



EU-China Sourcing

Presentation of 2023 Sourcing Survey

Shanghai 2023-11-09



JOHAN ANNELL

PARTNER

Johan Annell is Partner and manages the Beijing branch at ARC Consulting – well recognized partner and service provider for European companies in China and Southeast Asia.

He is fluent in Mandarin and has an M.Sc. in Industrial Engineering & Management from Chalmers University of Technology and a M.Sc. in Financial Economics from Gothenburg University.

We are global advisory company with roots in Scandinavia

A photograph of terraced rice fields on a hillside, with a small wooden hut visible in the lower left.

Market Entry & Expansion

A photograph of a cargo ship at sea, viewed from the front, with many colorful shipping containers stacked on its deck.

Sourcing & Supply Chain Management

A photograph of a complex highway interchange at night, with light trails from cars and a city skyline in the background.

Restructuring & Transformation

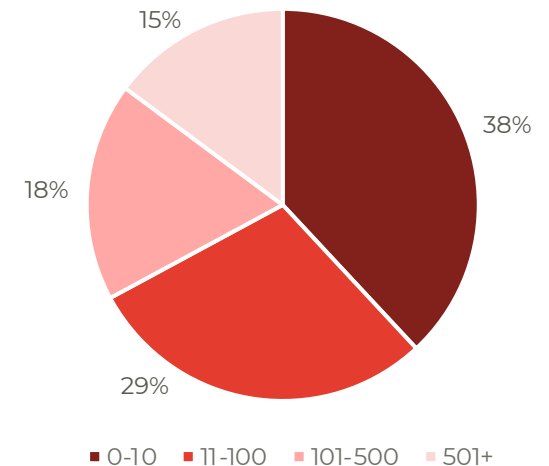
A photograph of a tall, modern skyscraper with a glass facade, viewed from a low angle against a cloudy sky.

Financing & M&A

Respondents come from a diverse array of industries and over 33% have a purchasing value of over 100 million USD per year



Respondents in different classes of total global purchasing amounts in 2023 (Million USD)



The survey data cover the following topics:

- Sourcing markets overview in China, Europe, and Southeast Asia
- Current reshoring/nearshoring activities and trends
- The role of ESG in sourcing
- The future of sourcing and the perceived importance of different sourcing regions

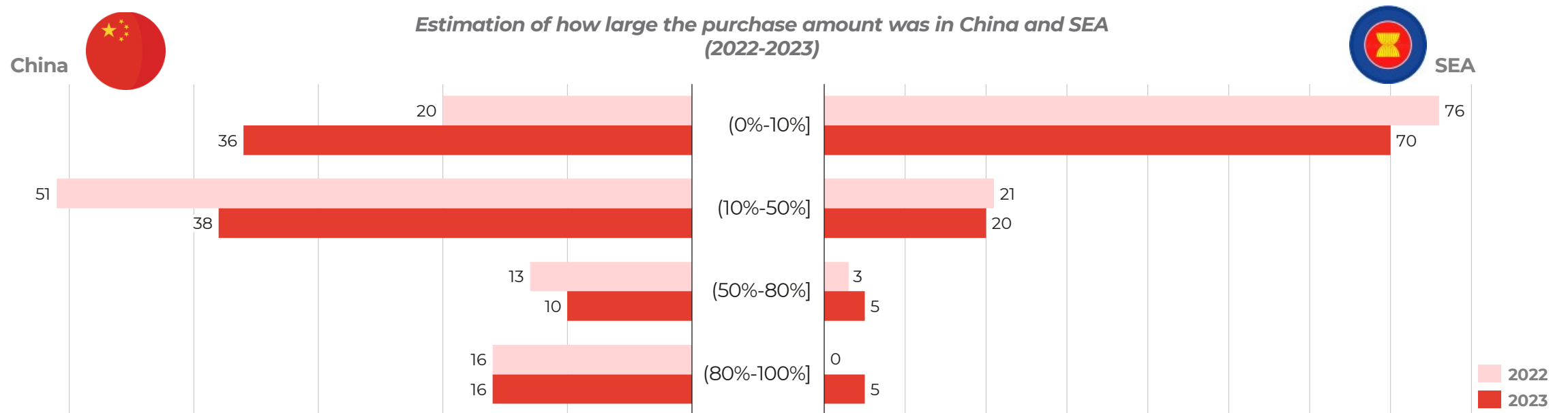
China sourcing market has lost some steam, and South East Asia (SEA) has become a complementary market for many companies

