

*GLOBAL SUPPLY CHAINS
SURVEY*

IN SEARCH OF POST COVID-19 RESILIENCE

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9 December 2020

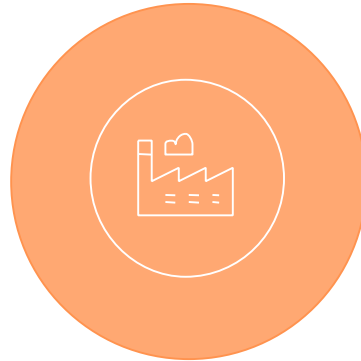


WHY THIS SURVEY? THREE TRENDS IN GLOBAL TRADE



Protectionism

US-China trade war,
US/EU tensions,
tensions in Asia



Reshoring

Reshoring rhetoric by
policymakers and
focus on “strategic
sectors”



Covid-19

Massive disruption to
supply chains due to
lockdowns

A FEW DEFINITIONS



Throughout the survey we asked companies about **(i) their suppliers** and **(ii) their production sites**

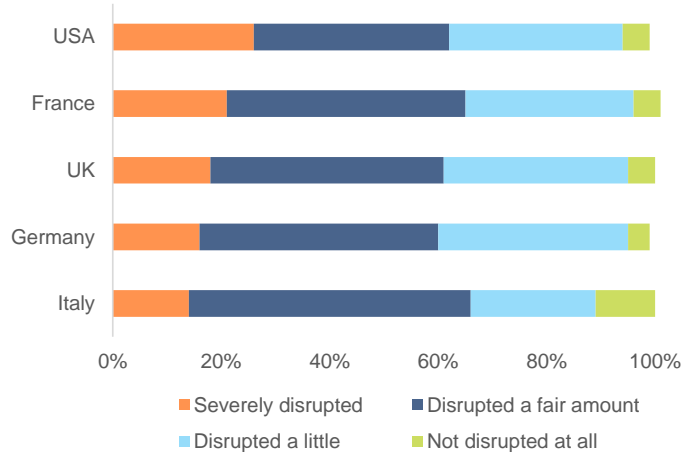


Digitization: we ask companies to select choose all their digital activities from a list of 8 digital activities, to assess their level of digitization. The more activities they select, the more digitized we estimate they are.

1. Use of software to monitor production or other activities
2. Use of software to facilitate collaborative work
3. Use of cloud computing
4. Use of artificial intelligence
5. Use of big data
6. Use of social media to recruit employees
7. E-commerce
8. Electronic invoicing

MESSAGE #1: 1 IN 5 COMPANIES REPORTED A SEVERE COVID-19 DISRUPTION TO SUPPLY CHAINS

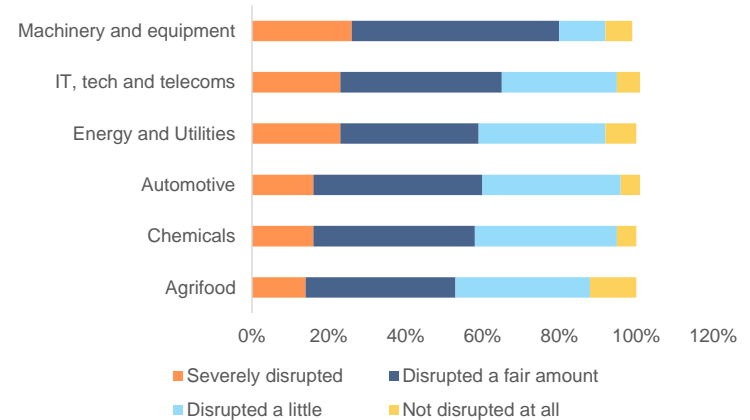
Share of respondents having experienced a supply chain disruption, by country of main location



Sources: Euler Hermes Global Supply Chain Survey

94% of respondents reported some kind of disruption, it's similar for all countries. U.S. companies stand out as 26% reported a "severe disruption" (vs. 17% in average for other companies)

Share of respondents having experienced a supply chain disruption, by sector



Sources: Euler Hermes Global Supply Chain Survey

Around 25% of the machinery and equipment, IT, tech and telecoms and energy and utilities companies (vs. 16% of chemicals and automotive companies) reported a severe disruption

MESSAGE #2: NUMEROUS COPING MECHANISMS, WITH MOST COMPANIES RESORTING TO HEDGING

Ranking of coping mechanisms

52%

HEDGING

Through insurance, stockpiling, and the search for alternative supply solutions to activate when needed

