



Sourcing Survey 2024

From Global to Regional

September 2024

ARC Consulting

We are the most trusted and well recognized partner and service provider for European companies in China and Southeast Asia.



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.

www.arc-group.com/consulting



Our offices

Shanghai

Beijing

Zhongshan

Hong Kong

Ho Chi Minh City

Jakarta

Kuala Lumpur

New York

Dubai & Abu Dhabi

New Delhi

Stockholm

Our Expertise



Market Entry & Expansion



Sourcing & Supply Chain Management



Operational Improvement & Compliance



ESG



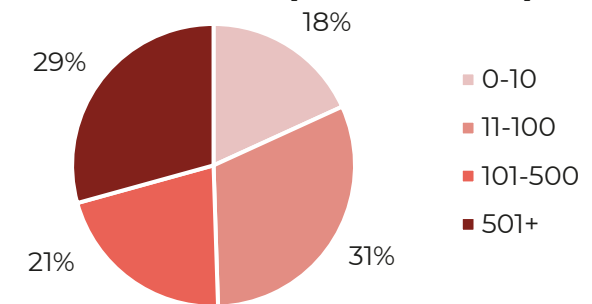
Financing & M&A

Uncovering the trends in sourcing: Experiences and outlook on how companies view their global sourcing and supply chains

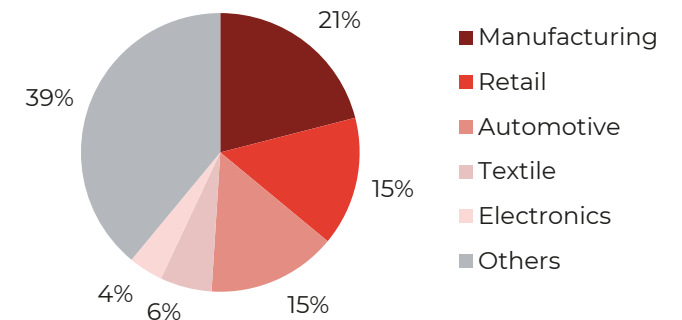
The survey data cover the following topics:



Survey Respondents by Global Purchasing Amount in 2024 (Million USD)



Survey Respondents by Industry in 2024 (Million USD)



Respondents come from a diverse array of industries, and over 50% have a purchasing value of over 100 million USD per year

Key recent events impacting global markets and trade



The US Federal Reserves (Fed) **raised the interest rate to 5.5%**, the highest level in the last 20 years, to halt the increasing inflation in the aftermath of the Covid-pandemic.

09/2023



Ongoing attacks on containers entering the **Red Sea** through the Bab-el-Mandeb strait has resulted in the redirection of shipping from the Suez Canal to around Africa. Increased transition time is **estimated to increase global freight demands by 10%**.

04/2024



The US announced a new round of antidumping and countervailing duties in May 2024 mainly **focusing on the technology sector** and products such as **semiconductors, electric vehicles, and batteries**

06/2024



The US **S&P500 suffered another significant dropped 6.7%** in a week and **Japanese Nikkei 225 dropped by 12%** in one day. The markets reacted to weak employment performance and increased interest rates in Japan, respectively

06/2023

A volatile global energy market derived from global conflicts and tensions saw **Brent Crude Oil prices rapidly increase to 94.57USD** as oil producing countries **reduced production** and **existing stocks decreased** unexpectedly quickly.



11/2023

The US **S&P500 dropped by 4.5%** in a week in response to a report of **higher-than-expected inflation numbers** with concerns spreading that **the Fed will continue to maintain its high interest rate.**



05/2024

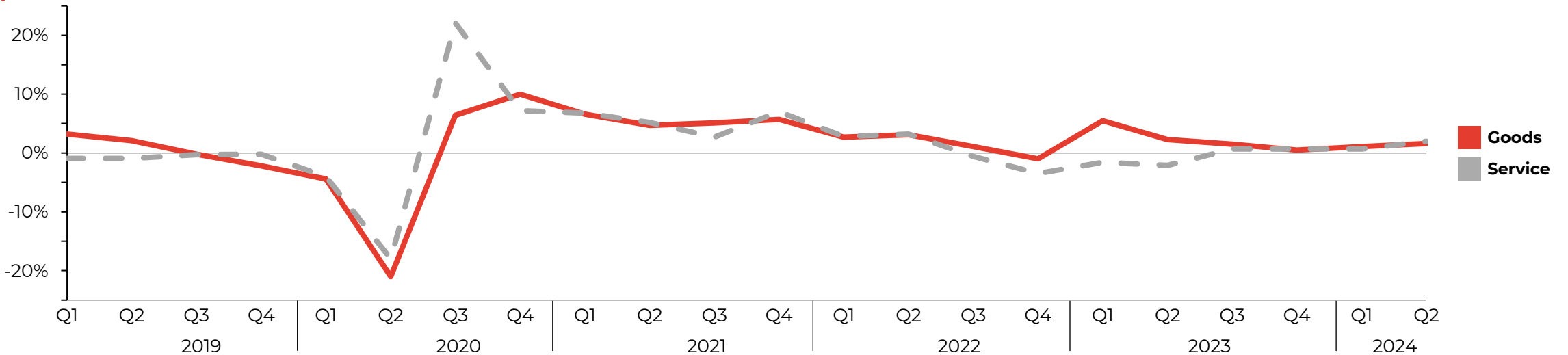
The EU unveiled **its first countervailing measures against Chinese battery electric vehicles**, leveraging **punitive tariffs up to 37.6%**. It comes at the same time the EU and US are building up their own domestic battery production capacity independent of China.



8/2024

Global trade growth resumed growth in the first half of 2024

After rebounding in 2021 and peaking at 25 TUSD in 2022, international trade growth started to decelerate with some declines observed during 2022-2023. In H1 2024, the trends show positive sign of recovery but remained slow.