Share of respondents who source in China

✓ **78%** Yes ✗ **22%** No

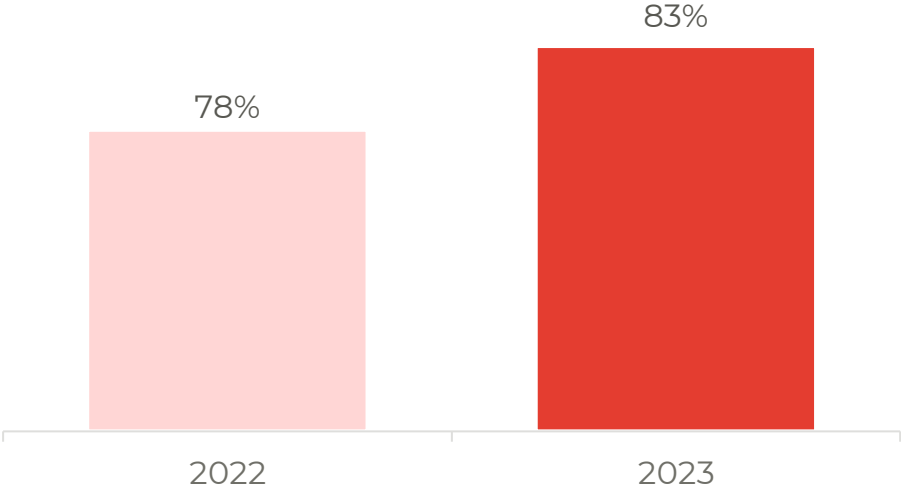
Share of respondents who source in SEA

✓ **49%** Yes ✗ **51%** No

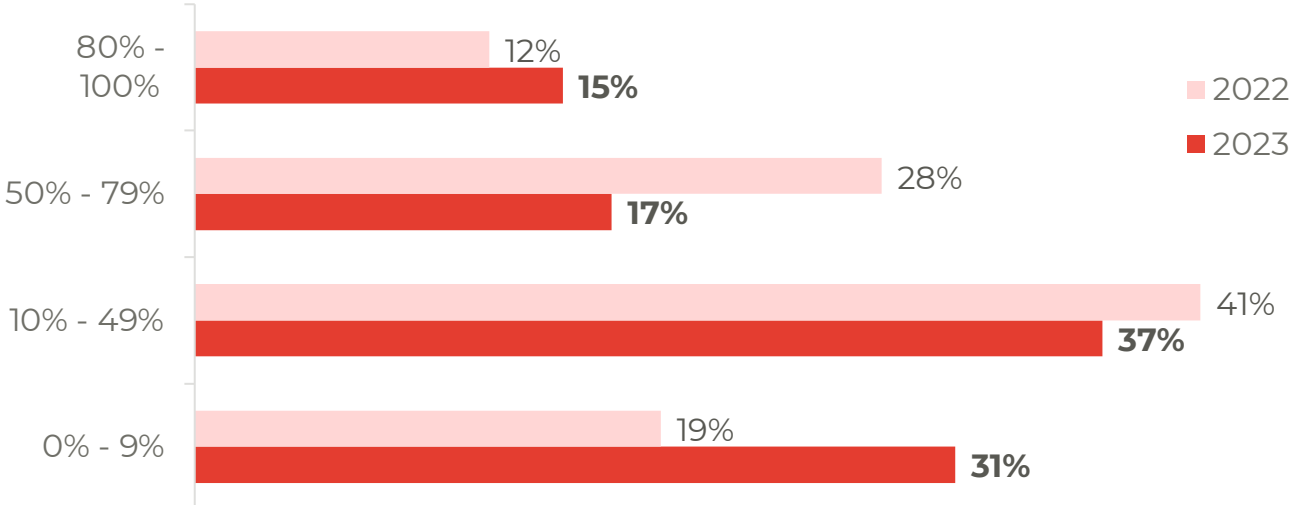


More companies have some sourcing in Europe, however many respondents have very limited part of spend