46%

BETTER UNDERSTANDING

Companies also engaged actively in a better monitoring and understanding of supply chains

32%

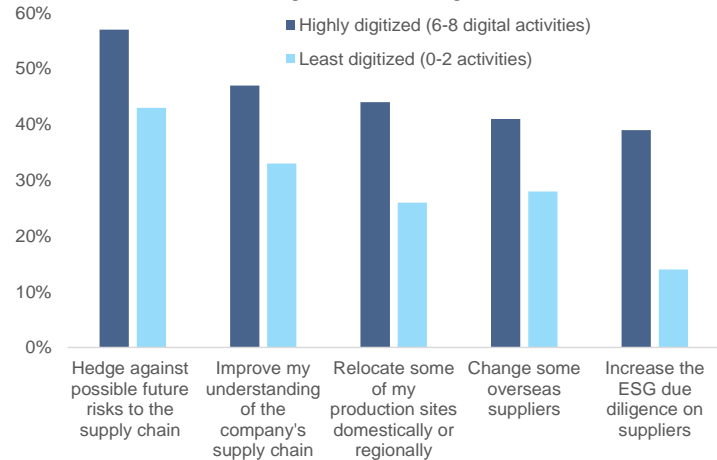
ESG DUE DILIGENCE

Increasing ESG due diligence on suppliers to mitigate the disruption in supply chains

Sources: Euler Hermes Global Supply Chain Survey

U.S. companies embraced ESG due diligence significantly more (37%) than all other companies in our sample

Share of respondents reporting supply chain disruption mitigation strategies

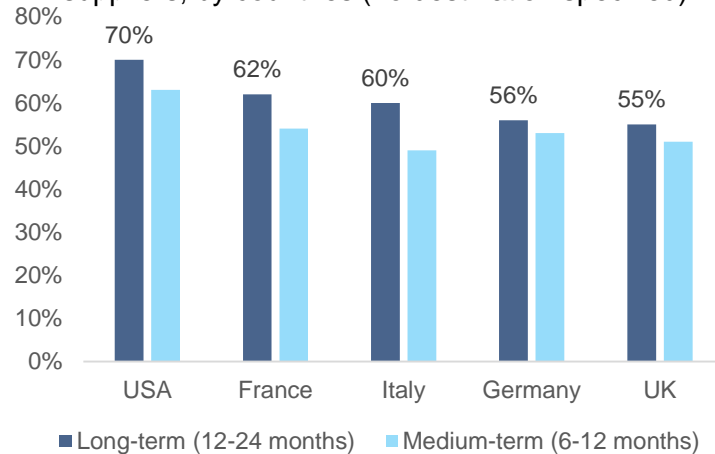


Sources: Euler Hermes Global Supply Chain Survey

The digital edge: highly digitized companies took significantly more actions to mitigate supply chain disruptions than less digitized companies, due to their higher agility and pro-activity

MESSAGE #3: 55% - 62% OF COMPANIES LOOKING TO FIND NEW SUPPLIERS

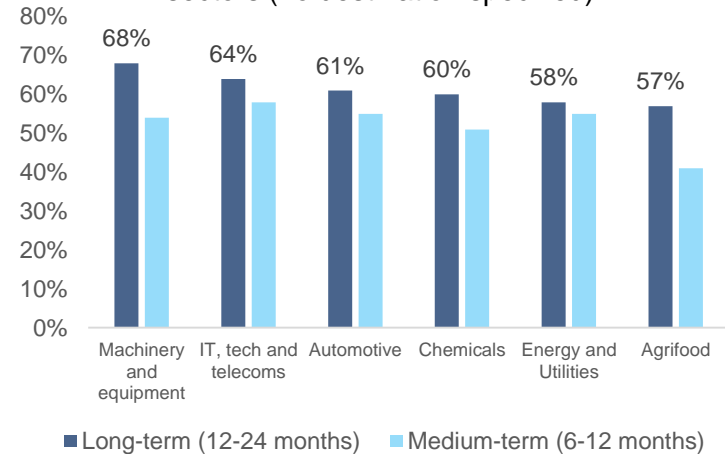
Share of respondents considering looking for new suppliers, by countries (no destination specified)



Sources: Euler Hermes Global Supply Chain Survey

In a third of the cases, companies consider moving their suppliers to countries that are already in their top 3 existing supplier locations. Coherent with results of the disruption question (U.S. higher)

Share of respondents considering changing suppliers, by sectors (no destination specified)

