country remains similar to other markets.
- **Risk mitigation, cost saving, and logistics issues are the top reasons to relocate sourcing activity.** Which factor the companies prioritise the most ultimately also decides which alternative region they prefer.
- **Quality risks, insufficient market knowledge and supplier's capabilities and experience are the main barriers companies face when entering new sourcing markets.**
- **The survey shows a large shift in companies starting to prefer Europe as a sourcing region over Asia Pacific countries.**
- **Companies do consider moving sourcing activity out of China.** The rate of which that will happen will highly depend on alternative markets' ability to match China's sourcing market benefits and vary by sectors

QUESTIONS?



Thank you for your participation!

Johan.Annell@asiaperspective.com

+86 185 0048 6766