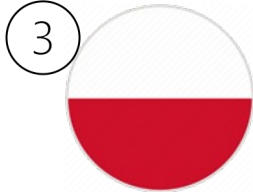
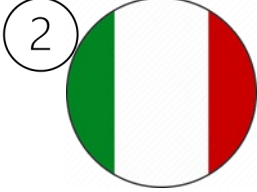
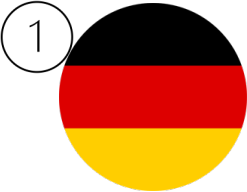
Share of respondents who sourced in Europe (2022-2023)



Estimation of how large the purchase amount was in Europe



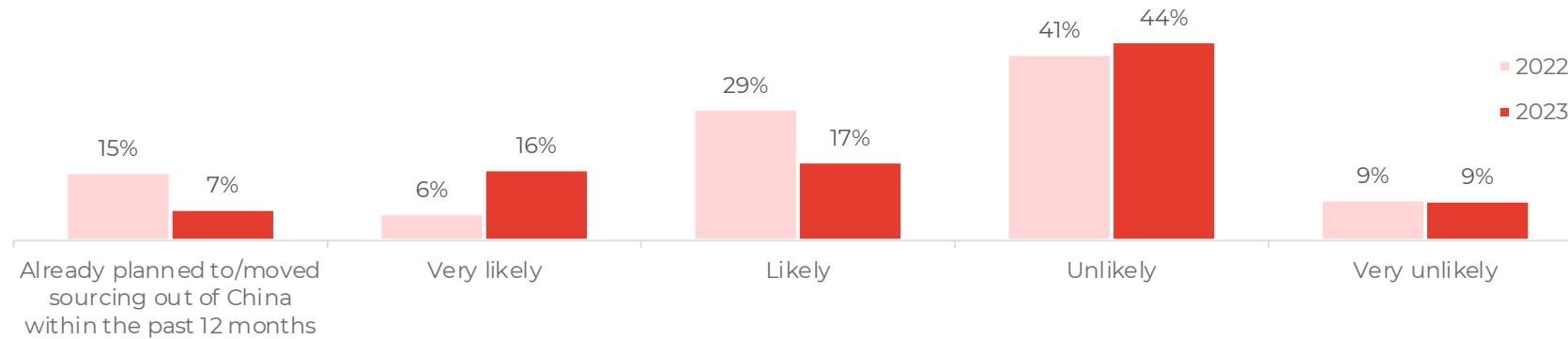
Survey respondents listing top 3 countries they source



There is a significant group of companies moving some sourcing out of China, in SEA less so

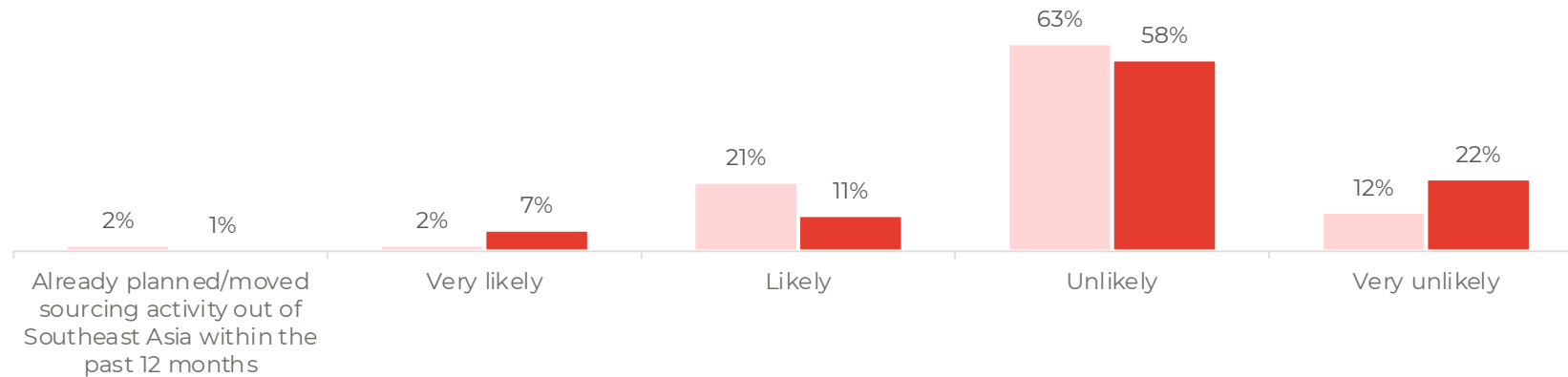
Recovering confidence toward the Chinese market