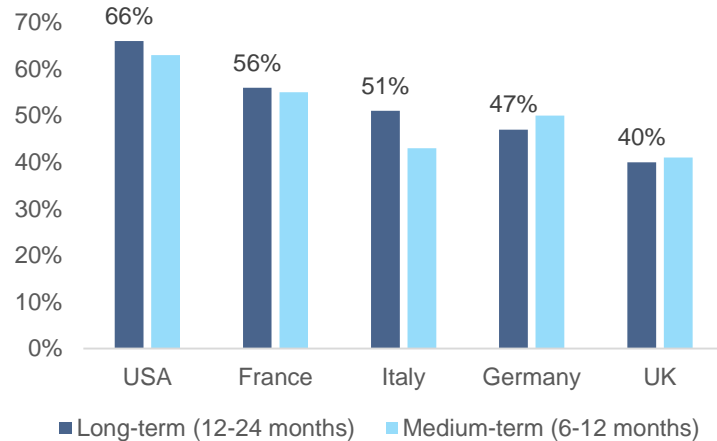


Sources: Euler Hermes Global Supply Chain Survey

Coherent with disruption results: agrifood less disrupted, machinery most disrupted. While not all results can be attributable to Covid-19, the shock has been significant, which will probably shake global supply chains

MESSAGE #4: 52 - 54% OF COMPANIES LOOKING TO MOVE THEIR PRODUCTION SITES

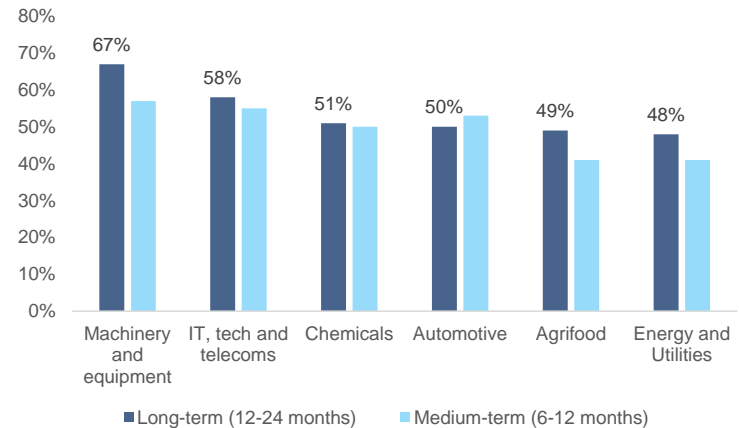
Share of respondents considering moving their production sites, by countries (no destination specified)



Sources: Euler Hermes Global Supply Chain Survey

Around half of companies surveyed consider moving their current production sites in the medium to long term. Dispersion is greater across countries and sectors than for the suppliers question

Share of respondents considering moving their production sites, by sectors (no destination specified)

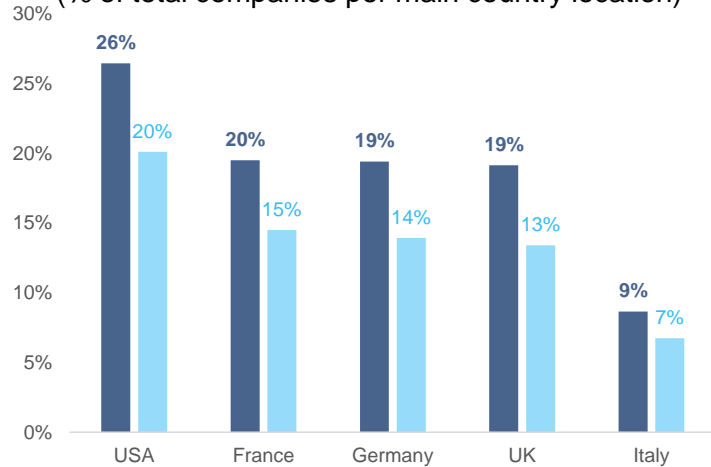


Sources: Euler Hermes Global Supply Chain Survey

Higher investment costs than finding new suppliers, so overall fewer companies embrace a move of production sites. Again, the most disrupted seem to be those looking to move their production sites

MESSAGE #5: FINDING SUPPLIERS HOME, BUT NO MASSIVE RESHORING OF PRODUCTION (LESS THAN 15%)

Share of companies aiming to find new suppliers at home, (% of total companies per main country location)