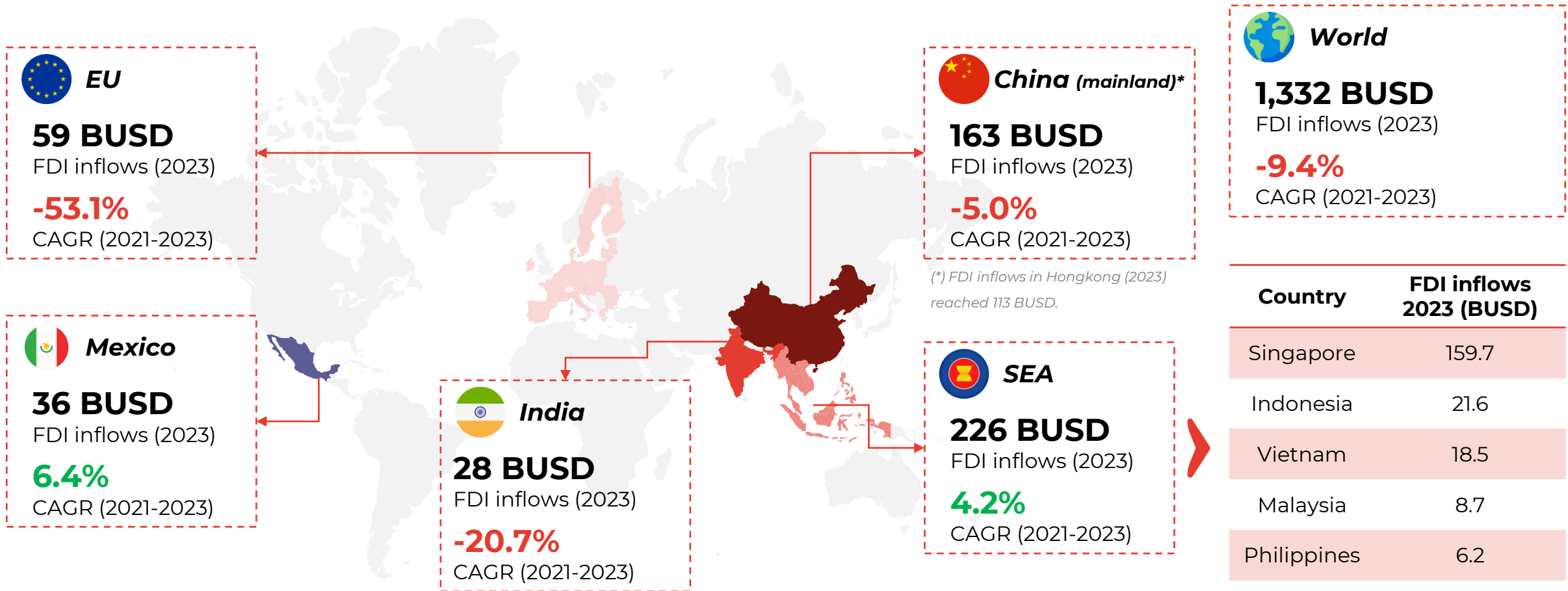
Key World Trade Flows

<p>ASEAN China</p> <p>915 BUSD Trade Value (2023)</p> <p>1.42% CAGR (2021-2023)</p>	<p>World* China</p> <p>4,493 BUSD Trade Value (2023)</p> <p>0.28% CAGR (2021-2023)</p>	<p>SEA US</p> <p>428 BUSD Trade Value (2023)</p> <p>5.37% CAGR (2021-2023)</p>	<p>EU US</p> <p>904 BUSD Trade Value (2023)</p> <p>6.93% CAGR (2021-2023)</p>	<p>US China</p> <p>649 BUSD Trade Value (2023)</p> <p>-3.37% CAGR (2021-2023)</p>	<p>EU China</p> <p>794 BUSD Trade Value (2023)</p> <p>-1.06% CAGR (2021-2023)</p>
---	--	--	---	---	---

(*): Excluding trade with the EU and US

Sources: UNCTAD, Global Trade Update

Emerging markets, including SEA and Mexico, continued to attract FDI although overall global FDI faced decline



Sources: UNCTAD

Agenda

01.

**Global Sourcing
Situation Overview**

02.

**Sourcing Situation Across
Europe, China and
Southeast Asia**

03.

**Transition from Global
to Regional Sourcing**

04.

**Environmental, Social
and Governance (ESG)**

05.

Future of Sourcing

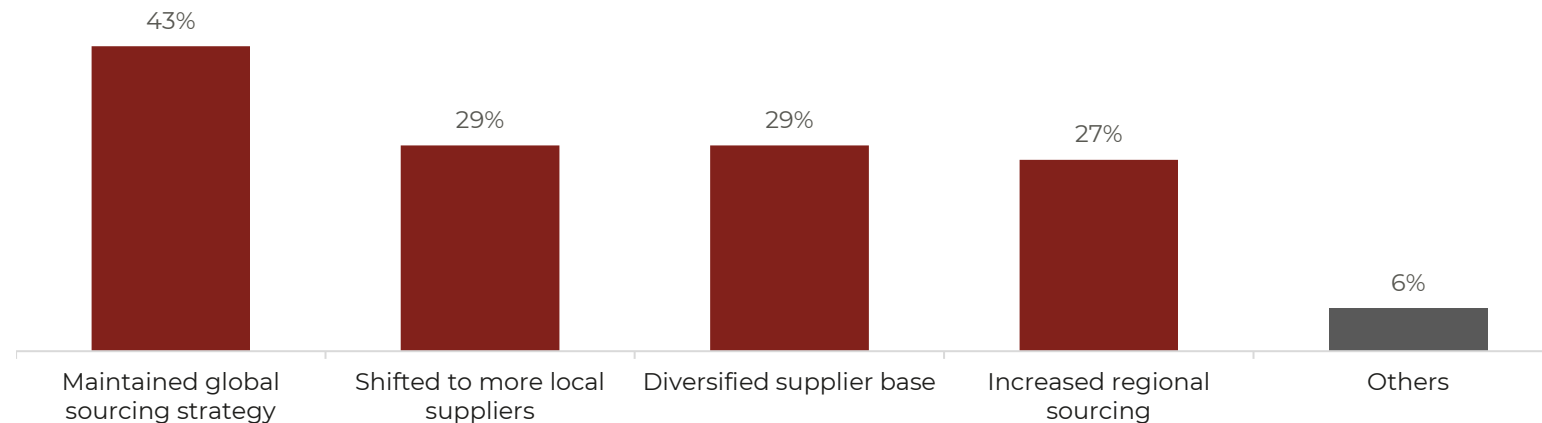


1. Global Sourcing Situation Overview

Global sourcing is the most favorable strategy, but a diversified approach also exists

Share of Respondents' Sourcing Strategy in response to Global Supply Chain Disruptions in 2023-2024

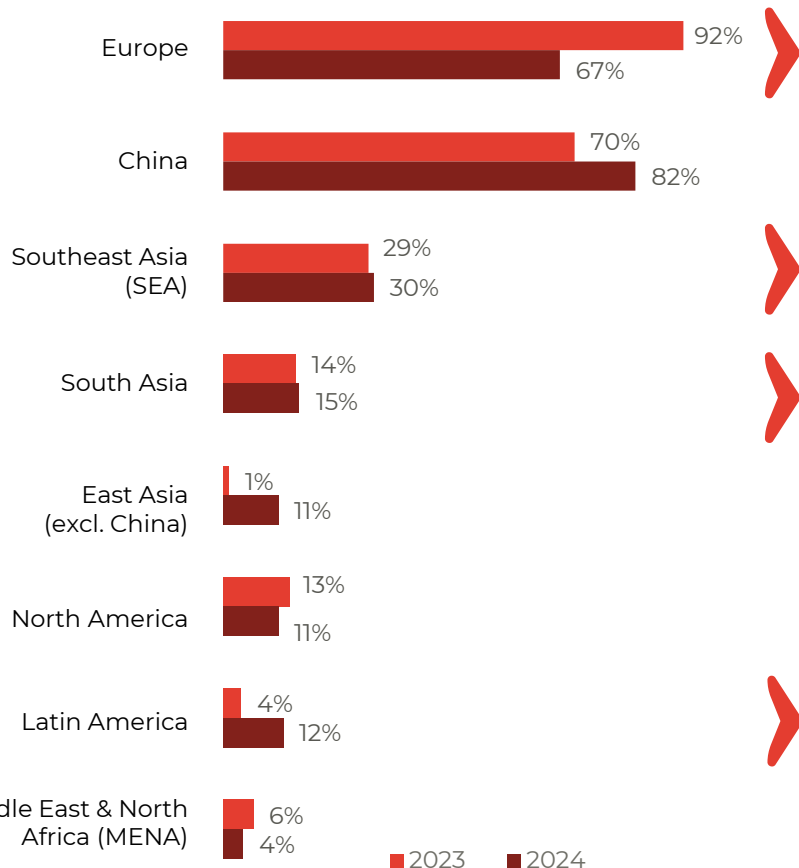
- **Global sourcing** strategy is still the most important strategy for companies.
- **Local suppliers** and a **diversified supplier base** are preferred at the same portion.
- **Regional sourcing** is on par, reflecting a strategic move to enhance regional resilience.