Share of respondents' likeliness to relocate their sourcing out of China



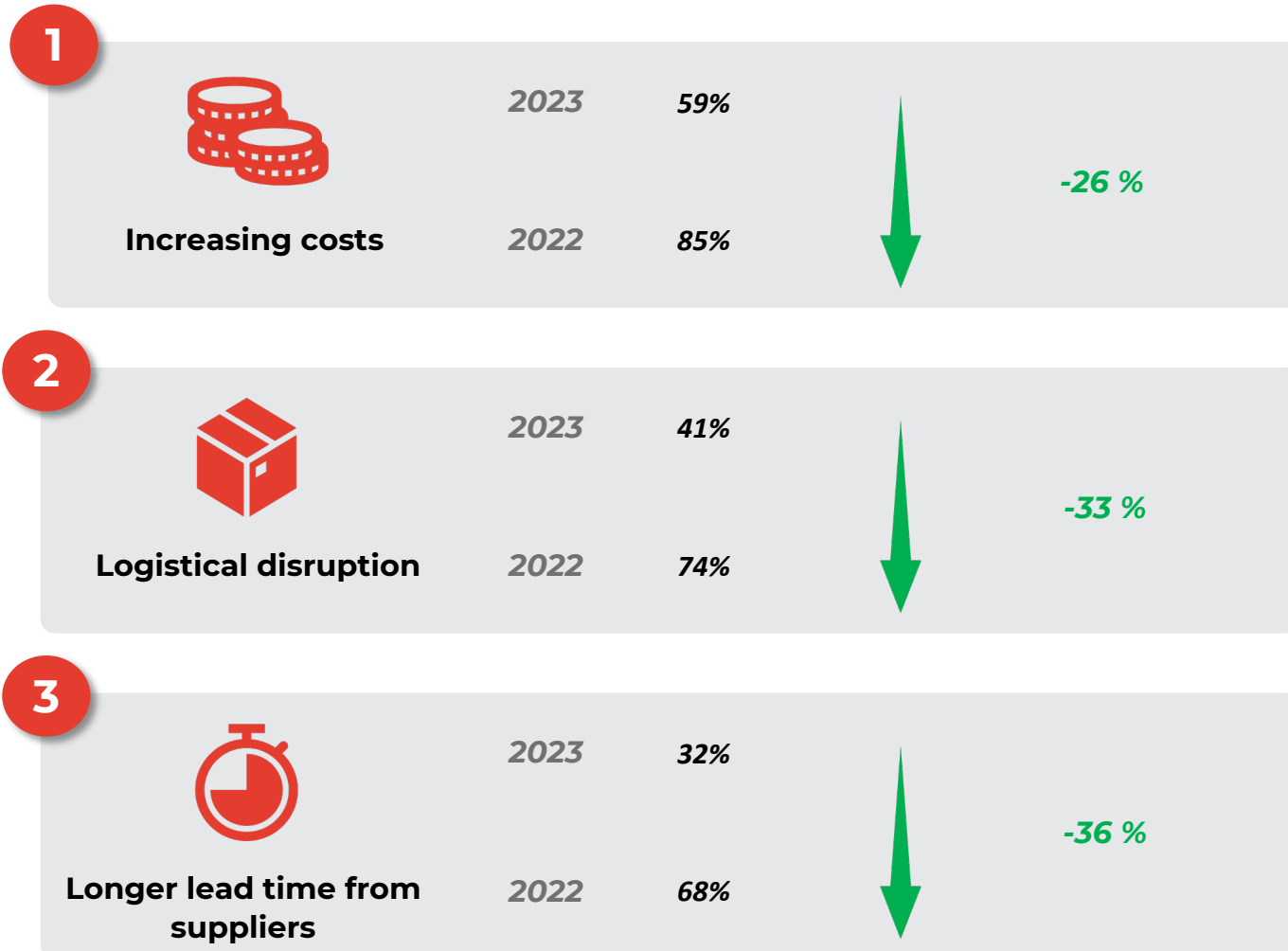
Growing confidence in SEA market when compared with China