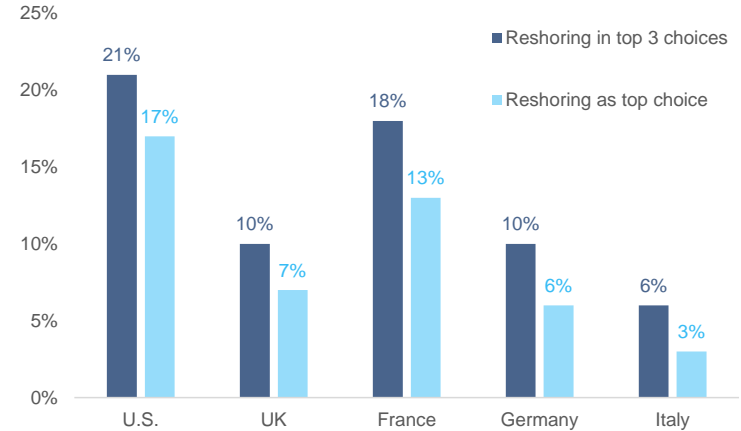


Sources: Euler Hermes Global Supply Chain Survey

1 in 5 companies considering looking for suppliers at home. Not the end of the Chinese supplier (18%) most popular outside home country, due to the search for cost-effectiveness in times of great

© cc uncertainty: Multifaceted strategy of resilience

Share of companies considering reshoring production sites (% of total companies per main country location)

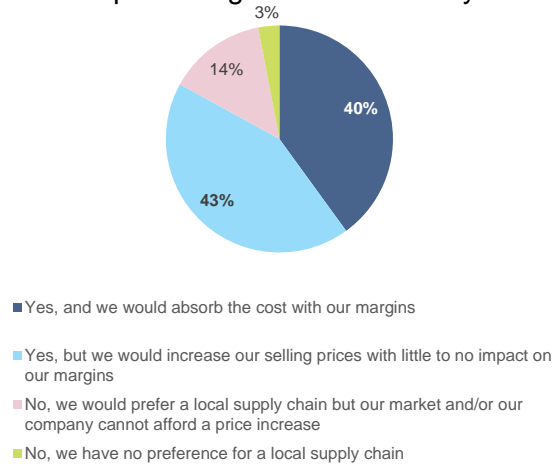


Sources: Euler Hermes Global Supply Chain Survey

Less than 15% of companies consider reshoring. When aggregating responses, we find around 30% consider nearshoring, i.e. bringing production to a nearby country (particularly if it's part of the same customs union or FTA)

MESSAGE #6: RESHORING MEANS HIGHER PRICES; NO MIRACLE POLICY TO BOOST SUPPLY CHAIN RESILIENCE

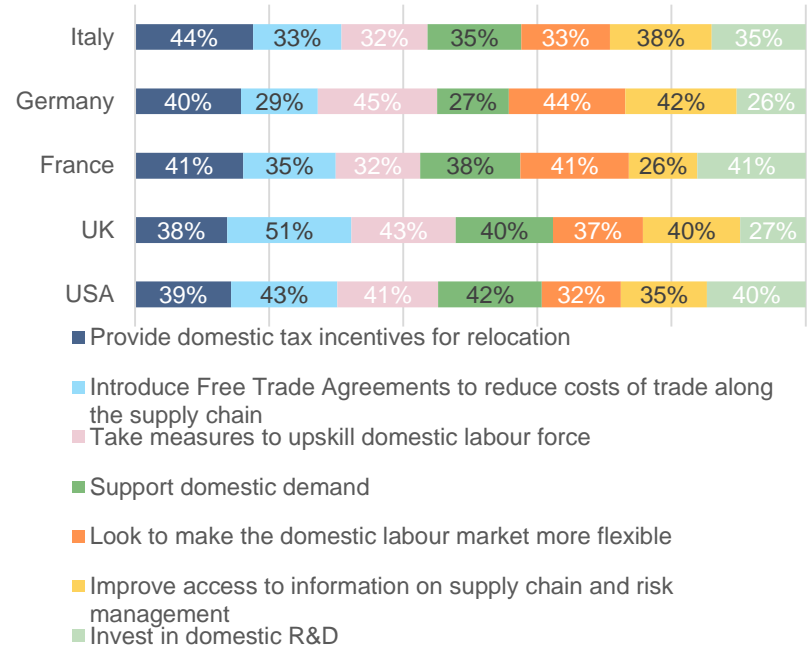
Share of companies willing to incur higher costs in order to produce goods domestically