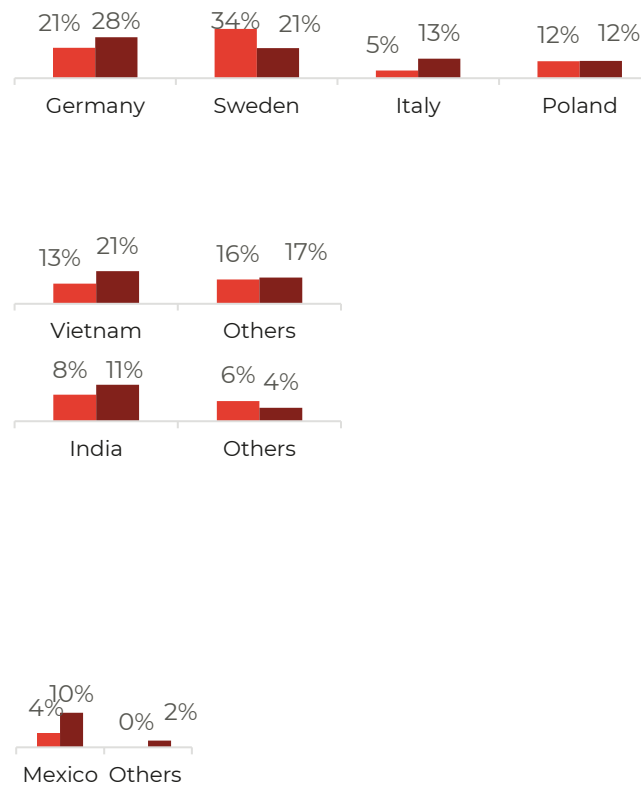
➤ **Businesses are adopting multiple sourcing strategies, gradually recognizing the need to balance global and local sourcing to mitigate risks.**

The importance in sourcing role in China, Asia and Latin America increased while it decreased in Europe

Share of Respondents' Important Sourcing Regions/Countries in 2023 -2024



Highlight Countries per Region



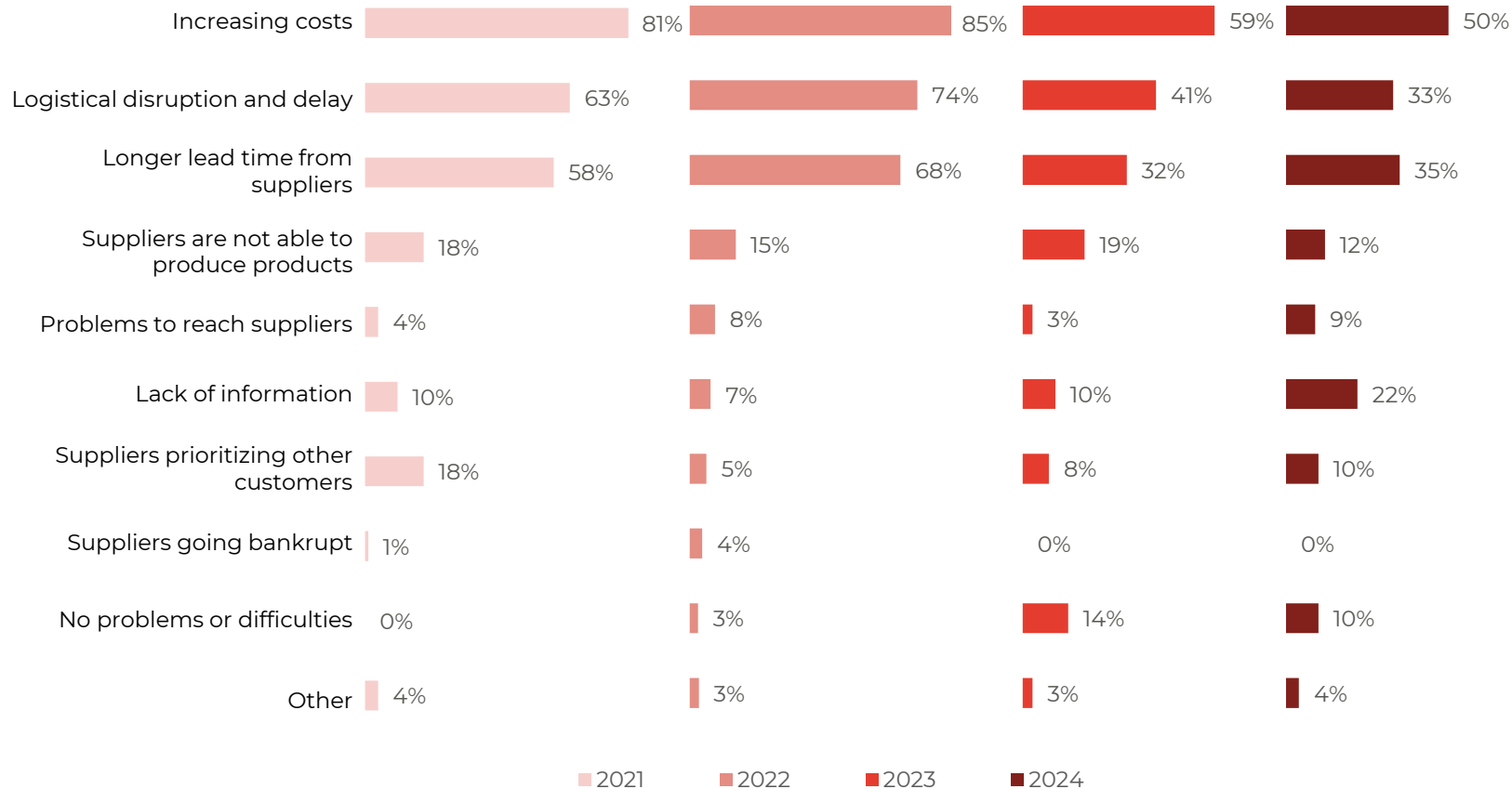
Comments

- o **Europe's** share as an important sourcing country is in significant decline. However, **Germany** and **Italy** have shown significant growth among other countries.
- o **China** has solidified its position as a critical sourcing market, with its share increasing from 70% in 2023 to 82% in 2024
- o **SEA's** importance stays after Europe and China. Within this region, **Vietnam's** significance has surged, outpacing neighboring SEA countries.
- o **India** has gained prominence, even though other **South Asian** countries remain less critical.
- o **Latin America** is seen as much more important than before, with **Mexico** itself rising from 4% to 10%.



Increasing costs and logistical disruption remain the top difficulties in sourcing

Major Problems/Difficulties in Sourcing in the Past 12 Months (2021-2023)



Comments

Critical Concerns Over Years:

- o **Increasing costs** and **logistical disruption & delays** remain significant, though they have decreased to 50% and 33% respectively in 2024.
- o **Lead times** have slightly increased from 2023, continuing to be a major challenge in 2024.

Emerging Concerns In 2024:

- o **Lack of information** becomes a more critical issue, growing from 10% in 2023 to 22% in 2024.
- o More respondents indicated that **suppliers prioritized other customers** over them and faced **difficulties reaching suppliers**.

Sourcing overview – Key takeaways

- 1 Global sourcing remains crucial, but diversification strategies are increasingly favored.
- 2 Europe's significance as a sourcing location is waning.
- 3 China and emerging markets in Southeast Asia, South Asia, and Latin America are increasingly becoming preferred sourcing destinations.
- 4 Cost, logistics, and lead time continue to be major concerns.
- 5 Challenges related to information gaps, supplier prioritization, and accessibility are on the rise.

Recommendations

Businesses should diversify sourcing strategies and address critical concerns like cost, logistics, and lead times by enhancing communication, data transparency, logistical resilience, and supplier relationships.

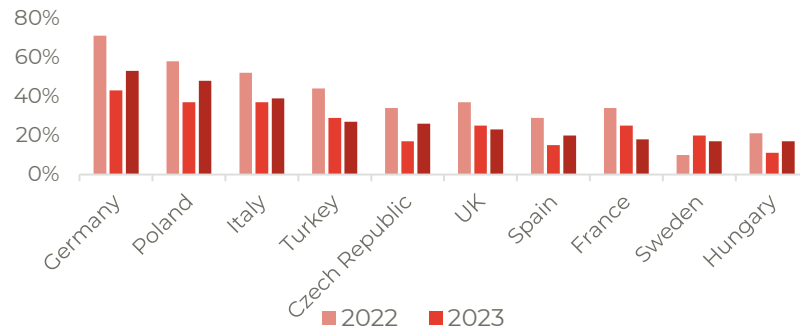
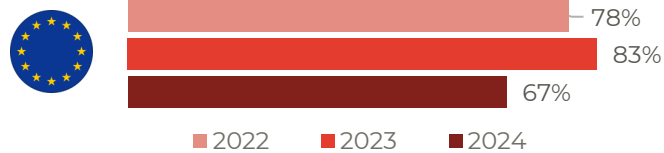
A hand is shown on the left side of the frame, pointing towards a world map. The map is centered on the Atlantic Ocean, with Europe, China, and Southeast Asia highlighted in different colors: Europe is green, China is blue, and Southeast Asia is red. The rest of the world map is faded and less distinct.