Share of respondents' likeliness to relocate their sourcing out of SEA



Supply Chain situation has improved significantly, Cost pressure, logistics disruptions and lead time are a concern for fewer

Top sourcing problems

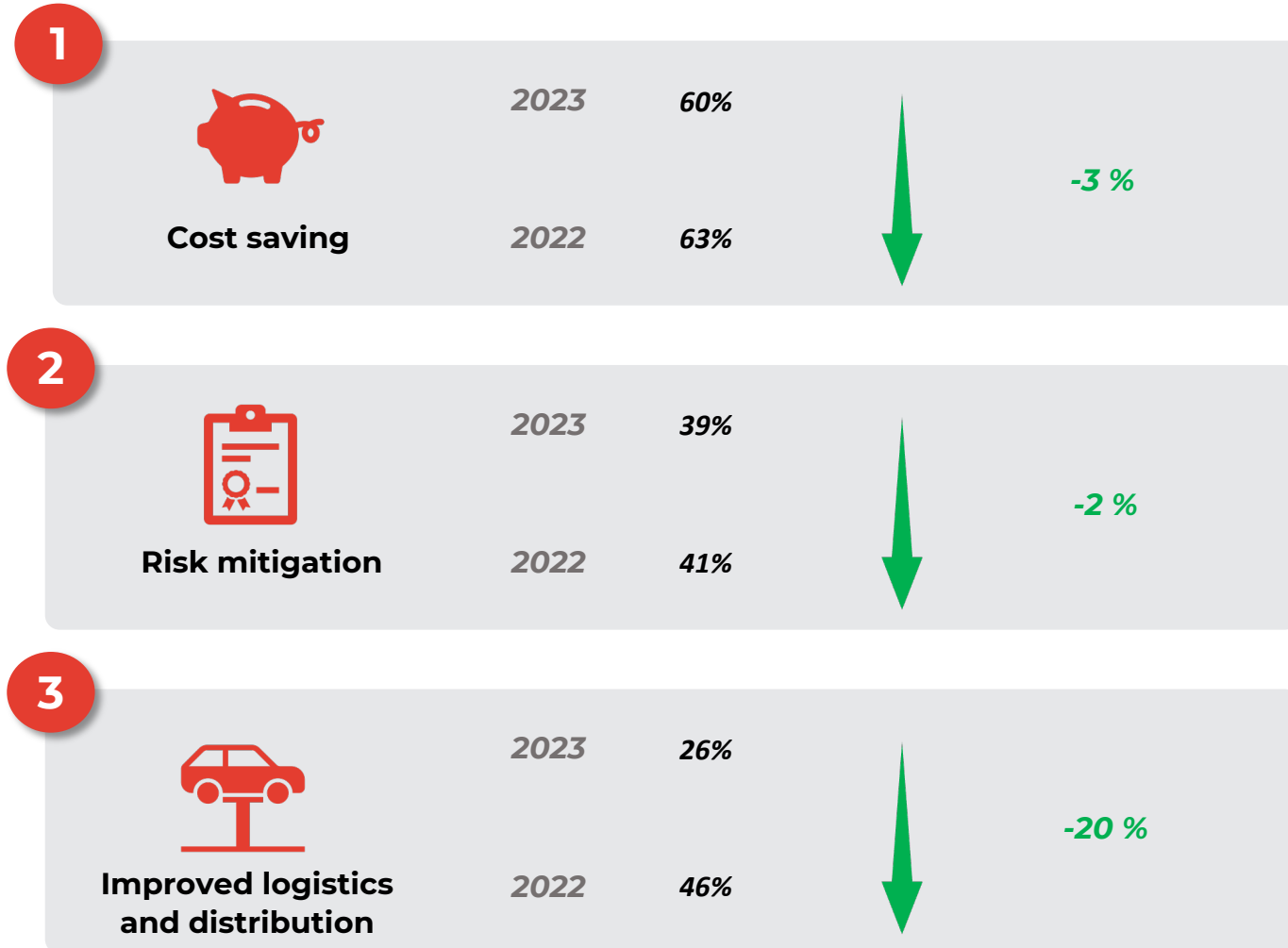


➤ The three biggest challenges that companies have faced in 2023 **remain the same** as those of previous years.

