

Global Supply Chains – Networks of Tomorrow

Germany in focus



HSBC

Opening up a world of opportunity

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. We spoke to 787 corporate treasurers and senior managers across 14 markets from large multinationals to local organisations, 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 organisations and their treasuries today, and how the right banking solutions can help.

The view from Germany

As an export nation, high inflation and currency fluctuations pose a high risk to Germany. Businesses are addressing this challenge by restructuring their supply chains with multiple strategies:

- Corporates are responding to supply chain problems and disruptions with increased levels of inventory held. Just-in-case models are increasingly replacing the common just-in-time structure.
- Quality and reliability remain key factors in evaluating suppliers leading to a reduction of supply chain partners.
- Euro and USD are still the top currencies for invoicing.
- Sustainability is increasingly becoming an important factor for supply chain evaluation: more and more corporates require their suppliers to prove sustainability compliance as part of the onboarding and see sustainability as a real competitive advantage.



Germany is one of the leading countries in integrating sustainability criteria into global supply chains and sustainability is increasingly becoming a competitive advantage. With our global network, we will continue to support you in building more resilient and sustainable supply chains and in achieving premium pricing opportunities.”

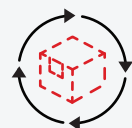
Hermann Purr, Head of Global Trade and Receivables Finance, Germany, HSBC

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Shifting supply chain strategies

As global supply chains have been challenged by macroeconomic conditions and the recent pandemic, many organisations have changed their priorities. In Germany, the focus is emphatically on product quality when searching for suppliers, with cost concerns a distant second.



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 Germany

1. North America (26%)
2. Europe (22%)
3. Asia excluding China (16%)

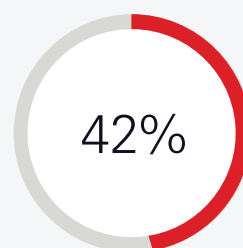
Important factors for assessing suppliers¹

Payment and financing terms	44%
Sustainability credentials	36%
Digital integration with treasury	33%

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

Inventory management

92% of corporates in Germany are holding excess inventory.



average inventory holdings above normal levels



Top reasons for holding excess inventory

1. Covid restrictions (79%)
2. Freight rates (67%)
3. Preparing for future disruptions (33%)

German companies have responded to recent disruptions by holding stock, much more than the global average of 83%. This hints at a wider shift to just-in-case models instead of the just-in-time structure more common when supply chains were operating without any challenges.



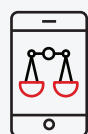
Price volatility has been a big issue for us since Covid in China; our partners there increasingly aren't honouring our supply agreements for the full term of the agreements. Seems to be getting worse and the bigger the supplier, the more this is happening."

Group Treasurer, German Retailer

Navigating new market conditions

For German organisations, inflation is still a high risk. Interest rate risk is not in the top three concerns, hinting that interest rate hikes have been priced in. Currency volatility is the key risk here, as Germany is a major exporting nation.

Risk management solutions



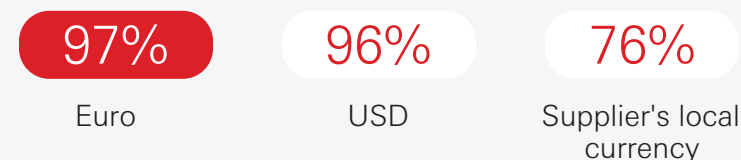
Top solutions for hedging against financial risk

1. Forwards for hedging FX risk (85%)
2. Interest rate swaps for interest rate risk (68%)
3. Options for hedging FX risk (27%)

Supply chain costs of greatest concern



Top currencies used to pay suppliers



Financing the supply chain



Preferred funding programmes

1. Traditional trade finance (89%)²
2. Inventory financing (74%)
3. Available working capital (52%)³



Changes in supply chain partners

1. Increasing number of supply chain partners (32%)
2. Reducing number of supply chain partners (64%)
3. Keeping the same number of supply chain partners (5%)

Our FX hedging is becoming very difficult as our physical supply chain is still trying to normalise and simplify things like matching delivery / receipt times to our FX exposure tenors has become almost impossible."

Treasurer, German Light Manufacturer

² Traditional trade finance includes documentary credit/collections, open account and trade loans

³ Available working capital includes the organisation's own cash, marketable securities and optimisation of receivables/payables terms

Digitising the supply chain

Digitisation has been seen as an aid to resilience for some time, and using better data to manage the supply chain remains a top strategy for organisations in Germany.

Achieving aims through data

Top digital priorities banks can support with

Better visualise transactions / the supply chain	46%
Connect banking solutions / online platforms	42%
Access and optimise working capital	38%

Using better data to manage the supply chain is a top strategy for many markets. That's why using digitisation to visualise transactions and the chain is key for organisations in Germany, the UK, the US, Singapore and Hong Kong.

