Global Supply Chains – Networks of Tomorrow

The US in focus

Introduction

For the last three years HSBC has examined how corporate treasurers and senior managers are reshaping their supply chain and working capital strategies in response to global economic changes, sustainability policies and digital enhancements.

This year, we've expanded the scope from just Asia Pacific to include globally strategic markets – Germany, the United Kingdom (UK), United States of America (US), United Arab Emirates (UAE), and Mexico. From August to October 2022, we commissioned East and Partners to directly interview 787 corporate treasurers and senior managers across 14 markets from large multinationals to local organizations, online and traditional retailers, and both HSBC customers and non-customers.

Here we look at the local, regional and global responses in context, discovering viewpoints on future supply chains, the needs of organizations and their treasuries today, and how the right banking solutions can help.

The view from the US

Macroeconomic conditions, stemming from factors such as high inflation and the Ukraine conflict, have exacerbated pandemic-induced supply chain disruptions for US businesses. The volatile environment has forced US corporates to try and adapt to challenges directly impacting their business processes, including their supply chain operations. As US companies review their supply chains, they are putting more focus on energy efficiency, environmentally conscious operations, and strengthening relationships with their suppliers. For many, this means shifting from the 'just-in-time' processes of the recent decades to a new 'just-in-case' culture.

"The data is clear: businesses in the US are overwhelmingly focused on improving visibility and resiliency throughout their supply chains. Given the persistence of external disruption, the need for effective and continuous management of sources of supply will only intensify. Supply chain resilience is now rooted in both digitization and optimization."

Marissa Adams, Head of Global Trade & Receivables Finance, Americas, HSBC

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Shifting supply chain strategies

Supply chain disruptions are likely to continue through 2023, as the Ukraine conflict continues and inflationary and recessionary concerns continue to create uncertainty in supply and demand. As in many other geographies, cost and product quality remain a key concern for organizations in the US when assessing supply chain partners, but outside of these, payment and financing terms is the top factor.

Top three macro factors driving change in supply chains

1. Counter party risk
2. New trade corridors
3. Border restrictions

Top supplier locations for corporates in the US

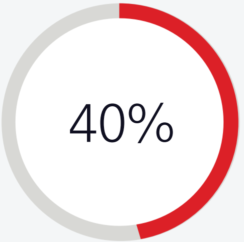
1. North America (31%)
2. Europe (18%)
3. Mainland China (16%)

Important factors for assessing suppliers[1]

Payment and financing terms	47%
Sustainability credentials	34%
Digital integration with treasury	31%

Inventory management

85% of corporates in the US are holding excess inventory.



average inventory holdings above normal levels

Top reasons for holding excess inventory

1. Covid restrictions (78%)
2. Freight rates (54%)
3. Preparing for future disruptions (31%)

The US is close to the global average in terms of the increase in inventory held following the pandemic, 85% vs 83%. Even in a country the size of the US, logistical challenges and disruptions abound and, as in Germany and the UK, a higher proportion of American organizations are taking measures to prepare for future disruptions.

[1] Outside of product quality and cost, these are the three key factors important to suppliers.

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Navigating new market conditions

The combination of the global pandemic and the conflict in Ukraine has caused an unprecedented imbalance in global supply chains, along with a high level of uncertainty. Fiscal stimulus measures to support businesses during COVID-19 have kept demand for goods and services high, but production has not been able to keep up. Chief Financial Officers and corporate treasurers in the US are among the most concerned about inflation and interest rate risks across our respondents.

Risk management solutions

Top solutions for hedging against financial risk

1. Forwards for hedging FX risk (74%)
2. Interest rate swaps for interest rate risk (57%)
3. Options for hedging FX risk (24%)

Supply chain costs of greatest concern

Inflation risk	31%
Interest rate risk	29%
Cash flow / liquidity risk	19%

Top currencies used to pay suppliers

88%	41%	35%
Supplier's Local Currency	GBP	USD

Financing the supply chain

Preferred funding programmes

1. Traditional trade finance[2] (90%)
2. Inventory financing (74%)
3. Available working capital[3] (47%)

Changes in supply chain partners

1. Increasing number of supply chain partners (49%)
2. Reducing number of supply chain partners (50%)
3. Keeping the same number of supply chain partners (2%)

Channels for supplier payments

Most popular payment methods

1. Purchase order (supplier portal) (43%)
2. Electronic bank transfer (34%)
3. Advance batch payment (10%)

"A real focus on working capital preservation using a mix of inventory and receivables financing has worked really well for the business."