2. Sourcing Situation Across Europe, China, and Southeast Asia

Sourcing in China strengthens, SEA shows a steady growth, while Europe shows a decrease in 2024

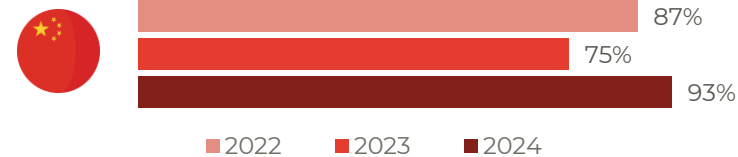
Share of Respondents' Sourcing in Each Location in 2022-2024

Europe



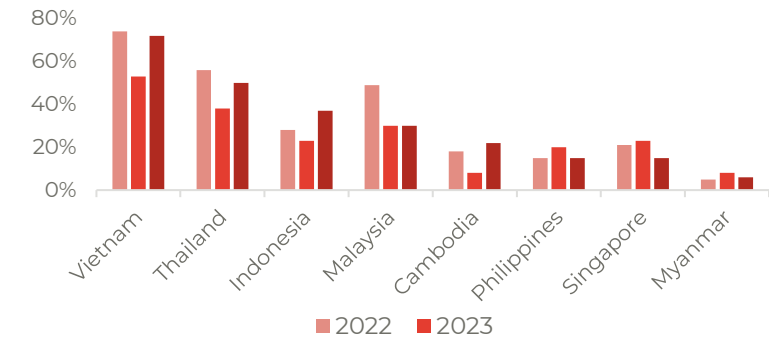
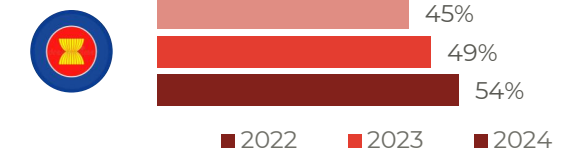
- o Current sourcing share in **Europe** decreased slightly in 2024. **Germany, Poland, Italy, and Turkey** remain the top-rated countries, while the **UK, France, and Sweden** see a decline in 2024.

China



- o More than 90% of respondents sourced from **China** in 2024, reflecting a strong recovery to near pre-COVID levels after a significant drop to 75% in 2023.

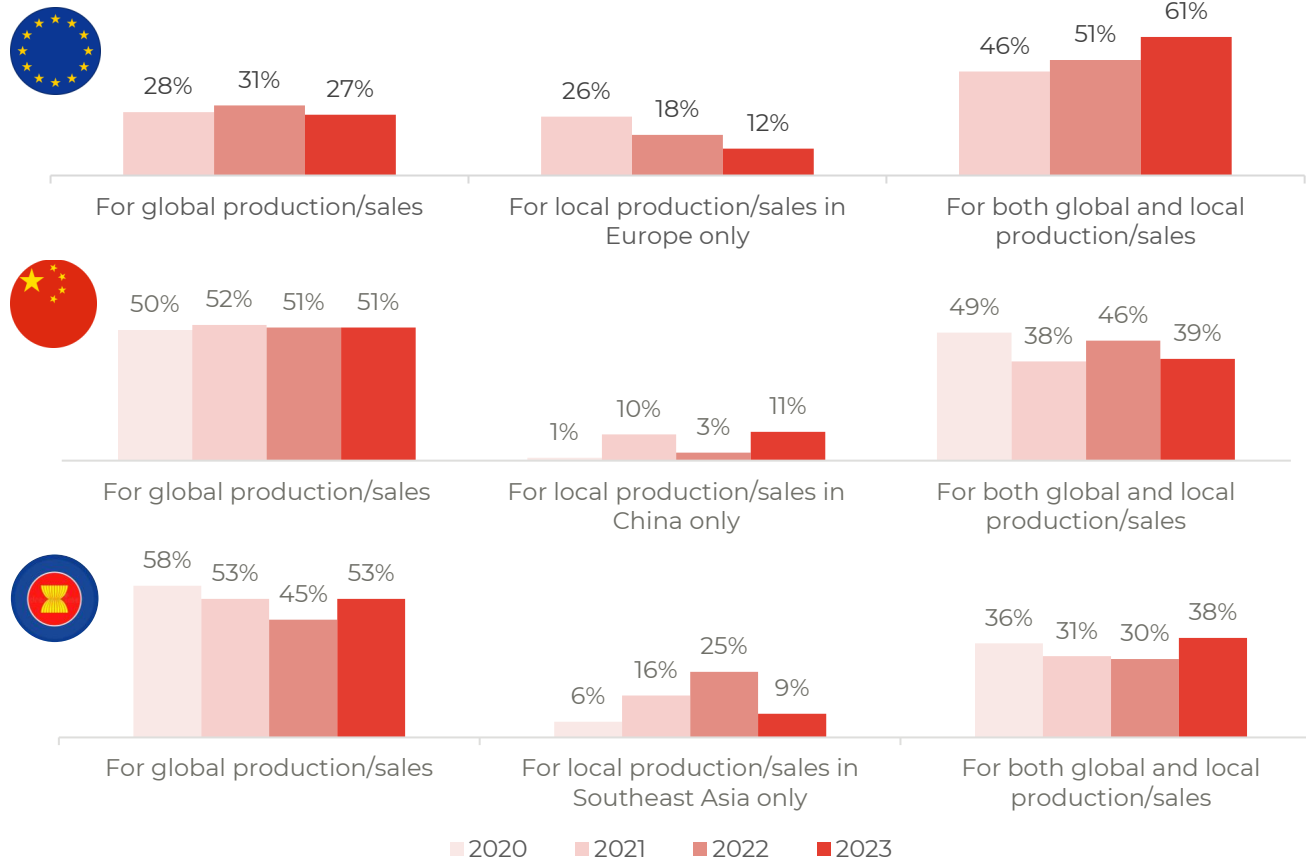
Southeast Asia



- o Sourcing in **SEA** shows a steady rise, with **Vietnam, Thailand, and Indonesia** leading in 2024; **Vietnam holds the biggest share** among all other SEA countries.

Sourcing for both global and local production/sales grows in Europe, while solely global sourcing remains strong in China and SEA

Share of Respondents' Choice of Reason for Sourcing in Each Country/Region in 2020-2023

