

Global Supply Chains - Networks of Tomorrow

Indonesia 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 Indonesia

The Indonesian economy is facing both opportunities and challenges, with the shift towards regionalisation and diversification of supply chains presenting a chance for local exporters to expand their market reach. However, global disruptions may negatively impact Indonesian manufacturers by increasing import costs and reducing access to critical inputs, which are leading many to prioritise resilience over cost optimisation.

Organisations are also looking to align with suppliers on ESG expectations and expand their digital channels to improve supply chain transparency, which is now a "must-have" in today's context.



The recent global trade supply chain trends are likely to have both and positive negative effects on the Indonesian economy. On the one hand, the increasing shift towards regionalisation and diversification of supply chains presents opportunities for Indonesian exporters to expand their market reach. On the other hand, disruption and bottlenecks in global supply chains could lead to higher import costs and reduced access to key inputs, which could negatively impact Indonesian manufacturers and consumers."

Francois de Maricourt, President Director, HSBC Indonesia

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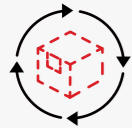
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How do corporates in Indonesia differ from other markets?

Shifting supply chain strategies

Organisations in Indonesia are concerned about counterparty risk, and they have also responded to supply chain disruptions from the last few years by increasing the excess inventory they are holding. They are also placing more importance on assessing their supplier's sustainability credentials and digital integration status.



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 Indonesia's corporates

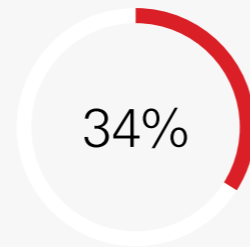
1. Mainland China (29%)
2. North America (23%)
3. Asia (excluding China) (22%)

Important factors for assessing suppliers¹

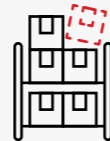
Payment and financing terms	62%
Sustainability credentials	31%
Digital integration with treasury	26%

Inventory management

73% of corporates in Indonesia 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 Indonesia have held much higher levels of inventory to account for the impact of supply chain disruptions. They are also looking into rising freight rates which has caused additional strain upon their imports and exports.



While holding higher levels of inventory can provide a buffer against supply chain disruptions, it also incurs additional costs and ties up capital. Corporates should look to diversify their suppliers, establish contingency plans and invest in technology to increase supply chain transparency and mitigate risk."

Riko Tasmaya, Managing Director and Head of Wholesale Banking, HSBC Indonesia

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

Navigating new market conditions

The need to manage currency and inflation risk has driven the adoption of risk management solutions in Indonesia. Organisations are looking into various ways to hedge against financial risk and are also reducing the number of their supply chain partners to focus on key suppliers.

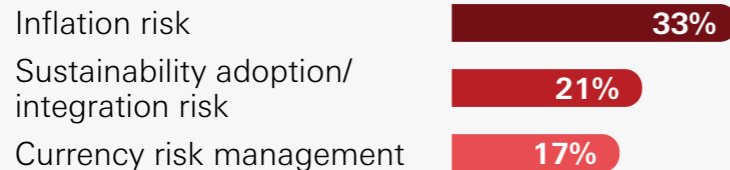
Risk management solutions



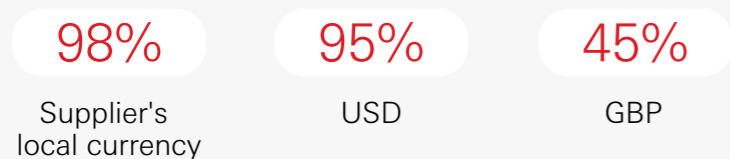
Top solutions for hedging against financial risk

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

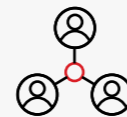


Financing the supply chain



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%)

Traditional trade finance and available working capital remain the main methods that corporates in Indonesia are funding their supply chains with, but receivables financing is also on the rise. They are also increasingly making use of 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%)

Trade finance and working capital loan facilities have been the mainstay option for Indonesian corporates, but receivables financing is emerging as viable alternative to meet the increasing need for liquidity. Additionally, electronic bank transfers for payment provide a more efficient and secure means of conducting transactions, enabling more effective cash flow management.”

Riko Tasmaya, Managing Director and Head of Wholesale Banking, HSBC Indonesia

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

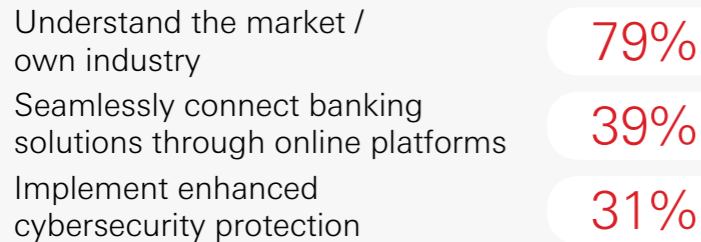
³ Available working capital includes the organisation's own cash, marketable securities and optimisation of receivables/payables terms

Ensuring supply chain resilience

Organisations in Indonesia are making use of digital banking solutions enhance the efficiency of their supply chains. They are also investing in sustainability across their supply chains to ensure that their operations remain resilient for the future.

Digitising the supply chain

Top digital priorities banks can support with



Corporates in Indonesia are looking to digital banking solutions to help them better understand the market and their industry. As their operations grow, they are also making greater use of online platforms and services with strong cybersecurity protection.



With the rising emphasis on ESG-related policy implementation, it's essential that suppliers revisit their strategy to align with these standards and take advantage of the opportunity for market differentiation and growth."

Riko Tasmaya, Managing Director and Head of Wholesale Banking, HSBC Indonesia

Integrating sustainability along the supply chain

Corporates in Indonesia are making steady progress in implementing sustainable policies in an ongoing trend that more corporates are planning to put into practice within two years.



Environmental / green policy implementation

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



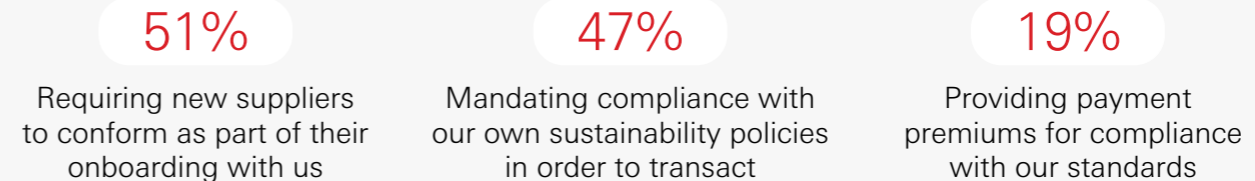
Health and safety / wellbeing policy implementation

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

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



Top methods for encouraging suppliers to adopt sustainability policies



Highlighting market differences

Organisations in Indonesia stood out against their global peers in their preference for receivables financing. They are also focused on gathering insights into their market and industry through the use of digital tools.

Receivables financing is a preferred payment method

Among markets in the Asia Pacific region, corporates in Indonesia have a preference for making use of receivables financing



42%

Indonesia



35%

Singapore



33%

Global average



29%

Hong Kong SAR



27%

Malaysia



27%

Mainland China

Understanding the market and industry is a top digital priority

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

Indonesia, Australia, Japan and South Korea

79%

United States of America

47%

United Kingdom

42%

Global average

39%

Germany

38%

Mexico

36%

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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