Optimised for Growth:
High-Tech Executives Adapt to Meet Global Demands

REGIONAL SUMMARY: EUROPE
Optimised for Growth: High-Tech Executives Adapt to Meet Global Demands

The high-tech industry is poised for global growth. The middle class is expanding, bringing with it an increasing appetite for high-tech products. Demands are coming from new markets across the globe. Product lifecycles are shorter than ever before. There are new pressures and challenges – and new opportunities.

There is growing recognition that ‘business-as-usual’ supply chain strategies no longer deliver optimal business results. Companies must adapt their supply chains to capitalise on new opportunities in current and new markets. Some changes will be large and some will be small, but they will all make an impact.

The fifth annual UPS Change in the (Supply) Chain survey, fielded by IDC Manufacturing Insights, reveals how high-tech executives in Europe and globally are adapting their supply chains to set themselves up for business growth. From evolving shoring strategies to entering new markets to prioritising risk management and exploring new areas like 3D printing, supply chain executives are doing things differently.

The only thing that will remain constant is change. To prepare, there’s one question that high-tech executives should be asking themselves: Is my supply chain optimised for growth?

For survey methodology see page 14.
Continued growth expected for high-tech exports

The outlook for high-tech export growth remains positive in Europe with 58% of survey respondents reporting that they believe exports will either grow faster or at the same rate over the next two years.

Whilst there is optimism about exports among executives in Europe, optimism levels are lower than the global numbers. Globally, 75% believe that exports will grow faster or at the same rate over the next two years.

Globally, communications equipment manufacturers are the most optimistic about exports with nearly half believing that exports will grow faster over the next two years. Manufacturers of computers and office equipment are the least optimistic about export growth.
Flexibility is key in shoring decisions

As high-tech companies seek to capitalise on global growth opportunities while optimising their supply chains, the sourcing debate continues: off-shoring, near-shoring or right-shoring?*

Global survey findings show that companies are leveraging all of these strategies, indicating that the most important strategy is flexibility. Right-shoring is growing in popularity, especially in Europe, where companies are using the strategy more than their global counterparts at 56% versus 45%.

These findings illustrate the importance of making sourcing decisions based on a variety of factors such as company size, customer demands and individual product specifications, among others, rather than taking a one-size-fits-all approach.

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*• Off-shoring: moving manufacturing and/or assembling products to traditional low-cost countries based on historical labour rate differentials
• Near-shoring: moving manufacturing and/or assembly closer to the location of demand (where the products are consumed)
• Right-shoring: optimising the supply chain to take advantage of cost and necessary resources (skills and infrastructure) for the best overall margin performance and customer satisfaction
Near-shoring tactics evolving

Whilst high-tech companies are using a mix of shoring strategies, near-shoring is an area to watch in terms of its growth as a high-tech supply chain strategy. This year’s survey found that 35% of high-tech logistics decision-makers in Europe are planning on near-shoring – up 9 percentage points from 2013 findings.

Shoring tactics have changed over time from moving manufacturing/assembly to adding manufacturing/assembly closer to demand. Two years ago, 54% of executives in Europe had moved manufacturing closer to demand. This year, the most used tactic was moving assembly closer to demand (34%). Looking forward, companies in Europe are most likely to be either adding manufacturing (38%) or adding assembly (23%).
Near-shoring drivers and barriers

Improving service levels remains a top priority for high-tech executives with 69% of executives in Europe citing this as the main driver behind their near-shoring strategy. This signals the customer-centric focus of the high-tech supply chain. Other top drivers in Europe are improving control over quality and intellectual property followed by the cost benefit of China and other low-cost manufacturing locations no longer being compelling.

The location of key suppliers is the current top barrier to near-shoring both globally and in Europe (63%). Barriers to near-shoring differ around the world. Other top barriers in Europe are that companies’ current sourcing footprints best support the expected global demand demographics (60%) and immovable fixed infrastructure (50%).

Survey respondents in Europe cite the increasing complexity of regulations and compliance concerns as a top-four barrier to near-shoring (33%). Globally, that concern ranks seventh, cited by 23% of respondents.
Growth opportunities remain in emerging markets

High-tech companies in Europe are aggressively expanding in emerging markets with 66% already selling in China, 41% in India and 40% in Russia. Many of the markets once considered emerging have now emerged, yet growth opportunities remain, especially in Latin America (Brazil and Mexico).

In the next year, the three top emerging markets that high-tech companies globally are planning to enter are Brazil (21%), Russia (20%) and India (20%).

The top 3 countries that companies in Europe plan to enter within the next year

Brazil 35%  
India 33%  
Russia 26%

Emerging Markets: Now and Future

We are already there

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<td>Other APAC</td>
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Enter within the next year

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<tr>
<th>Country</th>
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<tr>
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<td>India</td>
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<td>Mexico</td>
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Cultural challenges are a top barrier

As high-tech companies gain ground in emerging markets, barriers to expansion are evolving, especially in Europe. Cultural challenges emerged as the top barrier to emerging market expansion in the region, cited by 38% of respondents, compared to only 14% in 2013.