Sources: Euler Hermes Global Supply Chain Survey

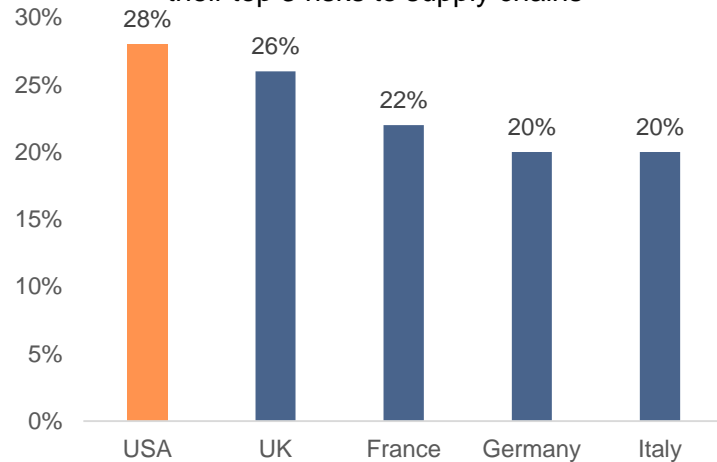
83% of companies surveyed are willing to incur higher costs to produce domestically, but half of those (i.e. four out of 10 surveyed) would absorb the cost with their margins, while the other half would pass the cost along to customers, hence raising their prices

Which of the following would be most effective at improving the resilience of supply chains in your country?



US: SUPPLY CHAINS ARE CAUGHT UP IN THE POLITICAL DEBATE

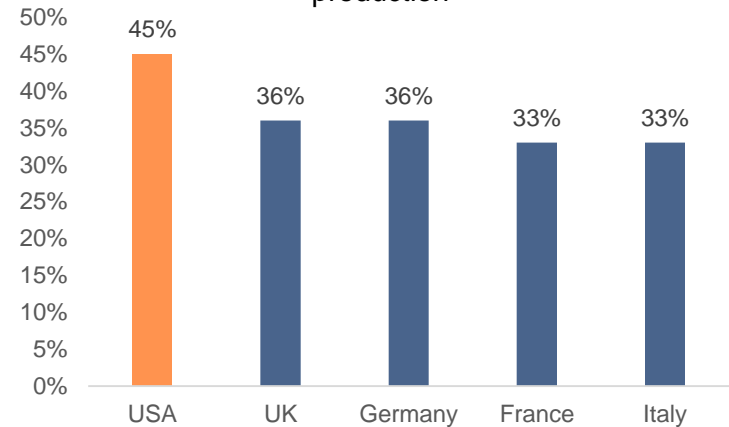
Share of companies mentioning “Environmental Risk” in their top 3 risks to supply chains



Sources: Euler Hermes Global Supply Chain Survey

Environmental risk matters more to U.S. companies. Awareness of environmental issues has significantly increased in the U.S. and it was a key differentiator between the two presidential candidates

Share of companies mentioning “supplier quality” as a challenge to switching to a domestic supplier or reshoring production

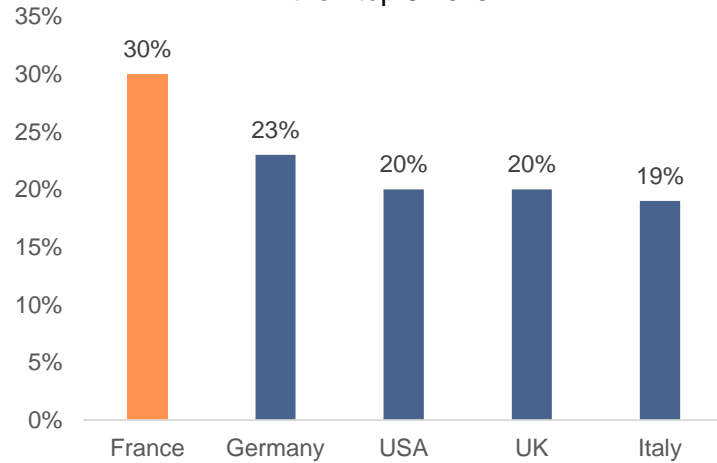


Sources: Euler Hermes Global Supply Chain Survey

Between 17% and 21% of companies in our sample of 363 U.S. companies consider reshoring (highest). The U.S. is the most “quality concerned”: “Made in the USA” politics, and high-competitiveness products in our sample (IT, tech and telecoms)