➤ On average, the concerns over the top three problems **declined by about 30% between 2022 and 2023**

Cost is still the biggest criteria when companies decide whether to relocate

Top Reasons for relocating



- The decline in the share of may partly attribute to the **reopening of China**.
- Companies today, looking back at the challenges posed in recent years, have realized the importance of **diversifying their supplier base** into more markets to help mitigate potential risks.
- Many companies reshore or nearshore to **strengthen control of logistics** by shortening the shipment distance

Quality and insufficient knowledge have decreased as perceived barriers of entering new sourcing markets



Quality Risk

2023	37%		-12%
2022	49%		

- The most significant barrier
- Performing extensive quality controls of new suppliers is a costly but necessary measure to take to ensure that the requirements are met.



Insufficient knowledge about the new market

2023	32%		-8%
2022	40%		

- Companies may benefit from hiring a local resource or appointing consultants with market insights to support the entry.



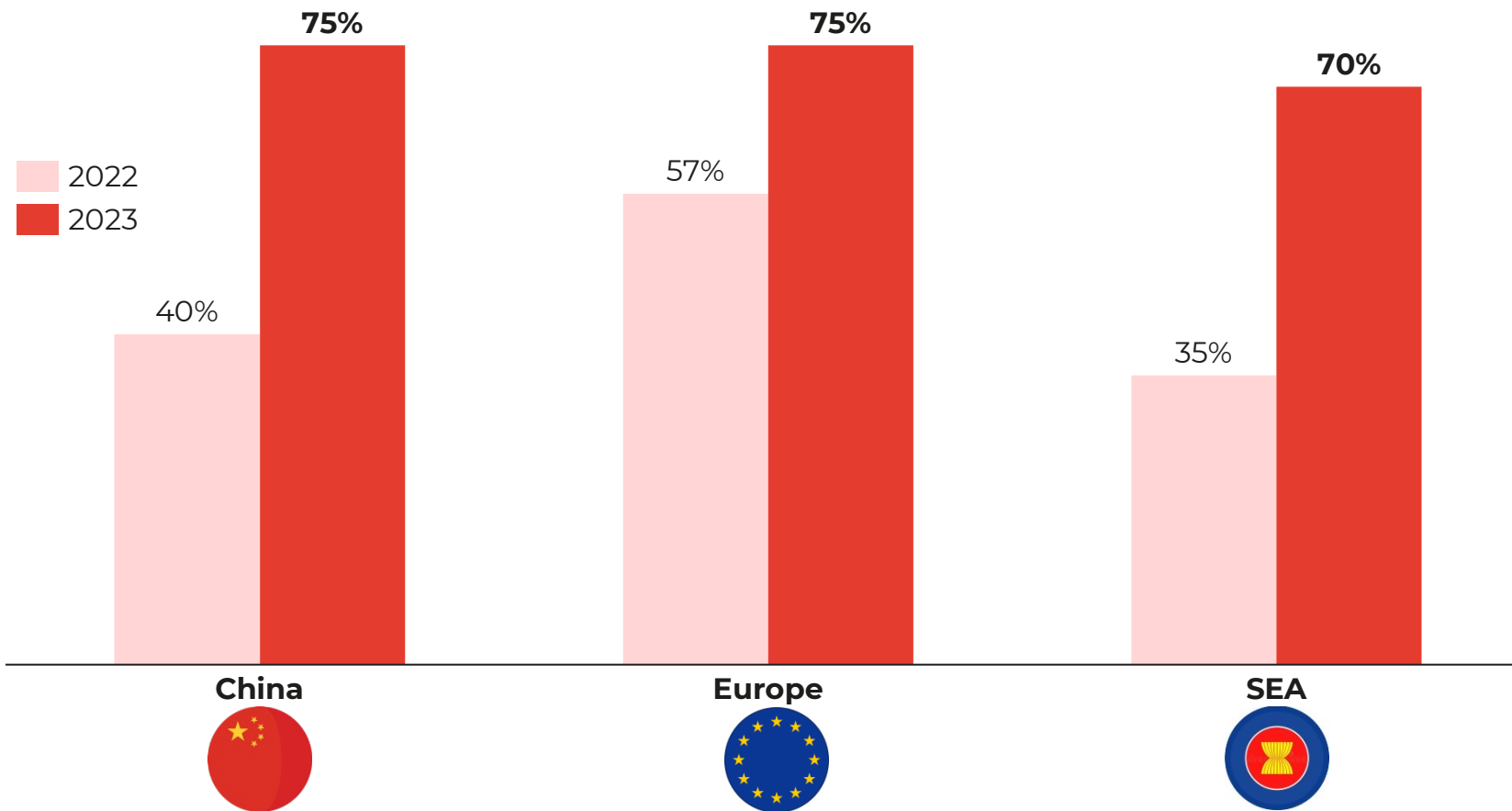
Set-up Costs

2023	31%		4%
2022	27%		

- The cost may involve market research expenses, marketing expenses, supplier searching and training expenses
- Each of these costs needs to be carefully considered and budgeted.

Significantly more companies started to assess suppliers' carbon footprint data

Share of the respondents assessing suppliers' carbon footprint in 2023 compared with 2022



➤ The share of companies assessing suppliers from three regions increased significantly

