

Global Supply Chains - Networks of Tomorrow

South Korea 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 South Korea

South Korea is an export-oriented economy and supply chains are critical to the success of its manufacturing and trade industries.

South Korea's economy heavily relies on the manufacturing and export of goods and the supply chain enables organisations efficiently produce and deliver these products to global markets.



Supply chain finance programmes are premised on the potential credit arbitrage that may exist between the buyer and its suppliers. Suppliers get competitive financing costs based on the buyer's credit rating. By injecting liquidity into the supply chain, buyers can extend supplier networks and enhance strategic supplier relationships."

Kang Hyuk Jeon, Country Head of Global Trade & Receivables Finance, HSBC Korea

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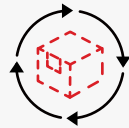
How corporates are laying the foundations for future supply chains

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How do corporates in South Korea differ from other markets?

Shifting supply chain strategies

Organisations in South Korea have responded to the impacts of Covid-19 by increasing their excess inventory holdings and diversifying their supply chains across a range of markets. Suppliers are being assessed in areas such as payment and financing terms, but also increasingly for their sustainability credentials and digital integration with treasuries.



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 South Korea's corporates

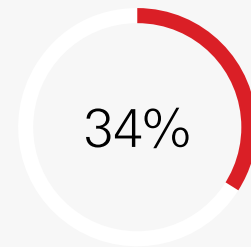
1. Mainland China (29%)
2. North America (23%)
3. Asia (excluding China) (22%)

Important factors for assessing suppliers¹

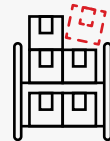
Payment and financing terms	62%
Sustainability credentials	31%
Digital integration with treasury	26%

Inventory management

73% of corporates in South Korea 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%)

The levels of inventory held by corporates in South Korea has increased significantly due to disruptions caused by the pandemic and by rising freight rates. Excess inventory also helps to prepare for any future delays or further impacts to supply chain operations.



The pandemic is accelerating a number of trends that were already underway - most notably, a broad restructuring of supply chains, a drive towards digitalisation, and a greater focus on sustainability."

Ajay Sharma, Regional Head of Global Trade & Receivables Finance, Asia Pacific, HSBC

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

Navigating new market conditions

Most organisations in South Korea are looking to reduce their supply chain partners to focus on key suppliers. They are also becoming increasingly concerned about inflation risk and sustainability adoption risk.

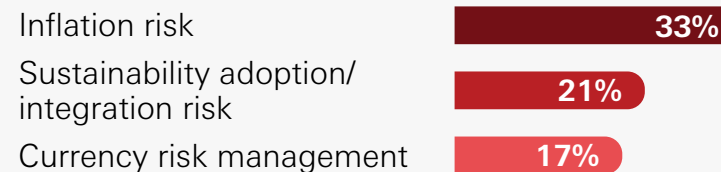
Risk management solutions



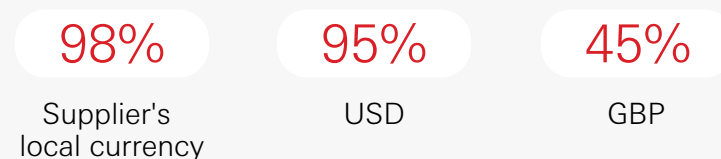
Top solutions for hedging against financial risk

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

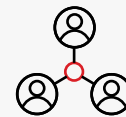


Financing the supply chain



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%)
2. Reducing number of supply chain partners (73%)
3. Keeping the same number of supply chain partners (4%)

Receivables financing has become one of the preferred methods of financing for corporates in South Korea. They are also increasingly using advance batch payment and electronic bank transfers to pay their suppliers.

Channels for supplier payments



Most popular payment methods

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



The decrease in the number of suppliers is due to the collapse of the supply chain which was caused by US regulations and China's Zero-Covid policy, driving companies to safe and large suppliers. It seems that the trend of decreasing the number of suppliers will continue due to existing regulations and trade protectionism in each region."

Kang Hyuk Jeon, Country Head of Global Trade & Receivables Finance, HSBC Korea

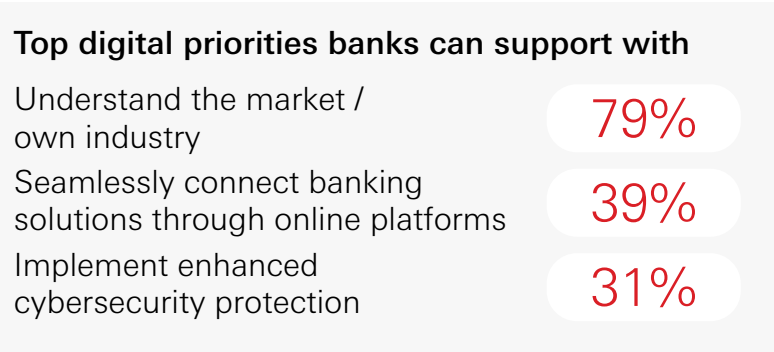
² Traditional trade finance includes documentary credit/collections, open account and trade loans

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

Ensuring supply chain resilience

Organisations in South Korea are introducing a range of methods to encourage their suppliers to become more sustainable, such as requiring new suppliers to adopt certain sustainability policies during the onboarding process. Digitising supply chains is also a key focus area.

