Optimized for Growth: High-Tech Executives Adapt to Meet Global Demands
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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 capitalize on new opportunities in current and new markets. Some changes will be large and some will be small, but they all will make an impact.

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

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

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

The outlook for high-tech export growth remains highly positive in Latin America with 77% of survey respondents reporting that they believe exports will either grow faster or at the same rate over the next two years.

In Latin America, high-tech executives are the most optimistic on exports. According to the survey data, 46% of executives in Latin America expect exports to grow faster over the next two years, compared to 28% globally.

Globally, communications equipment manufacturers are the most optimistic about exports with nearly half believing 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 capitalize on global growth opportunities while optimizing 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 globally, especially in Latin America where 53% of high-tech companies are using the strategy compared to 45% globally.

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.

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

Note: Multiple responses were allowed.
Near-shoring tactics evolving

While near-shoring is growing as a shoring strategy globally, high-tech decision makers in Latin America are the least likely to embrace near-shoring cited by 29% of survey respondents — down 15 percentage points from 2013 findings as the region’s primary shoring strategy has evolved to right-shoring.

For those that are near-shoring, companies in Latin America have been focused on bringing both assembly and manufacturing closer to demand. This year, 43% added assembly and 39% moved assembly closer to demand. Two years ago, 31% added manufacturing and 27% moved manufacturing closer to demand. Looking ahead, 23% plan to move manufacturing closer to demand.

Conclusions based on data points featured on this topic are directional based on sample size.

UPS Change in the (Supply) Chain survey: fielded by IDC Manufacturing Insights, November 2014
Near-shoring drivers and barriers

Improving service levels remains a top priority for high-tech executives with 27% of companies in Latin America citing this as the main driver behind their near-shoring strategy. Other top drivers in Latin America are the diversification of manufacturing (23%) and the cost benefit of China no longer being compelling (19%).

Location of key suppliers is the current top barrier to near-shoring both globally and in Latin America. Barriers to near-shoring differ around the world. Respondents in Latin America rank the location of key suppliers (38%) as the top barrier to near-shoring followed closely by current sourcing footprint best supports expected global demand demographics (31%).

**Drivers of Near-Shoring**

- Improving service levels by bringing production closer to demand: 27% (Latin America) vs. 70% (Global)
- Diversification of manufacturing due to natural and socio-economic risks: 23% (Latin America) vs. 48% (Global)
- Cost benefit of China or other low cost manufacturing is no longer compelling: 19% (Latin America) vs. 38% (Global)

**Barriers to Near-Shoring**

- Location of key suppliers: 38% (Latin America) vs. 52% (Global)
- Current sourcing footprint best supports expected global demand demographics: 31% (Latin America) vs. 37% (Global)
- Growing low cost manufacturing countries consumer market: 29% (Latin America) vs. 27% (Global)

Conclusions based on data points featured on this topic are directional based on sample size.

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Growth opportunities remain in emerging markets

High-tech companies in Latin America have much room for growth in emerging markets. Executives in Latin America report significantly less progress entering markets outside of the region versus executives in North America, Europe and Asia Pacific. Only 28% in Latin America say they are in China, 22% are in India and 18% are in Russia.

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

The top 3 countries companies in Latin America plan to enter within the next year

- Brazil: 17%
- Russia: 12%
- China: 9%
Determining which markets to enter a top obstacle

As high-tech companies gain ground in emerging markets, barriers to expansion have evolved. Determining which markets to enter emerged as the top barrier to emerging market expansion in Latin America cited by 56% of respondents, compared to only 34% globally.

Globally, navigating the regulatory environment ranked as the top barrier; this ranked second in Latin America, cited by 48% of executives.

Regulations have become a bigger barrier to entering emerging markets. The top regulatory concern in Latin America is understanding free trade and government sponsored trade agreements cited by 51% of respondents followed by item classification (42%).

Barriers to Global Expansion

Determining Which Markets to Enter

- **Latin America**: 56%
- **Global**: 34%

Navigating the Regulatory Environment

- **Latin America**: 48%
- **Global**: 35%

Limited Resources to Pursue New Markets

- **Latin America**: 36%
- **Global**: 24%
External expertise helps overcome challenges

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

From help with managing the customs process to providing best practices and helping understand country-specific rules, high-tech executives in Latin America see a need for logistics providers to assist.

Logistics partnerships can help high-tech companies 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.

Needs from Logistics Providers in Latin America

- **Managing the customs process**: 15%
- **Providing best practices**: 14%
- **Understanding of country-specific rules**: 13%
- **In-country warehousing, distribution and transportation presence**: 11%
- **Web-based shipment processing systems**: 6%
There's room for improvement in risk management

High-tech companies in Latin America prioritize both risk assessment (32%) and risk mitigation and response planning (32%) and see themselves as leaders in these areas. However, less than 30% see themselves as leaders in the other areas of risk management: response execution 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 Latin America cited risk associated with labor issues (56%) followed by weather delays (48%) and cyber security (41%).

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 companies are already taking is purchasing third-party insurance, with 37% of Latin American respondents saying their company either already had insurance or was looking into it and 30% more saying they thought insurance was a good idea.
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 top strategy in Latin America is improving collaboration with suppliers (76%) followed by implementing supply chain traceability capabilities (57%). Other strategies include building slack into the supply chain, improving factory maintenance and oversight and enhancing reverse logistics.

There are regional differences. In Europe, better supply chain visibility is the number one risk management focus for executives cited by 52% while only 20% in Latin America are focused on this as an approach to manage risk. Improving collaboration with suppliers was the top strategy in both Latin America and North America.
Role of 3D Printing in Latin America

Conclusions based on data points around “How are you using 3D printing in Latin America?” are directional in nature based on sample size.

**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. Globally, 70% of survey respondents report having hands-on experience with 3D printing while only 46% report having hands-on experience in Latin America.

In Latin America, survey respondents use 3D printing to help in the design process for new products (57%) with top benefits including faster product development (29%) and lower labor costs (21%). Driven by China at 50%, Asia Pacific is using 3D printing more for production purposes than their global counterparts.

**How are you using 3D printing in Latin America?**

- **Help in the design process for new products**
  - Latin America: 57%  
  - Global: 75%

- **Ability to quickly generate samples or product “mock-ups”**
  - Latin America: 36%  
  - Global: 55%

- **Production of finished goods**
  - Latin America: 29%  
  - Global: 34%

- **Generation of spare parts**
  - Latin America: 29%  
  - Global: 24%

*UPS Change in the (Supply) Chain survey: fielded by IDC Manufacturing Insights, November 2014*
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 Latin America are cost reduction (71%) and meeting customer needs (71%).

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