Treasurer, Technology Services Group

Most global organizations are focused on reducing the number of supply chain partners they use (64%). But in the US, a high proportion of enterprises (49%) are in fact expanding their supplier network compared to the global average (31%). The only other country in which companies are expanding their supply chains at a similar rate is Mexico (42%).

[2] Traditional trade finance includes documentary credit/collections, open account and trade loans
[3] Available working capital includes the organizations' own cash, marketable securities and optimisation of receivables/payables terms

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Ensuring supply chain resilience

Through the globalization trends of the last 25 years, corporations have focused on lower costs, leaner supply chains and efficient just-in-time processes. But recent disruptions have changed the conversation. The priority now is to embrace digitization to help optimize supply chain management, and use both digitization and sustainability to increase resilience.

Digitising the supply chain

Top digital priorities banks can support with

Better visualise transactions / the supply chain	54%
Connect banking solutions / online platforms	52%
Understand the market / my industry sector	47%

Tracking all assets and transactions in a supply chain is crucial for organizations that want to find efficiencies and optimize logistics. With the right solutions, organizations can also connect with suppliers' systems and their banking platforms.

"Sustainability has become a big driver in our supply chain management; customers and investors are both wanting to see transparency and reporting around this which has resulted in a significant reduction in the number of supply partners we have globally. This actually has additional efficiency benefits."

Group Treasurer, US Manufacturer

Integrating sustainability along the supply chain

Nearly half of US organizations have environmental supply chain policies in place and 41% are planning them, but overall commitment to sustainability principles is relatively low at 2.09 on a scale of one to five. Only China (2.12) and Mexico (2.13) have a lower score.

Environmental / green policy implementation

1. Already in place (49%)
2. Will be in place within two years (41%)

Health and safety / wellbeing policy implementation

1. Already in place (37%)
2. Will be in place within two years (52%)

Top focus areas for corporates in the US planning to invest in sustainable supply chains

Top methods for encouraging suppliers to adopt sustainability policies

97%	Requiring new suppliers to conform as part of their onboarding with us
36%	Mandating compliance with our own sustainability policies in order to transact
9%	Providing payment premiums for compliance with our standards

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Highlighting market differences

Although inflation and interest rates are supply chain costs that US organizations are worried about, they are acting to meet challenges. More of them are planning to increase supply chain partners and are looking to their home market for supply chain changes.

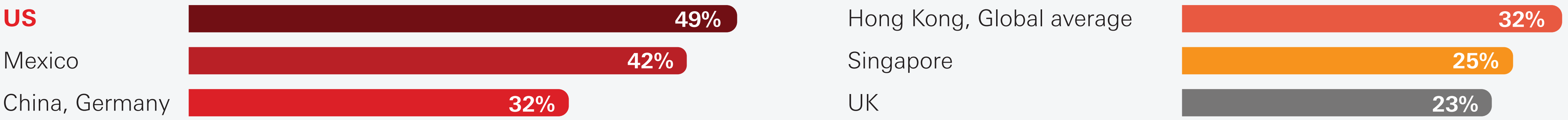
Interest rate risk is a key concern

For corporates in the US, interest rate risk is considerably more prevalent than in other geographies. The Fed's key benchmark borrowing rate is projected to rise another three-quarters of a percentage point in 2023, hitting a 17-year high, according to the Fed's median projection[4] from December.

US	UK	Hong Kong	Singapore	Global average
29%	22%	18%	18%	15%

Increasing supply chain partners

A high proportion of US companies are planning to increase supply chain partners and the top market in which supply chains are to be realigned is within North America (30.6%).



[4]Summary of Economic Projections, Federal Reserve, Dec 2022

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