FRANCE: SUPPLIER BANKRUPTCY RISK HIGH, CUSTOMERS READY TO PAY MORE

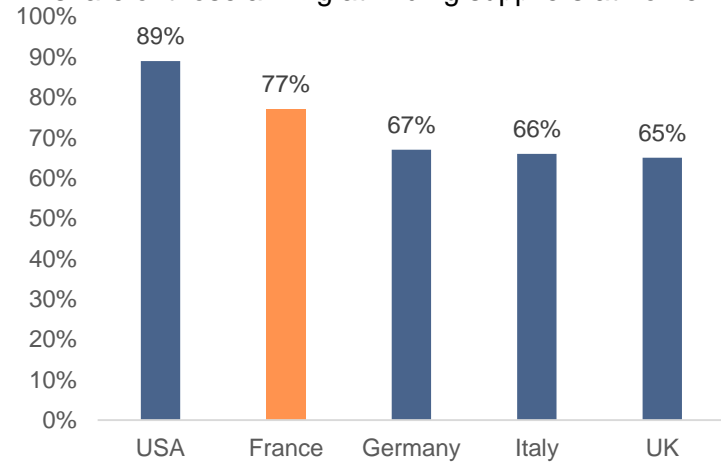
Share of companies mentioning supplier bankruptcy risk in their top 3 risks



Sources: Euler Hermes Global Supply Chain Survey

30% of French companies put supplier bankruptcy risk among their top three, vs. an average of 20% in other countries. Historically, they've had lower margins and higher debt ratios. Covid-19 has made things worse

Among companies considering looking for new suppliers, share of those aiming at finding suppliers at home

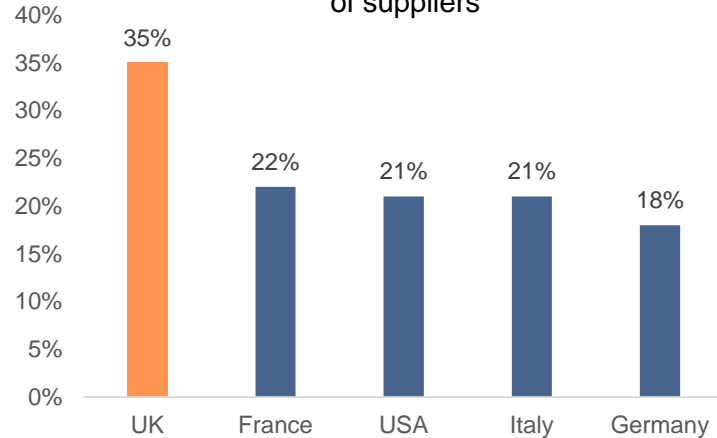


Sources: Euler Hermes Global Supply Chain Survey

77% of French companies believe customers are willing to pay more for domestically produced goods. In line with IFOP survey (2018), showing that three quarters of French consumers would be willing to pay more for a "Made in France" product

UK: BREXIT-RELATED RISKS AND POLICY PREFERENCES STAND OUT

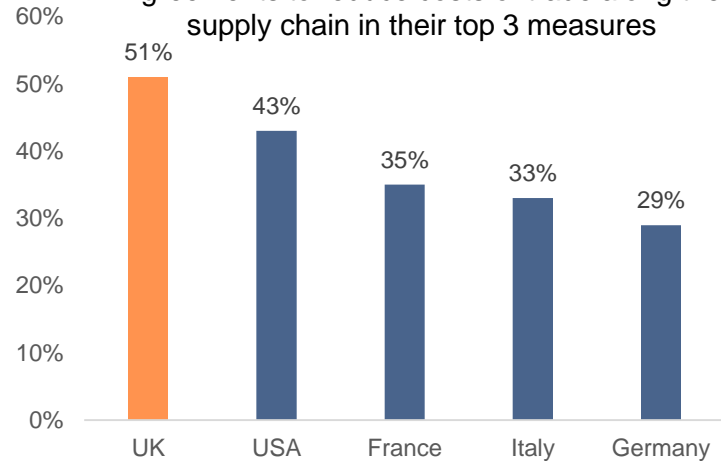
Share of companies mentioning reducing delays and better managing inventories among top 3 reasons to change location of suppliers



Sources: Euler Hermes Global Supply Chain Survey

Delays in terms of transportation time are expected post Brexit and estimates point to the fact that two extra minutes of additional controls at the border would translate into 32km of queues, or more than triple the existing ones (+5h wait!)

