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

REGIONAL SUMMARY: ASIA PACIFIC
INTRODUCTION

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 all will make an impact.

The fifth annual UPS® Change in the (Supply) Chain survey reveals how high-tech executives in Asia Pacific 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 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 optimised for growth?

For survey methodology see page 14.
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. High-tech companies in Asia Pacific are using off-shoring more and right-shoring less than their global counterparts.

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 labour rate differentials
- **Near-shoring**: moving manufacturing and/or assembly closer to the location of demand (where the products are consumed)
- **Right-shoring**: optimising 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 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, especially in Asia. This year’s survey found that 37% of high-tech logistics decision makers in Asia are planning on near-shoring — up 13 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, 76% of executives in Asia Pacific had moved manufacturing closer to demand. This year, the most used tactic was moving assembly closer to demand (46%). Looking forward, Asia Pacific companies are most likely to be either adding assembly (26%) or adding manufacturing (20%).
Near-shoring drivers and barriers

Improving service levels remains a top priority for high-tech executives with 77% of executives in Asia Pacific 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 Asia Pacific are manufacturing diversity (63%) followed by improving control over quality and intellectual property (57%).

Location of key suppliers is the current top barrier to near-shoring both globally and in Asia Pacific. Barriers to near-shoring differ around the world. Respondents in Asia Pacific rank low-cost manufacturing countries as default manufacturing locations as the second top barrier to near-shoring, whereas this ranks sixth globally.

A growing consumer demand for high-tech products in China and nearby countries is driving executives in Asia Pacific to consider alternative shoring strategies.

**Drivers of Near-Shoring**

- Improving service levels by bringing production closer to demand
  - Asia Pacific: 77%
  - Global: 70%

- Diversification of manufacturing due to natural and socio-economic risks
  - Asia Pacific: 63%
  - Global: 48%

- Improving control over quality and intellectual property
  - Asia Pacific: 57%
  - Global: 49%

- Cost benefit of China or other low cost manufacturing is no longer compelling
  - Asia Pacific: 34%
  - Global: 38%

**Barriers to Near-Shoring**

- Location of key suppliers
  - Asia Pacific: 54%
  - Global: 52%

- China or low-cost manufacturing countries are our default manufacturing location
  - Asia Pacific: 40%

- Fixed infrastructure is not moveable
  - Asia Pacific: 37%

- Growing low-cost manufacturing countries consumer market
  - Asia Pacific: 37%
  - Global: 27%
**Emerging Markets: Now and Future**

**Growth opportunities remain in emerging markets**

High-tech companies in Asia have much room for growth in emerging markets. Executives in Asia Pacific report significantly less progress entering markets outside of the region versus executives in North America, Europe and Latin America. Asia Pacific executives report that only 28% are in India, 16% are in Brazil and Russia and 10% are in Mexico, indicating significant growth opportunities in India as well as in Latin America and Europe.

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%).

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**The top 3 countries companies in Asia Pacific plan to enter within the next year**

<table>
<thead>
<tr>
<th>Country</th>
<th>Asia Pacific</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>29%</td>
<td>71%</td>
</tr>
<tr>
<td>Brazil</td>
<td>27%</td>
<td>45%</td>
</tr>
<tr>
<td>Russia</td>
<td>27%</td>
<td>45%</td>
</tr>
<tr>
<td>Other APAC</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>Mexico</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>China</td>
<td>29%</td>
<td>20%</td>
</tr>
<tr>
<td>Brazil</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>Russia</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Other APAC</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>Mexico</td>
<td>6%</td>
<td>8%</td>
</tr>
<tr>
<td>China</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>
Cultural challenges a top barrier

Barriers to emerging market expansion have evolved, especially in Asia. Cultural challenges emerged as the top barrier to emerging market expansion in the region, cited by 41% of respondents, compared to only 15% in 2013.

Globally, navigating the regulatory environment ranked as the top barrier; however, in Asia Pacific it ranked fourth behind cultural challenges, internal compliance concerns (39%) and determining which markets to enter (38%).

The top regulatory concern in Asia Pacific is understanding free trade agreements and government-sponsored trade initiatives, cited by 39% of respondents.
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 in-country warehousing, distribution and transportation to managing the customs processes, high-tech executives in Asia Pacific see the value of a partnership approach in capturing new global opportunities.

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 Asia Pacific

- 27% In-country warehousing, distribution and transportation presence
- 20% Managing the customs process
- 20% Web-based shipment processing systems
- 15% Working with company’s broker
- 11% Understanding of country-specific rules
There’s room for improvement in risk management

High-tech companies in Asia Pacific prioritise risk assessment and almost 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 Asia Pacific cited risk associated with regulatory complexity (51%) and weather delays (51%) followed closely by financial flow (47%). Increased concern for weather delays in this region may be explained by unexpected events such as the 2014 earthquake in China or Typhoon Haiyan in the Philippines.

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 30% of Asia Pacific 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 Asia Pacific is improving collaboration with suppliers (44%) followed by enhancing reverse logistics and repair parts management (39%). Other strategies include building slack into the supply chain, improving cyber security capabilities and enabling better supply chain visibility.

There are regional differences. In Asia Pacific, reverse logistics and repair parts management is a top two priority focus area for risk management, but it ranks fifth globally. Improving collaboration with suppliers is the top strategy in Asia Pacific, Latin America (76%) and North America (60%). In Europe, the top choice is enabling better supply chain visibility (52%).

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.

Risk Management Priorities in Asia Pacific

- **44%** Improve Collaboration with Suppliers
- **33%** Enable Better Supply Chain Visibility
- **39%** Enhance Reverse Logistics and Repair Parts Management
- **34%** Improve Cyber Security Capabilities
- **36%** Build Slack into Supply Chain
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 and in Asia Pacific, 70% of survey respondents report having hands-on experience with 3D printing.

In Asia Pacific, survey respondents are using 3D printing to help in the design process for new products (74%) and to generate product samples. Driven by China at 50%, Asia Pacific is using 3D printing more for production purposes than their global counterparts (34%).

How are you using 3D printing in Asia Pacific?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Asia Pacific</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Help in the design process for new products</td>
<td>74%</td>
<td>75%</td>
</tr>
<tr>
<td>Ability to quickly generate samples or product “mock-ups”</td>
<td>59%</td>
<td>55%</td>
</tr>
<tr>
<td>Production of finished goods</td>
<td>43%</td>
<td>34%</td>
</tr>
<tr>
<td>Generation of spare parts</td>
<td>21%</td>
<td>24%</td>
</tr>
</tbody>
</table>

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 Asia Pacific are meeting customer needs (84%) and cost reduction (77%).

Asia Pacific prioritises meeting customer needs over cost reduction, likely due to the region’s desire to be viewed as a high-tech global player rather than just a source of low-cost manufacturing.

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