Five common strategies to ensure suppliers' ESG compliance

1

58% respondents adopted

On-site visit to the suppliers' facilities

2

46% respondents adopted

Review of data and documents suppliers provide

3

42% respondents adopted

Conduct third-party Audit

4

22% respondents adopted

Interview with experts and/or suppliers' staff

5

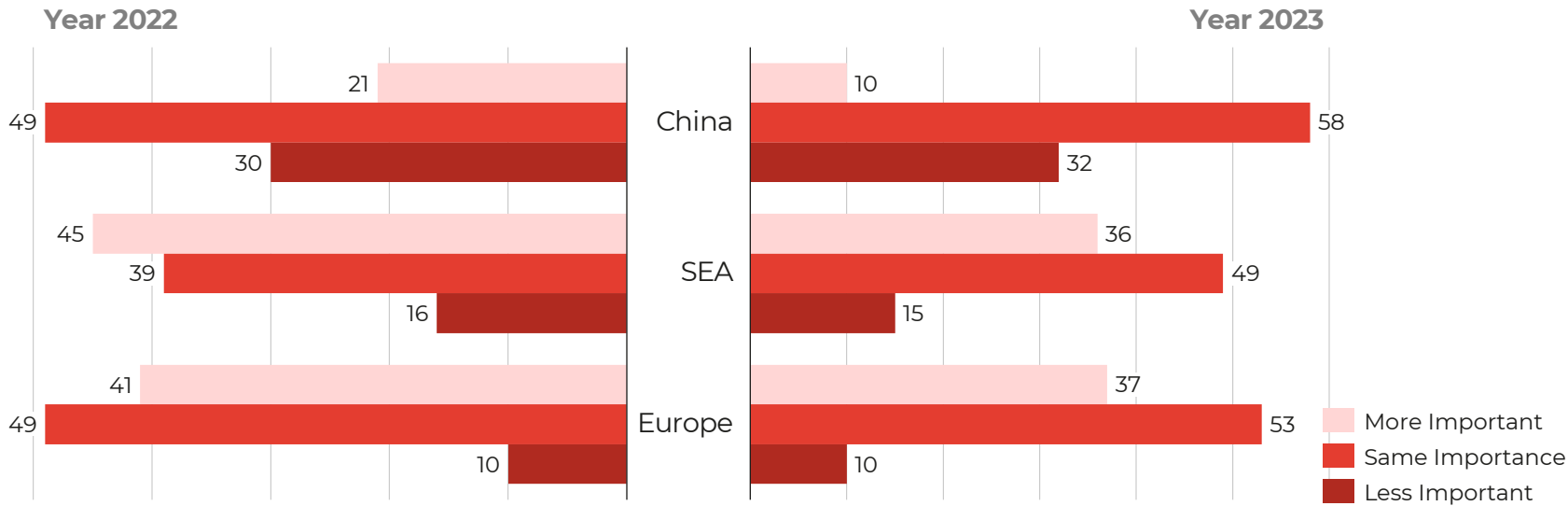
13% respondents adopted

Review of media reports about the suppliers

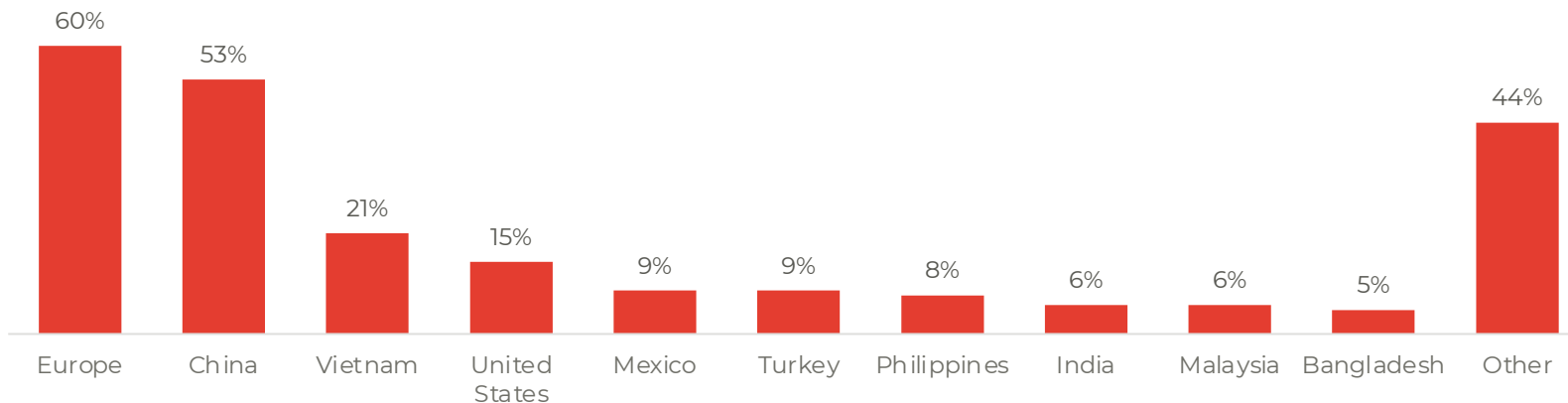


Respondents show growing confidence in SEA and Europe, but China remains highly important

Share of respondents' perception of regions' importance as a sourcing market



Share of important sourcing destinations in the future



- The trend of conducting sourcing activities in Europe has accelerated faster than in SEA
- SEA receives more favorable responses than last year
- Despite losing some market confidence, China still holds the leading position as the most prominent sourcing destination

Diversifying supplier base, together with improved communication and processes are important risk reduction measures

- **The majority of companies** plan on **diversifying their supplier base** to another country as a risk mitigation strategy
- **Enhancing communication with current suppliers** helps ensure that orders are fulfilled and prepare for any risks that might be approaching.



Diversifying the suppliers base to other countries

44%
Respondents adopted



