

Global Supply Chains - Networks of Tomorrow

Japan 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 companies and their treasuries today, and how the right banking solutions can help.

The view from Japan

Organisations in Japan have been focusing on building more resilient supply chains, responding to the impact of Covid-19 and an uncertain global trade environment. Increasing their share of inventory from key suppliers, shifting to the use of digital documentation and aligning supply partners with sustainability policies are key focus areas in this effort.

These measures are directly affecting supply chain management and there is growing demand for further support. Clients are looking to their banks for digital payment solutions and advice on how best to continue their sustainability transition in the period ahead.



Our corporate clients are trying to ensure that they have sufficient inventory to avoid production disruptions. Potential issues which might halt the timely delivery of raw materials and parts include logistics issues and market disruption."

Takahisa Yano, Head of Global Trade and Receivables Finance, Japan, HSBC

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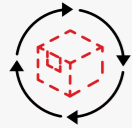
How corporates are laying the foundations for future supply chains

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How do corporates in Japan differ from other markets?

Shifting supply chain strategies

Counter party risk and expansion to new markets are key drivers that are influencing how organisations in Japan are managing their supply chains. They are increasingly looking at payment and financing terms, and taking sustainability credentials into account when assessing suppliers.



Top three macro factors driving change in supply chains

1. Counterparty risk
2. Expanding to new markets/trade corridors
3. Regulations and border restrictions



Top supplier locations for Japan's corporates

1. Mainland China (29%) (no change)*
2. North America (23%) (-2pp)*
3. Asia (excluding China) (22%) (+1pp)*

*vs 2021

Important factors for assessing suppliers¹

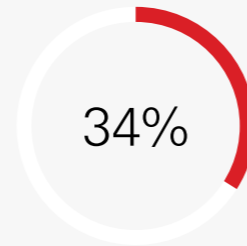
Payment and financing terms **62%**

Sustainability credentials **31%**

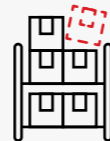
Digital integration with treasury **26%**

Inventory management

73% of corporates in Japan are holding excess inventory



average inventory holdings above normal levels



Top reasons for holding excess inventory

1. Covid restrictions (56%)
2. Freight rates (31%)
3. Preparing for future disruptions (24%)

Corporates in Japan have held excess inventory in response to pandemic restrictions and rising freight rates. They are also ensuring that they have enough inventory to be prepared for disruptions to their supply chains.



Our procurement teams have been building up buffer inventory onshore, the cost of which is really starting to bite."

**Treasurer,
Japanese Manufacturing Group**

¹ These factors are outside product quality and cost, which remain as the top areas of assessment

Navigating new market conditions

Organisations in Japan are highly concerned about the impact of inflation and currency risks on their supply chains. They are increasingly looking to hedging solutions in response to these risks. Another area of focus is on reducing partner count to streamline their chains.

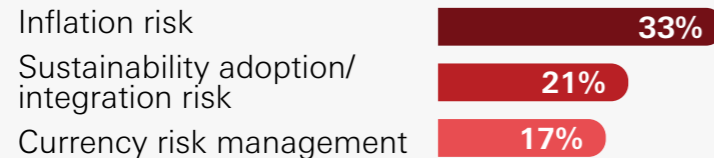
Risk management solutions



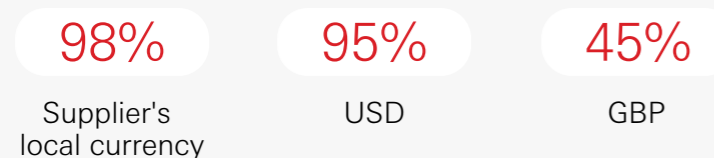
Top solutions for hedging against financial risk

1. Forwards for hedging FX risk (86%)
2. Interest rate swaps for interest rate risk (42%)
3. Options for hedging FX risk (26%)

Supply chain costs of greatest concern



Top currencies used to pay suppliers



Financing the supply chain



Preferred funding programmes

1. Traditional trade finance² (80%)
2. Available working capital³ (65%)
3. Receivables financing (42%)



Changes in supply chain partners

1. Increasing number of supply chain partners (23%) (-11pp)*
2. Reducing number of supply chain partners (73%) (+21pp)*
3. Keeping the same number of supply chain partners (4%) (-6pp)*

*vs 2021

Traditional trade finance and available working capital continue to be the most preferred methods of funding. Corporates in Japan are also less inclined to maintain their supply chain partners and are reducing their partner count instead.