Share of companies that put Free Trade Agreements to reduce costs of trade along the supply chain in their top 3 measures

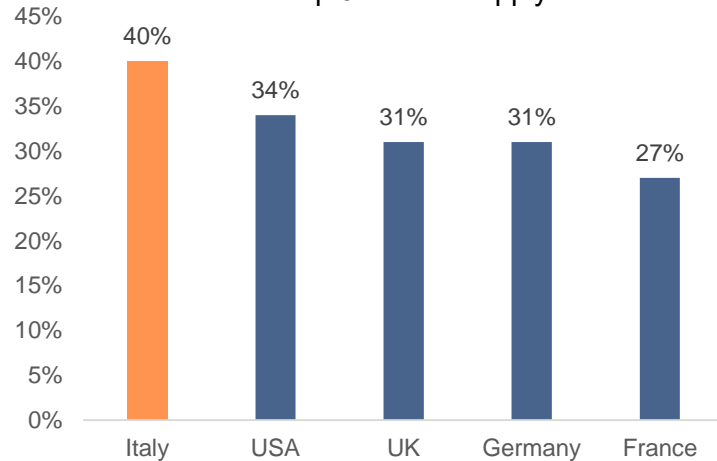


Sources: Euler Hermes Global Supply Chain Survey

When asked what measures could improve the resilience of UK supply chains, more than one out of two UK companies mention the introduction of Free Trade Agreements to reduce costs of trade along the supply chain, vs. 35% of other respondents

ITALY: HIGHER COSTS MATTER MORE, ATTRACTIVENESS IS THE BIGGEST CONCERN

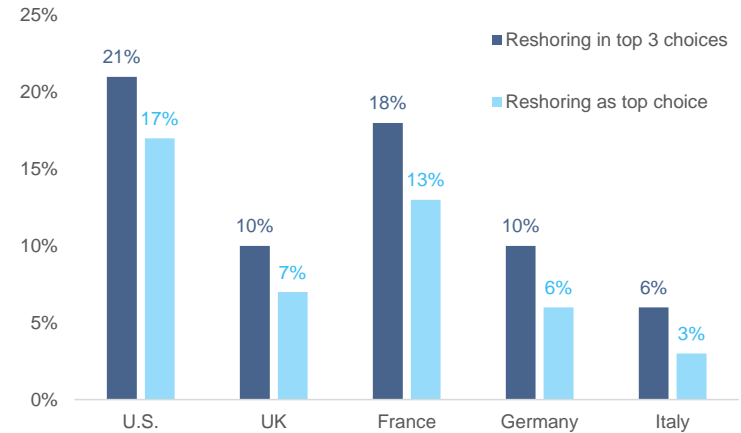
Share of companies that put an “increase in production costs” in their top 3 risks to supply chains



Sources: Euler Hermes Global Supply Chain Survey

Italian companies seem to be the most concerned about increases in production costs; it might be related to the perception of a trend of wages growing faster than productivity, damaging competitiveness.

Share of companies considering reshoring their production sites (i.e. bringing production back home)

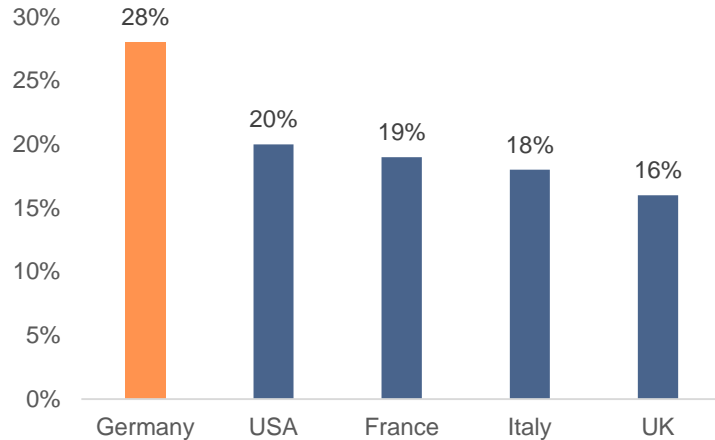


Sources: Euler Hermes Global Supply Chain Survey

Only 3-6% Italian companies are considering reshoring, which is significantly lower than the 10-15% average across the sample: weaknesses in infrastructure, education, banking system, higher corporate tax.