Globally, navigating the regulatory environment ranked as the top barrier; however, in Europe it ranked fifth behind establishing initial operations, cultural challenges, keeping up with regulation changes and determining which markets to enter.

The top regulatory concern in Europe is global or cross-border traceability and visibility cited by 44% of respondents, compared to 31% globally.
External expertise helps to overcome challenges

Although there are barriers to entering emerging markets, logistics service providers can help companies to overcome the challenges.

From help with alleviating import/export processes to the ability to leverage existing in-country infrastructure and capabilities, partnerships with logistics providers can help high-tech companies to capture new global market opportunities.

In Europe, high-tech companies look to logistics providers most for in-country warehousing, distribution and transportation presence (24%).

Logistics partnerships can help high-tech companies to enter new markets and expand in existing markets without having to invest in their own resources and infrastructure. This approach allows companies to maintain a flexible supply chain as they continue to expand their global presence.
There’s room for improvement in risk management

High-tech companies in Europe prioritise risk assessment and more than half see themselves as leaders in this area. However, less than one third see themselves as leaders in the other areas of risk management: response execution; risk mitigation and response planning; and event management and coordination. The data suggests that executives aren’t necessarily prepared to address these areas.

When asked about the top areas of concern, survey respondents in Europe cited risk associated with regulatory complexity (47%) and financial flow (47%) followed closely by cyber security (46%) and weather delays (42%) as top concerns.

Companies need to look beyond the risk assessment phase to ensure that their supply chains are prepared to take action in the event of a crisis. One action that companies are already taking is purchasing third-party insurance, with 29% of Europe respondents saying that their company either already had insurance or was looking into it and 30% more saying they thought insurance was a good idea.
Risk Management Priorities in Europe

High-tech companies investing in risk management

High-tech companies are actively employing multiple strategies to mitigate and manage future risk in their supply chain. The two strategies in Europe are enabling better supply-chain visibility (52%) and improving collaboration with suppliers (46%). Other strategies given a top three priority rating by respondents include building slack into the supply chain, enhancing reverse logistics and repair parts management, and improving factory maintenance and oversight.

There are regional differences. Improving collaboration with suppliers is the top strategy in Latin America (76%), North America (60%) and globally (53%).

It’s critical to take a holistic view of the supply chain and focus on all aspects of risk management from the front end to the back end, making sure not to overlook the returns process.
3D printing is gaining traction in high-tech

High-tech manufacturers are at the forefront of innovation and 3D printing is among the latest areas gaining traction in the industry. In Europe, 66% of survey respondents report having hands-on experience with 3D printing.

Globally, survey respondents are using 3D printing to help in the design process for new products (75%) with top benefits including faster product development and a faster manufacturing process. In Europe, 70% are using 3D printing to design new products and 63% for generating spare parts.

Conclusions based on data points around 'How are you using 3D printing in Europe?' are directional in nature based on sample size.

How are you using 3D printing in Europe?

- Help in the design process for new products: 70% (Europe), 75% (Global)
- Generation of spare parts: 63% (Europe), 24% (Global)
- Ability to quickly generate samples or product ‘mock-ups’: 58% (Europe), 55% (Global)
- Production of finished goods: 47% (Europe), 34% (Global)
Sustainability leads to high-tech business gains

Sustainability has a clear business impact on high-tech companies. The top two drivers of sustainability for high-tech companies in Europe are cost reduction (74%) and meeting customer needs (66%).

When asked their views on sustainability, high-tech executives have differing views based on their location. Executives see sustainability first as a strategic business imperative in Europe (69%). In North America, executives view sustainability first as customer demanded (56%) and in Latin America and APAC, 77% and 61% view sustainability as important to core values.

Customers are driving a significant amount of the sustainability focus in Europe and North America, where 68% and 56% of high-tech executives cite customer demand as a reason they pursue sustainability initiatives.
The Fifth Annual Change in the (Supply) Chain survey was sponsored by UPS, fielded by IDC Manufacturing Insights and consisted of quantitative and qualitative research. IDC conducted the telephone survey comprising 33 closed-ended questions in October and November 2014. The telephone survey was completed by 516 senior high-tech supply chain professionals.

To be considered as qualified respondents for the survey, individuals had to be decision-makers or have visibility into the supply chain initiatives within their company. Respondents to the survey identified themselves as working in supply chain (43%), manufacturing operations (30%), or logistics and distribution (27%). The minimum threshold for company size was annual revenue of at least $5 million (US).

In addition, two in-depth focus groups were conducted with qualified United States-based senior high-tech executives responding to a similar set of open-ended questions about key industry trends and related business challenges.

The Fifth Annual Change in the (Supply) Chain survey was conducted in 11 countries across four major regions of North America, Europe, Asia Pacific and Latin America. Countries included are the United States and Canada; Mexico and Brazil; China, Japan, Korea and Taiwan; the United Kingdom, the Netherlands and Germany.