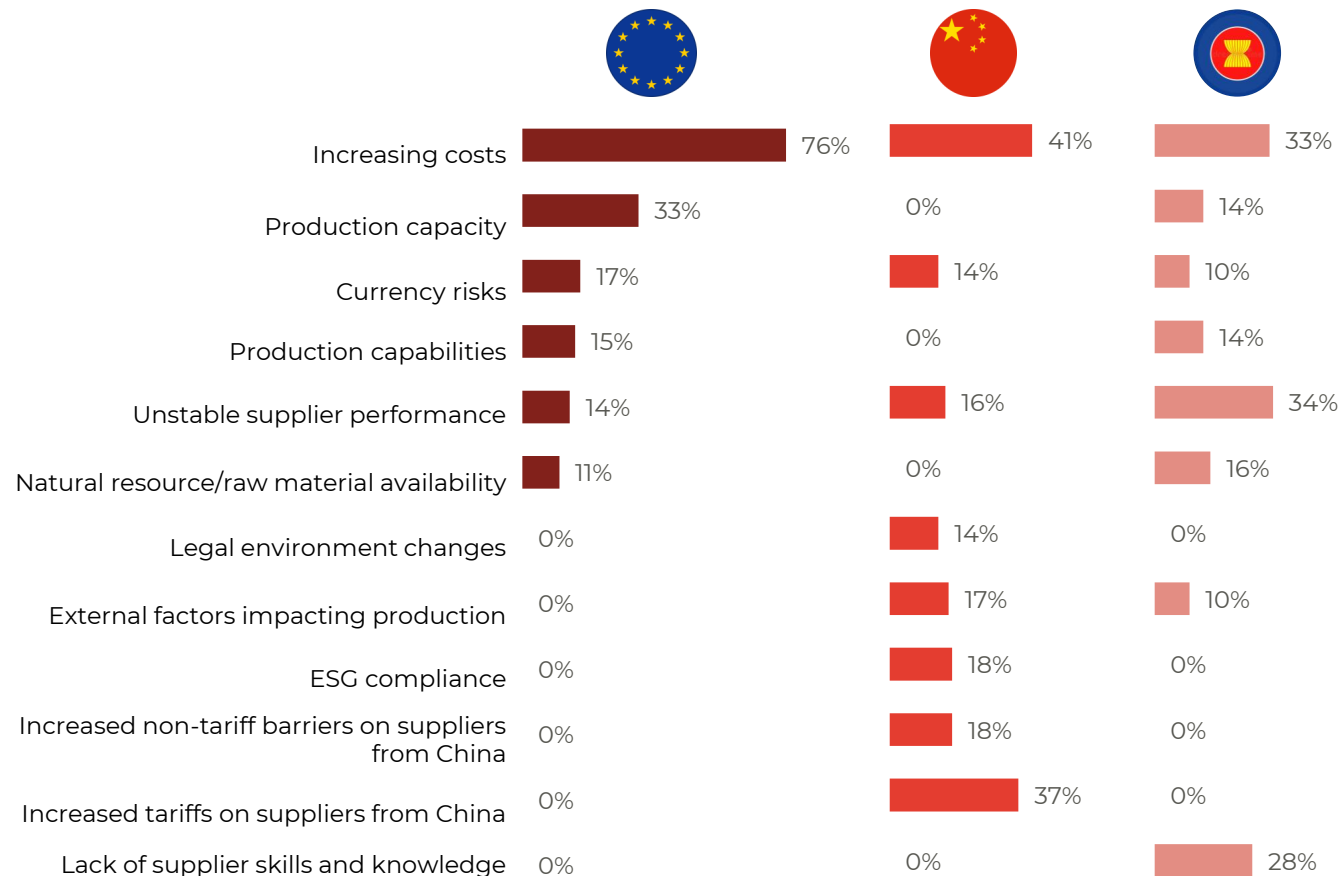


Comments

- In 2024, fewer businesses source from **Europe** to serve their either solely local or global production/sale, while the number for both purposes increased from 46% in 2021 to 61% in 2023.
- **China** remains crucial for global supply, with stable movement. Sourcing for both global and local production/sales dropped from 46% in 2022 to 39% in 2023, while solely local sourcing rose from 3% in 2022 to 11% in 2023.
- Businesses source in **SEA** for global production/sales rebounded to 53% in 2023. The share of sourcing for both purposes also surged from 30% in 2022 to 38% in 2023. Sourcing for only local purpose dropped significantly in 2023.

Increasing costs appear as a predominant challenge across locations, while other issues vary significantly by region

Share of Respondents' Choices of Key Risks and Difficulties in Each Sourcing Location in 2024



Comments

- **Increasing costs** remain the most rated concern across the regions, especially in Europe.
- **Production capacity** is a significant issue in Europe (33%) and SEA (14%), but not in China. Following the trend is **production capabilities** but with the less concerned portion.
- **Unstable supplier performance risk** exists in all regions but is the biggest challenge in SEA, even more than the concern of increasing costs.
- **Trade barriers, especially with increased tariffs** are significant in China. Besides, **legal changes and ESG compliance** are also distinctive risks in China
- **Lack of supplier skills and knowledge** risk is an issue in SEA only, ranked as the third most significant issue.

Sourcing situation across regions – Key takeaways

1

China and Southeast Asia have seen an increase in sourcing preference, while Europe remains a critical region but has experienced a decline.

2

Sourcing for both global and local production/sale is growing in Europe, while sourcing for solely global purposes remains strong in China and SEA.

3

For risks and difficulties, increasing costs are the most concerned issue. However, challenges vary significantly across locations.

Recommendations

Amidst the changes in sourcing preferences and purposes across regions, businesses should stay aware of region-specific challenges.

While increasing costs remain a primary concern, other regional difficulties require customized risk management strategies for each location.

An aerial photograph of an industrial facility, likely a refinery or chemical plant, taken at dusk. The scene is dominated by large, cylindrical storage tanks and a complex network of pipes and walkways. The sky is a deep, dark blue, and the ground is illuminated by the warm, golden light of the setting sun, creating a strong contrast with the dark structures. The overall atmosphere is industrial and somewhat somber due to the low light.

3. Transition from Global to Regional Sourcing

Businesses remain cautious but recognize China as a resilient global sourcing hub, while tensions grow in Europe and SEA

Share of Respondents' Likelihood to Completely or Partially Relocate Sourcing out of the Current Region in the Near Future



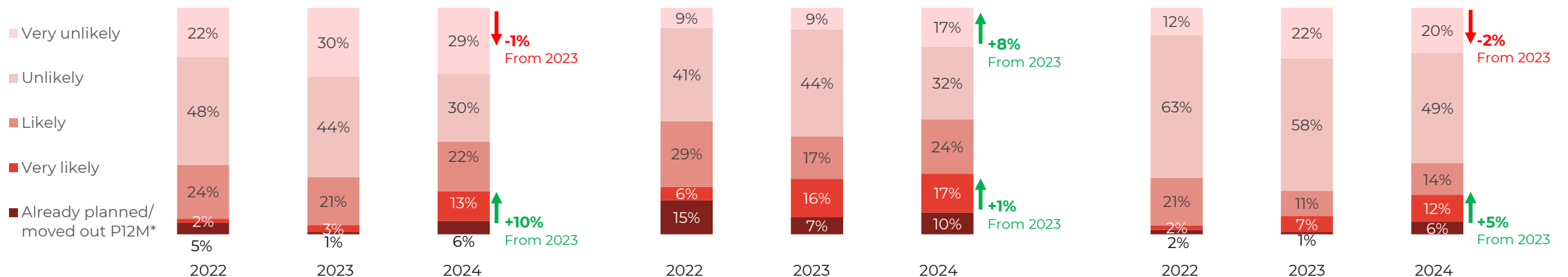
- 10% more businesses are very likely to relocate out of **Europe**.



- China** holds the highest percentage of businesses with relocation plans, though the growth remains marginal.
- 8% more businesses are reluctant to relocate out of **China**.