Enhancing communication with suppliers

38%
Respondents adopted



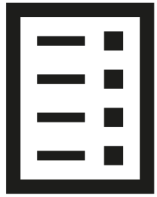
Developing new risk management processes while continuously tracking changes

24%
Respondents adopted

Case – Supplier Transparency for Cost Reduction

The client, European manufacturing company, has components suppliers in China. The client saw that they can save a significant amount of spending from sourcing activities by working in closer partnership with suppliers, supporting higher efficiency in production and increasing transparency

Approach



- Map out the process of manufacturing
- Identify improvement areas



- Collect relevant documents
- Conduct interviews
- Verify supplier statements against third party sources



- Visit to review production site
- Map improvement areas and quantify targets



- Create a list of corrective actions
- Support commercial negotiation to share savings



Results

- A comprehensive report on areas of improvement in supplier manufacturing
- Procurement order planning and governance on key components major issue at supplier
- Cost saving potential of 10~20% technical savings on piece price identified, base for commercial negotiation



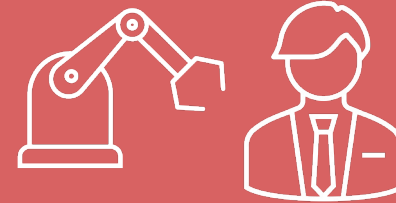
Closing thoughts: Transforming value chains give opportunities



Regional and
global value



Data economy



Productivity



Sustainability &
Energy

Thank you for your time

johan.annell@arc-group.com

+86 185 0048 6766