Channels for supplier payments



Most popular payment methods

1. Electronic bank transfer (42%)
2. Purchase order (supplier portal) (36%)
3. Advance batch payment (15%)

Electronic bank transfer is the top method of payment in only three other geographies, India at 64%, Malaysia at 61% and Mexico at 46%, but purchase orders are more common across all geographies. Germany also has one of the lowest uses of corporate credit cards at just 1.5%, on a par with the UAE and China.

Ensuring supply chain resilience

Resilience is a key focus for all organisations after the unexpected disruptions of the last few years. There’s a growing sense that sustainability within supply chains can add to future-proofing strategies too.

Integrating sustainability along the supply chain

Germany is leading the way in sustainable supply chains, particularly in environmental policies.



Environmental / green policy implementation

- 1. Already in place (67%)
- 2. Will be in place within two years (23%)



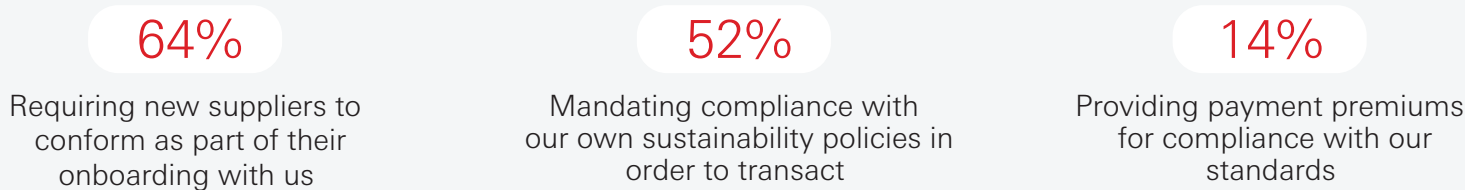
Health and safety / wellbeing policy implementation

- 1. Already in place (38%)
- 2. Will be in place within two years (46%)

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



Top methods for encouraging suppliers to adopt sustainability policies



Our drive to greater sustainability compliance has given us a real competitive advantage across our Euro markets; not so much elsewhere yet but we’re seeing a premium pricing opportunity throughout our product lines as a result.”

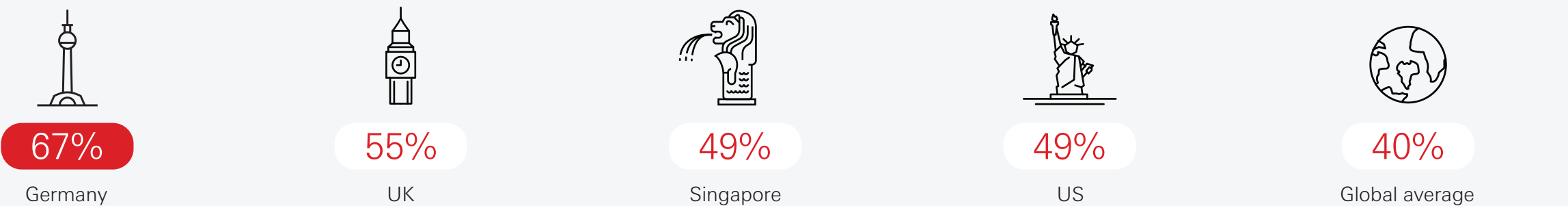
Treasurer, German Wholesale/Distributor

Highlighting market differences

For organisations in Germany, the contrast is along lines of economic development. As an advanced economy, Germany is further along the sustainability journey than most and favours similar financing options to its peers.

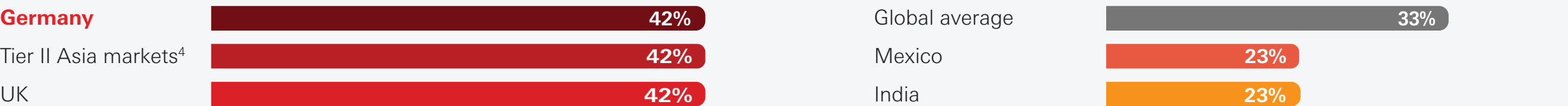
Environmental / green / sustainability policy implementation

CFOs and treasurers in Germany are the most advanced for sustainability policy implementation across all geographies, and well above the global average.



Financing the supply chain using receivables financing

Corporates in Germany are the most likely to fund their supply chain using receivables financing, a trend in common with many advanced Asian economies and the UK, but in contrast to less developed economies.



⁴ Tier II Asia markets are: Australia, South Korea, Indonesia, and Japan.

Disclaimer

From August to October 2022, we commissioned East and Partners to directly interview 787 corporate treasurers and senior managers across 14 markets, including 66 in Germany, to find out how they are managing their supply chains. Respondents could select multiple answers for some questions.

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