GERMANY: CONCENTRATION RISK, AND INNOVATION MATTERS FOR COMPETITIVENESS

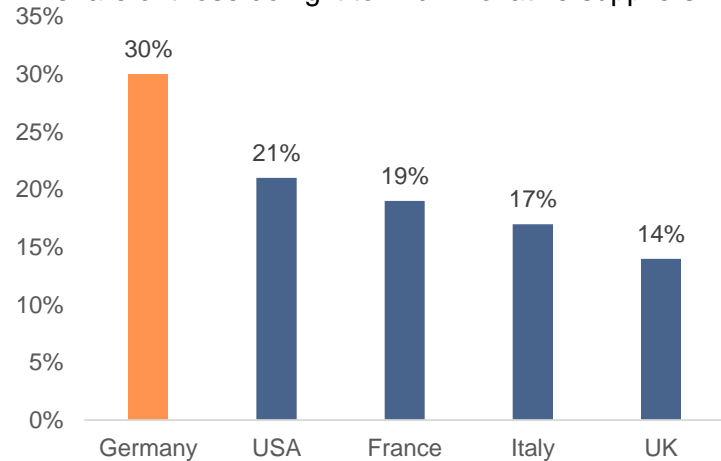
Share of companies that put an “concentration risk” in their top 3 risks to production sites



Sources: Euler Hermes Global Supply Chain Survey

Explained by the current supply chains: in our sample, 76% of German companies report having less than half of their suppliers located outside the country vs. 65% on average for other countries

Among companies considering looking for new suppliers, share of those doing it to find innovative suppliers

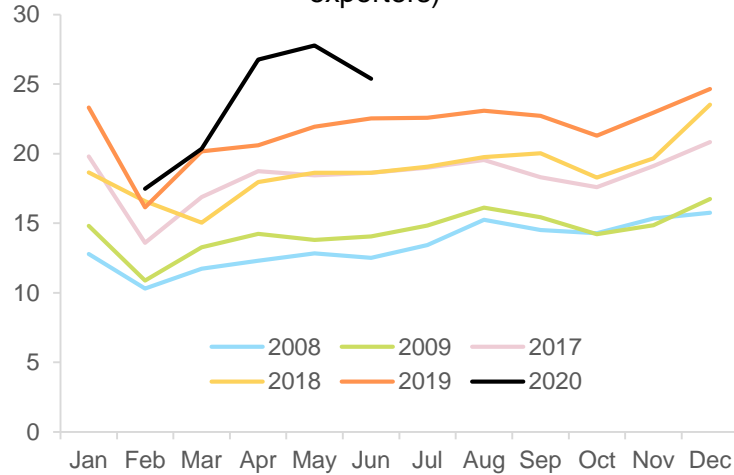


Sources: Euler Hermes Global Supply Chain Survey

Innovation matters more for German companies when choosing suppliers. This is in line with Germany’s historical competitiveness strategy, which focuses on quality and not cost

CHINA: IT IS NOT THE END OF THE CHINESE SUPPLIER

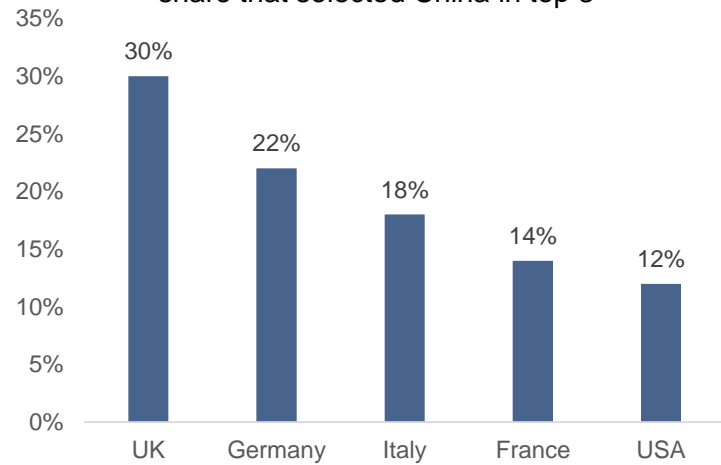
China's overall exports market share (% out of top 20 exporters)



Sources: International Trade Centre, Euler Hermes

Out of the top 20 exporters in the world, China's total market share now stands at c.25%, compared to an average of c.20% over 2017-19. Such a rapid increase had not been seen in previous global crises

Among the 723 companies looking to find new suppliers, share that selected China in top 3



Sources: Euler Hermes Global Supply Chain Survey

Preference towards a "continuation" of current supply chain dynamics: many companies already have suppliers in China and so it remains an attractive choice. Also, search for cost-effectiveness in times of great uncertainty and after an unprecedented shock

THANK YOU

Alexis Garatti, Head of
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