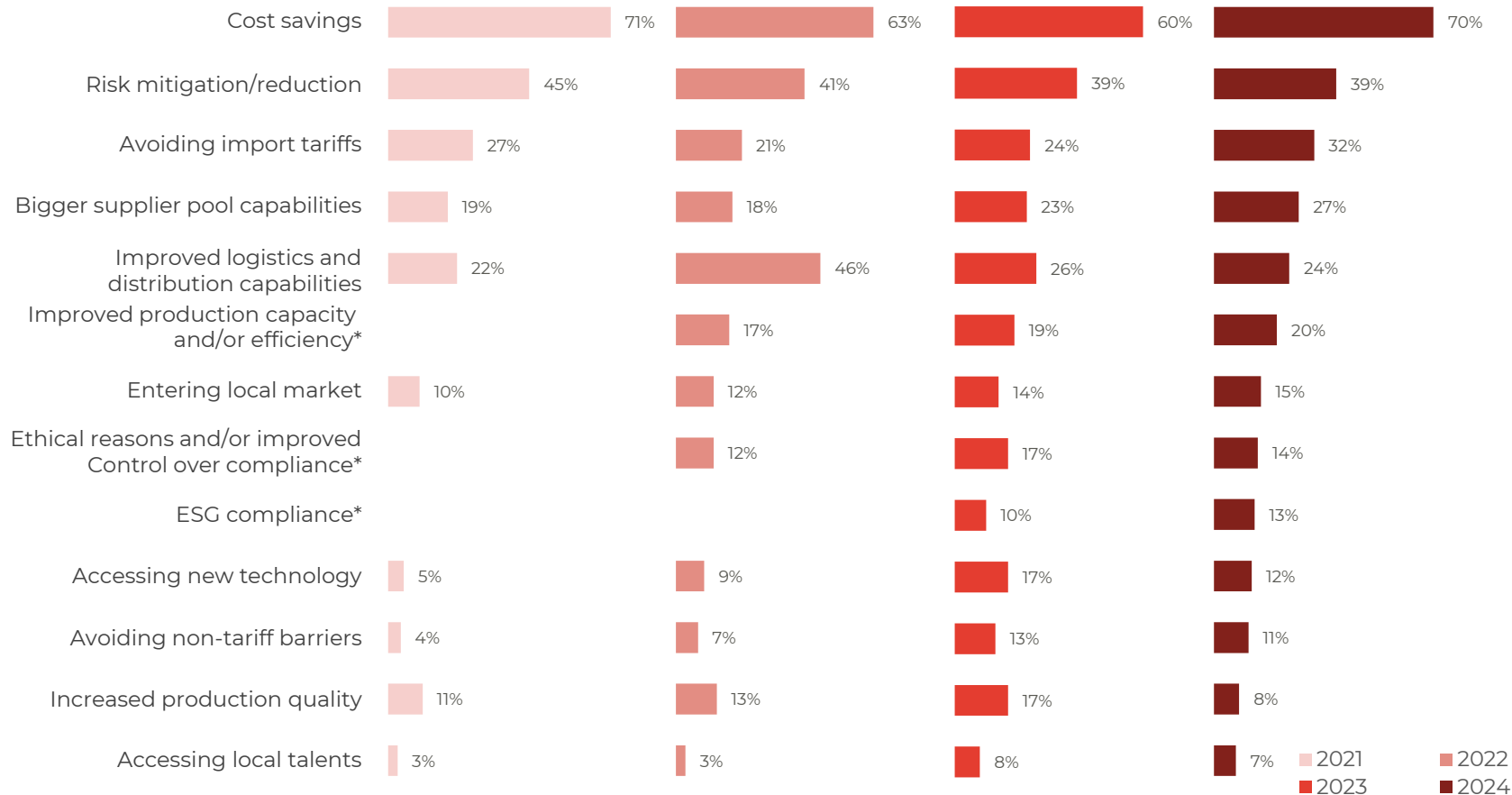
- 5% more businesses are very likely to relocate out of **SEA**.



*P12M: Past 12 months

Businesses are switching to new markets mainly for cost savings and risk mitigation, with other concerns rising

Share of Respondents' Main Reasons for Switching to New Sourcing Markets



Comments

Critical Reasons Over Years:

- o **Cost savings** remain the main reason for four consecutive years, followed by **risk mitigation/reduction** remaining constant in the last 2 years.
- o **Avoiding import tariffs** and **large supplier pool** have grown gradually from 2021 to 2024.
- o **Logistics and distribution** used to be a significant factor, but their importance has recently declined.

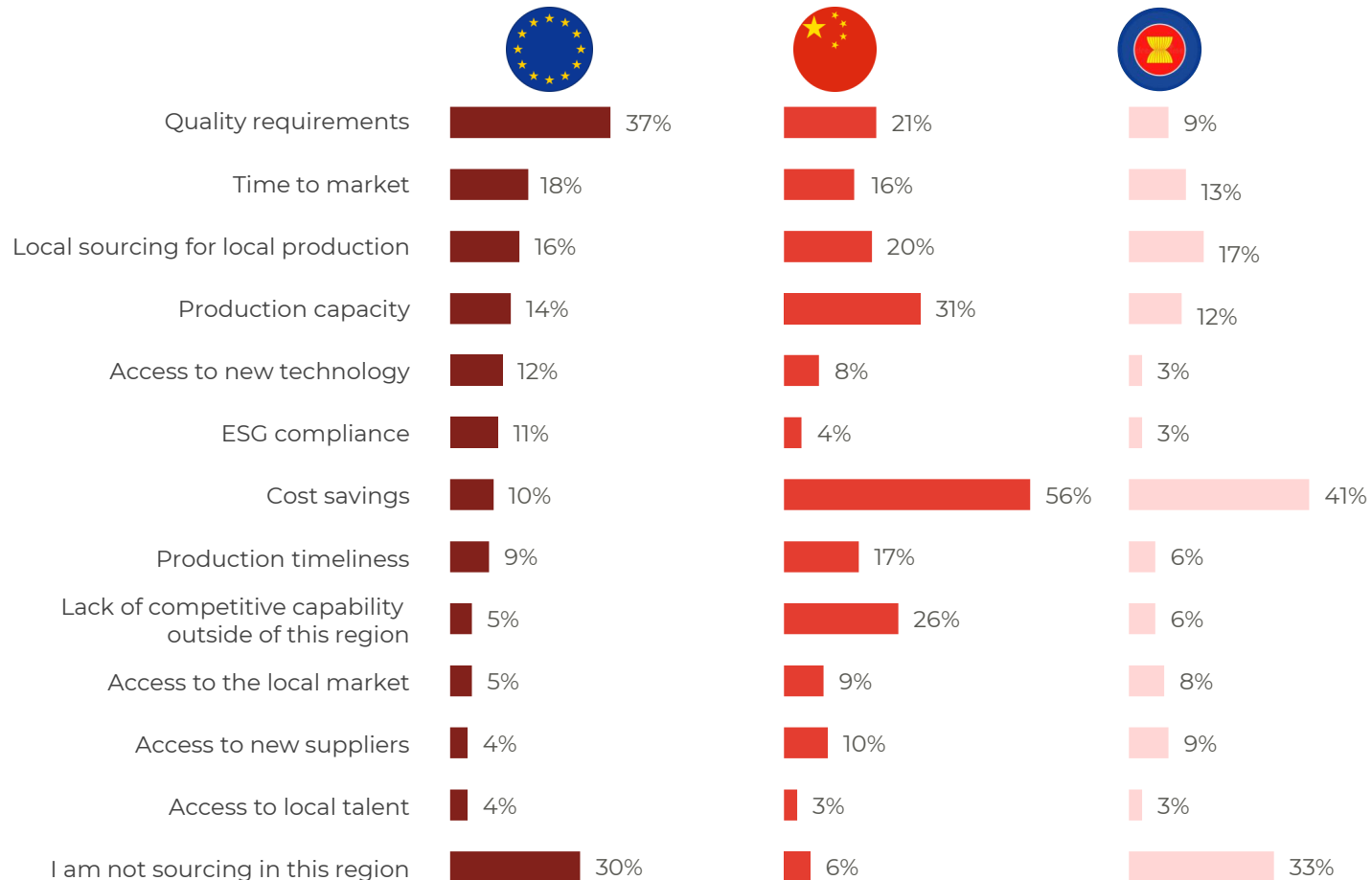
Emerging Reasons In 2024:

- o **ESG compliance** is on the rising trend from 2023. Besides, **improving production capacity and/or efficiency** and **entering local market** are rated more over years.

*"Improved production capacity and/or efficiency", "ESG Compliance", & "Ethical reasons and/or improved control over compliance with regulations and policies" weren't included in previous surveys

Businesses stay in Europe for high quality while China's strengths are more solidified in cost, capacity, and capability competitiveness

Share of Respondents' Reasons for Maintaining Sourcing Despite Risks



Comments

- **Quality requirements** are most stringent reason for staying in Europe (37%), but are less emphasized in China (21%) and much less in SEA (9%).
- **Cost savings** are significantly an advantage in both China and SEA, outweighing Europe.
- Besides cost savings, **production capacity** and **lack of competitive capability outside** are top reasons why businesses maintain their sourcing in China.
- Additionally, although **access to new technology** and **ESG compliance** are modest drivers, they appear as a more important motivations in Europe compared to the other two locations.

Transition from global to regional sourcing – Key takeaways

1

China remains to be the global sourcing hub when more businesses are reluctant to relocate out of the country, while the leaving tension is emerging in Europe and SEA.