Digitising the supply chain



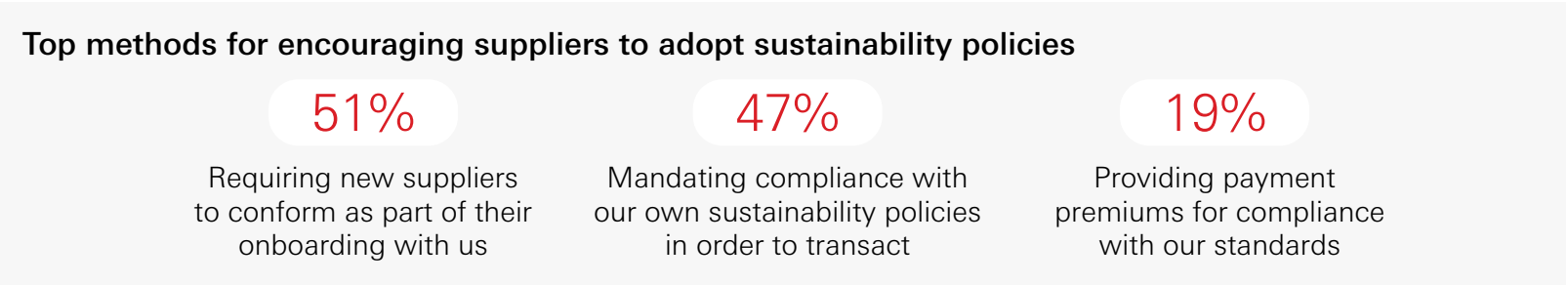
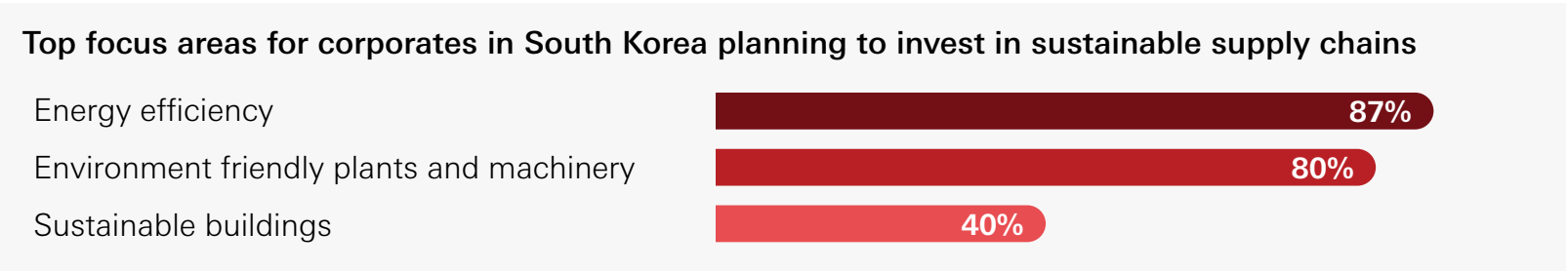
Corporates in South Korea are looking to use digital tools to help analyse and gather insights on their markets and industries. They are also looking into solutions such as cloud-based supply chain finance platforms to enhance their access to financing.

Some companies manage supply chain risks and opportunities by considering sustainability at every stage of supplier selection, operation, and evaluation, while others provide free ESG consulting to their suppliers.”

Kang Hyuk Jeon, Country Head of Global Trade & Receivables Finance, HSBC Korea

Integrating sustainability along the supply chain

Momentum is underway among corporates in South Korea to implement sustainability policies and more are looking to put policies in place across their supply chains in the coming years.

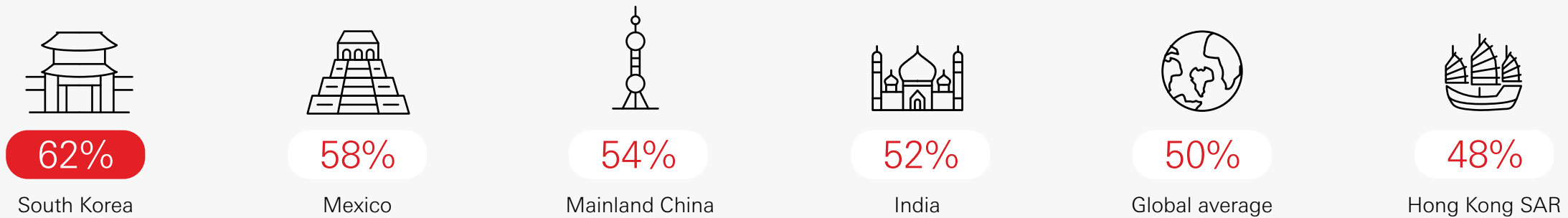


Highlighting market differences

Against global peers, organisations in South Korea stood out in considering payment and financing terms when assessing suppliers. Another differentiating point was their focus on using digital means to understand their markets and industry.

Payment and financing terms are important when assessing suppliers

Among markets globally, South Korea see payment and financing terms as one of the top factors to consider when assessing suppliers



Understanding the market and industry is a top digital priority

Compared to global peers, corporates in South Korea see better understanding their markets and industries as their highest digital priority



Disclaimer

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.

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