Channels for supplier payments



Most popular payment methods

1. Purchase order (supplier portal) (33%)
2. Electronic bank transfer (33%)
3. Advance batch payment (18%)

After decades of shifting production to emerging markets, today, Japanese corporates stand at a crossroads and need to carefully consider their optimal production mix. While there is pressure to repatriate production, this is difficult to achieve due to a number of reasons including yen depreciation and a tight local labour market."

Takahisa Yano, Head of Global Trade and Receivables Finance, Japan, HSBC

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

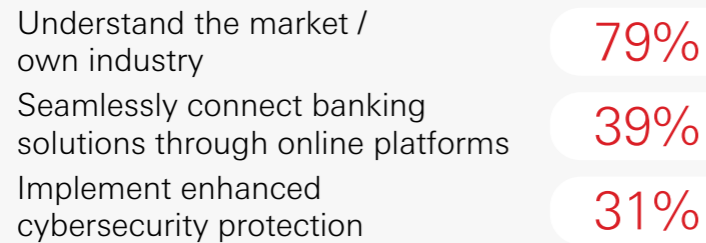
³ Available working capital includes the organisation's own cash, marketable securities and optimisation of receivables/payables terms

Ensuring supply chain resilience

Organisations in Japan are investing in various areas to enhance the sustainability of their supply chains, notably on environment friendly plants and machinery. There has also been growing focus on gaining industry insights through digital tools and providing incentives for suppliers to align with sustainability policies.

Digitising the supply chain

Top digital priorities banks can support with



Corporates in Japan are looking to leverage digital methods to better understand the market and their own industries. They are also aiming to improve their cybersecurity and access to banking solutions through online platforms.

While the majority of large Japanese corporations have already established their sustainability goals and have started investing to improve their own operations, many have yet to take action to enhance their supply chains."

Takahisa Yano, Head of Global Trade and Receivables Finance, Japan, HSBC

Integrating sustainability along the supply chain

Sustainability policies are coming into place, with many corporates in Japan planning to implement policies within the next two years.



Environmental / green policy implementation

1. Already in place (47%)
2. Will be in place within two years (35%)



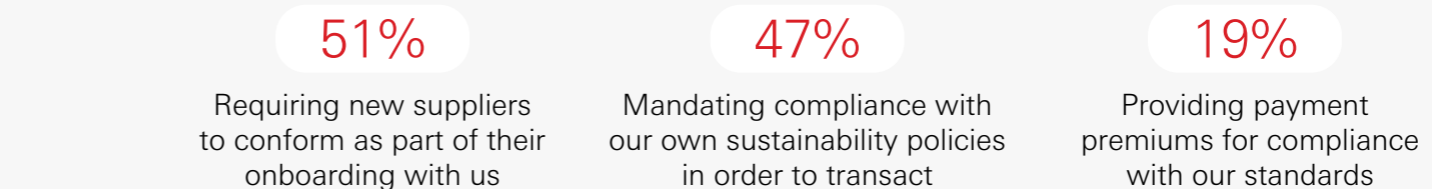
Health and safety / wellbeing policy implementation

1. Already in place (38%)
2. Will be in place within two years (37%)

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



Top methods for encouraging suppliers to adopt sustainability policies



From August to October 2022, we commissioned East and Partners to directly interview 787 corporate treasurers and senior managers across 14 markets, to find out how they are reshaping their supply chains. The statistics shown are based on a collective sample of 114 respondents from Australia, Indonesia, Japan and South Korea. Respondents could select multiple answers for some questions.

Highlighting market differences

Across the markets surveyed, organisations in Japan stood out in looking for advice to support their adoption of green and energy efficient equipment. They also placed understanding markets and industries as their highest digital priority, reflecting a focus on using data analysis to gather crucial decision making information.

Getting advice from banks about green and energy efficient equipment

Compared to global peers, corporates in Japan are the most active in seeking advice from banks to support their adoption of green and energy efficient equipment



64%

Japan



54%

Singapore



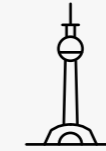
47%

Mainland China



45%

India



41%

Germany



41%

Global average

Understanding the market and industry is a top digital priority

Among markets globally, corporates in Japan are looking to digital banking solutions to help them better understand the market and their industry

Japan, Australia, Indonesia and South Korea

79%

United States of America

47%

United Kingdom

42%

Global average

39%

Germany

38%

Mexico

36%

Disclaimer

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