2

Businesses are switching to new markets mainly for cost savings and risk mitigation, with rising concerns over import tariffs, supplier pool, and growing emphasis on ESG compliance.

3

Businesses mostly favor Europe for its quality requirement. Meanwhile, China's cost savings, capacity, and competitive strength, along with SEA's cost advantages, highlight the attractiveness of these locations.

Recommendations

Movement in sourcing relocation perspective necessitates diversification of sourcing markets for constructing more resilient supply chains.

The top three drivers - quality, costs, and production capacity - highlight the need for companies to balance cost-saving initiatives with maintaining high standards of quality and production capacity.



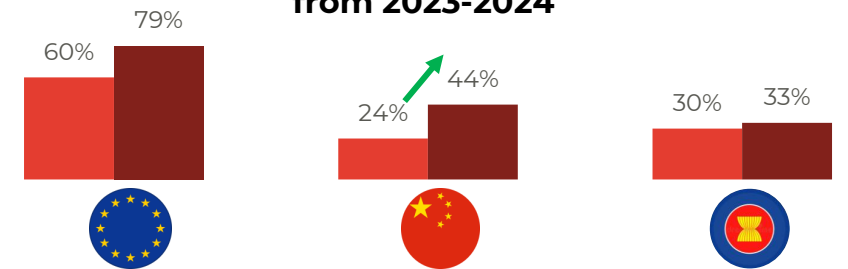
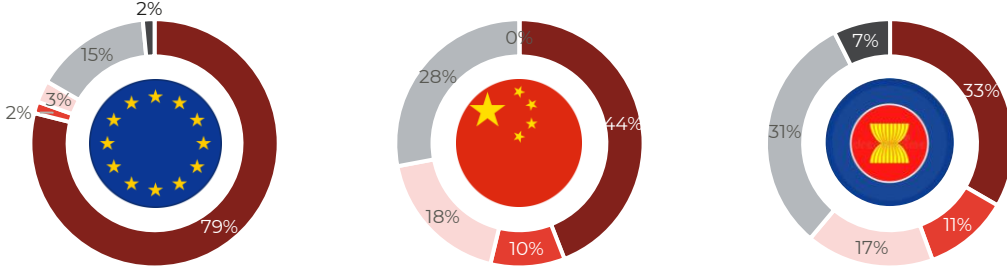
4. Environmental, Social and Governance (ESG)

Europe leads in ESG transparency, with China improving carbon data sharing and SEA growing in corporate integrity

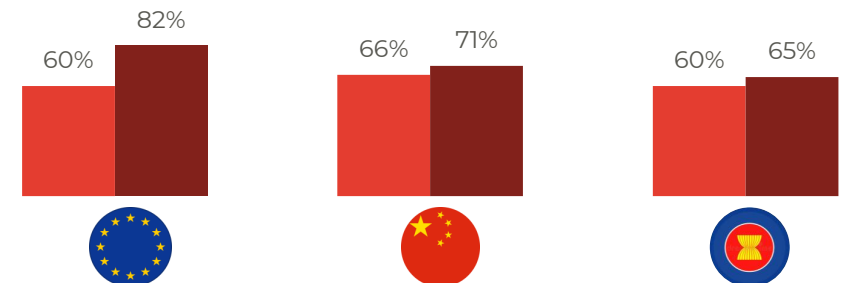
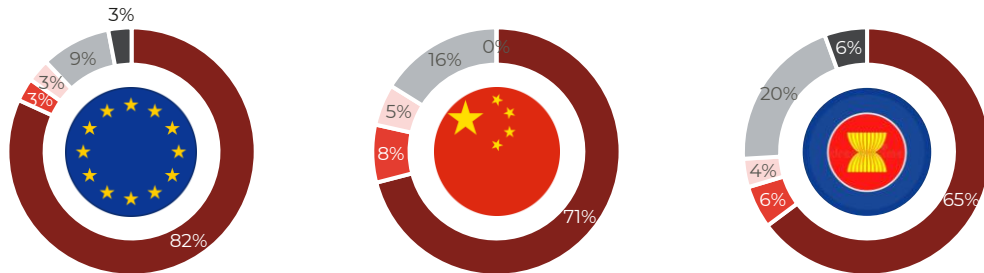
Share of Respondents Received Data From Suppliers in 2024

Share of Respondents Received Data From Suppliers from 2023-2024

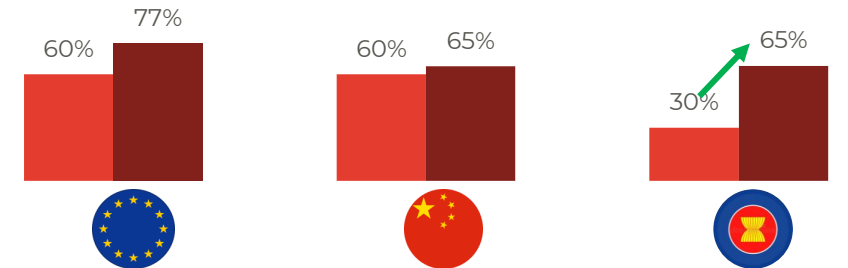
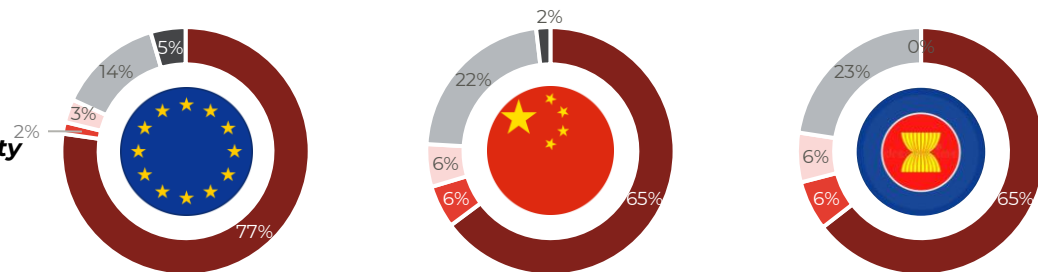
Carbon footprint



Fair labor



Cooperate integrity

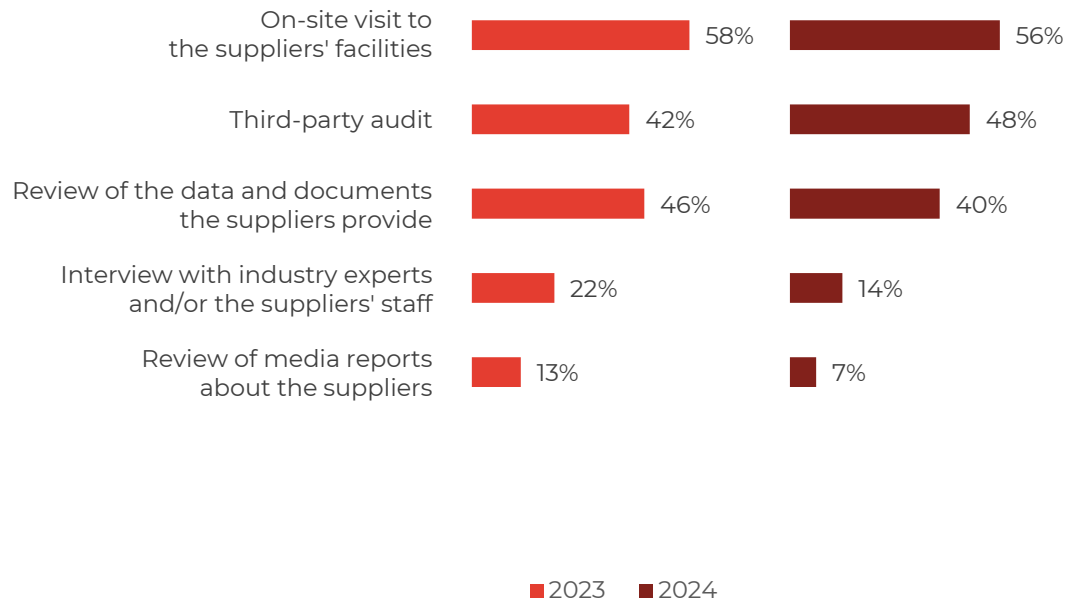


■ Yes ■ No ■ The suppliers do not know about this data ■ We do not check for this data ■ I do not know

■ 2023 ■ 2024

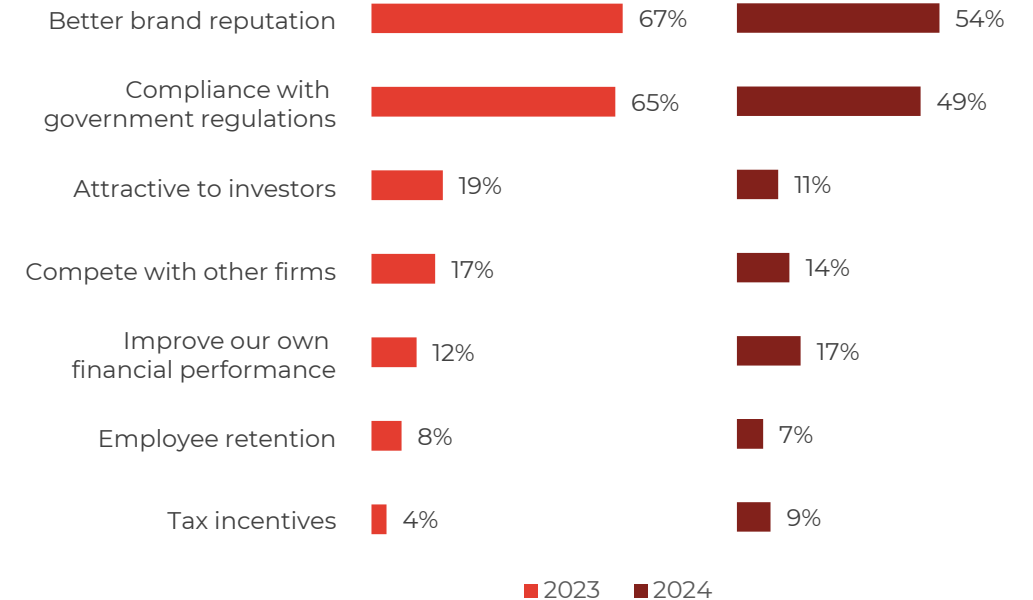
Businesses prioritize direct observation of suppliers, demonstrating a stronger commitment to ESG compliance

Share of Respondents' Strategies for Ensuring Suppliers' ESG Compliance



- **On-site visits** remain essential for ensuring suppliers' ESG compliance, while **third-party audits** are becoming more prominent. **Supplier data reviews** and **interviews with industry experts** have slightly decreased.

Share of Respondents' Motivations for Ensuring Suppliers' ESG Compliance



- While **brand reputation** and **regulatory compliance** remain key motivations, their significance is diminishing. In addition, **financial performance improvement** and **tax incentives** are gaining attention.

ESG compliance – Key takeaways

1

Europe leads in ESG transparency, while China improves in carbon data sharing and SEA shows growth in corporate integrity.

2

Businesses are prioritizing on-site visits and third-party audit to ensure suppliers' ESG compliance.

3

Brand reputation and regulatory compliance remain important but less central motivations for ESG.

Recommendations

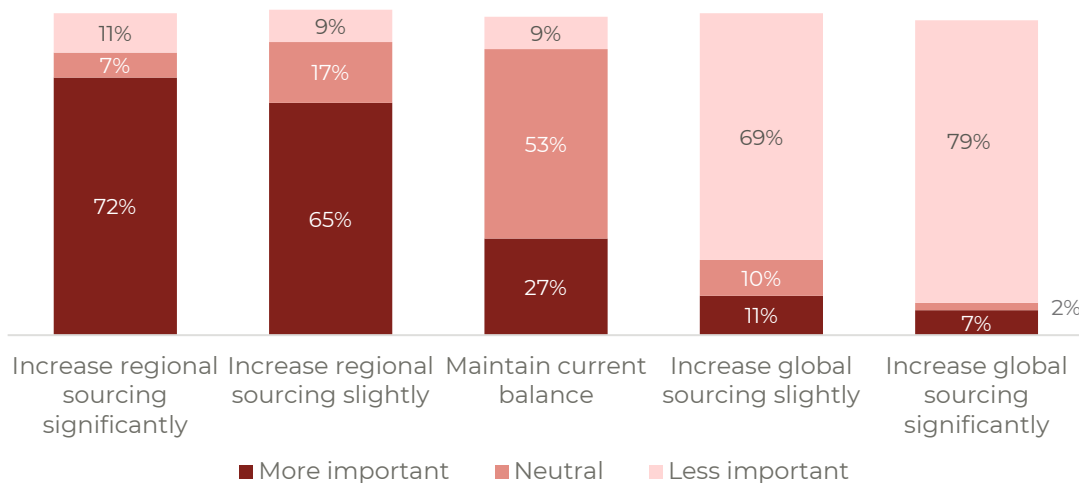
Companies should equip a holistic approach to ESG compliance to align with evolving regulatory standards, investor demands, and consumer preferences, thereby ensuring long-term sustainability and competitive advantage in an increasingly ESG-conscious landscape.

The background of the slide features two large, industrial cranes against a dark, overcast sky. The cranes are constructed from a complex network of metal beams and supports, with one crane in the foreground being more prominent and detailed than the other in the background. The overall tone is industrial and somewhat somber due to the dark lighting.

5. Future of Sourcing

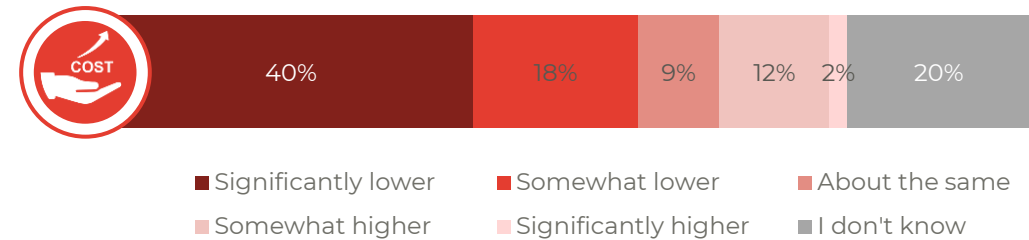
A strategic pivot from global to regional sourcing is the future trend, driven by recent global challenges and evolving market dynamics

Share of Respondent's Long-term Goals Between Regional and Global Sourcing



- o There is a clear preference for increasing regional sourcing with less emphasis on expanding global sourcing, giving the indication that businesses become more cautious of the uncertainties and risks associated with distant supply chains.

Share of Respondents' Cost Comparison of Regional versus Global Sourcing




- o As cost increases and savings appear to be key risks and switching reasons respectively for businesses when sourcing across location, regional sourcing is perceived to offer cost advantages compared to global sourcing.



Increasing regional sourcing is much perceived as a more important long-term goal, and cost appears to be the influential factor driving regionalization.

In the strategic shift from global to regional sourcing, businesses should navigate regional strengths and emerging opportunities

-
- Despite a **regional downturn**, **Europe** remains an **important sourcing market** as companies prioritize strengthening supply chains with a focus on **quality and sustainability**.
 - **China** remains a **critical sourcing location** due to its **competitive costs** and **vast manufacturing capacities**.
 - **Mexico's proximity** to the U.S. and **competitive costs** enhance its appeal as a sourcing destination.
 - **India** is gaining traction as an emerging sourcing option, supported by ongoing **economic reforms** and **expanding infrastructure**.
 - **SEA** is emerging as a **key alternative** sourcing market **to China** due to **competitive costs, proximity** to China, and **favorable trade agreements**.

 **By prioritizing regional sourcing and proactively addressing associated challenges, businesses can cultivate more robust and flexible supply chains, enhancing efficiency and positioning themselves to navigate future uncertainties effectively.**



www.arc-group.com