



UPS 2011 CHANGE IN THE (SUPPLY) CHAIN SURVEY

High-Tech Executives in Asia Prepare for Change

UPS has contracted IDC Manufacturing Insights for the second year in a row to conduct the “Change in the (Supply) Chain” survey, which measures the impact of industry changes and challenges on the high-tech supply chain. This year’s study targeted senior-level decision makers at high-tech companies in the Asia Pacific region.

Featured Finding: Asian Companies Exploring Alternative Sourcing Locations

Survey results found that increasing costs in China are prompting companies to look at alternative sourcing locations, which will impact high-tech supply chains throughout the Asia-Pacific region.



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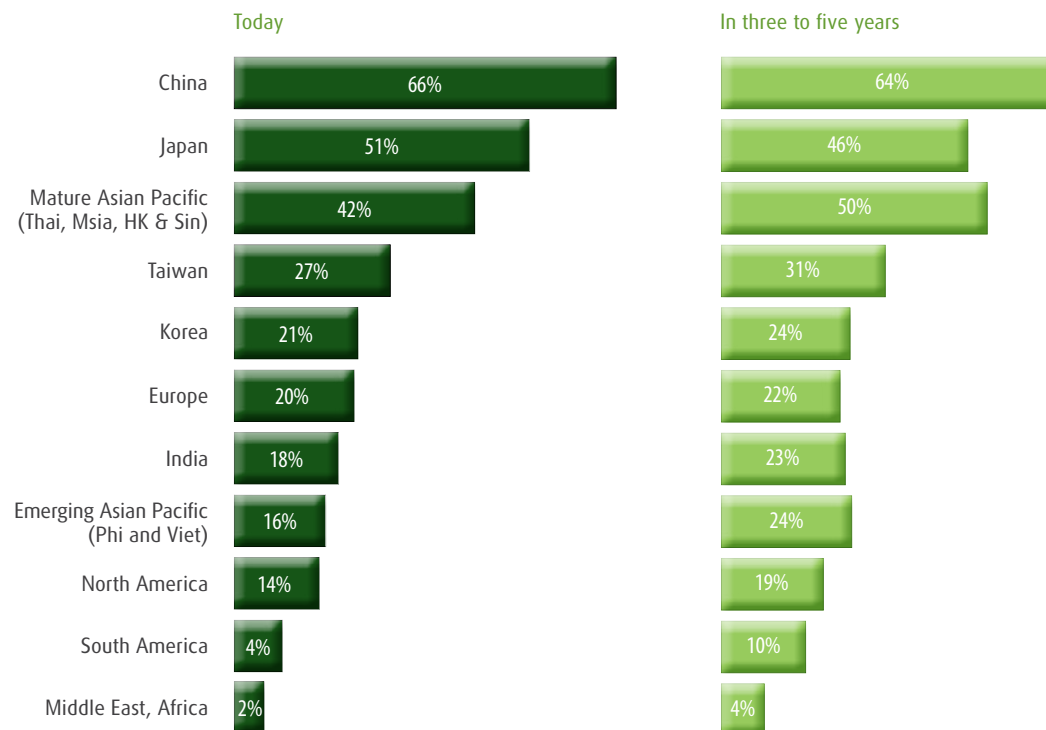
Other Hot Topics:

Findings are organized around these trend areas:

Featured Finding: ASIAN COMPANIES EXPLORING ALTERNATIVE SOURCING LOCATIONS

Although China and Japan will continue to supply to most high-tech companies, survey results show a significant shift of supply sourcing to both emerging and mature Asia Pacific countries. And while sourcing from North America also is expected to increase in the future, trade lanes will remain primarily intra-Asia.

Shift in Supply Sourcing



Question: Where do you source most of your supply for your products now and in the future?

* **Change in the Chain:** Supply Chain Transformation in the Asia/Pacific High-Tech Industry, Document #MI2301, an IDC Manufacturing Insights white paper sponsored by UPS. July 2011.

Fast facts:

- 42% of survey respondents now source from mature APAC countries, including Thailand, Malaysia, Hong Kong and Singapore, while 16% of high-tech companies said they currently source from emerging APAC markets like the Philippines and Vietnam. 24% plan to source supplies from these emerging countries in the next 3-5 years.
- Interestingly, sourcing from North America is expected to increase to 19% in the next three to five years. However, more than half of the trade lanes used by high-tech companies surveyed will be intra-Asia.

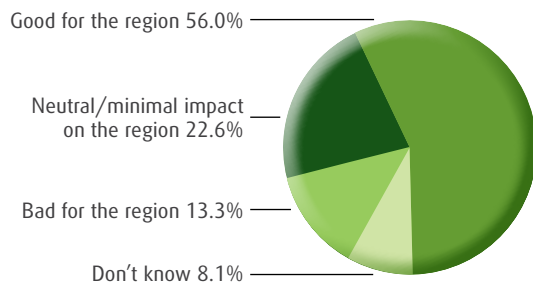
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Sourcing Trends & TRADE PATTERNS

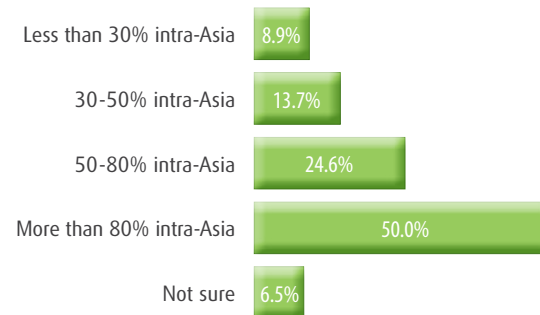
The survey also reveals that most high-tech companies are in favor of intra-Asia trade and are focusing to fulfill growth in demand within the region. Trading plans in the next five years show that more than half of the trade lanes used by high-tech companies will be primarily intra-Asia.

Opinions on increased intra-regional trade in Asia



Question: How will the recent trend of increased intra-regional trade in Asia impact the region and its economy going forward?

Intra-Asia trading plans in the next five years



Question: What best describes your company's intra-Asia trading plans versus other trade lanes in the next five years?

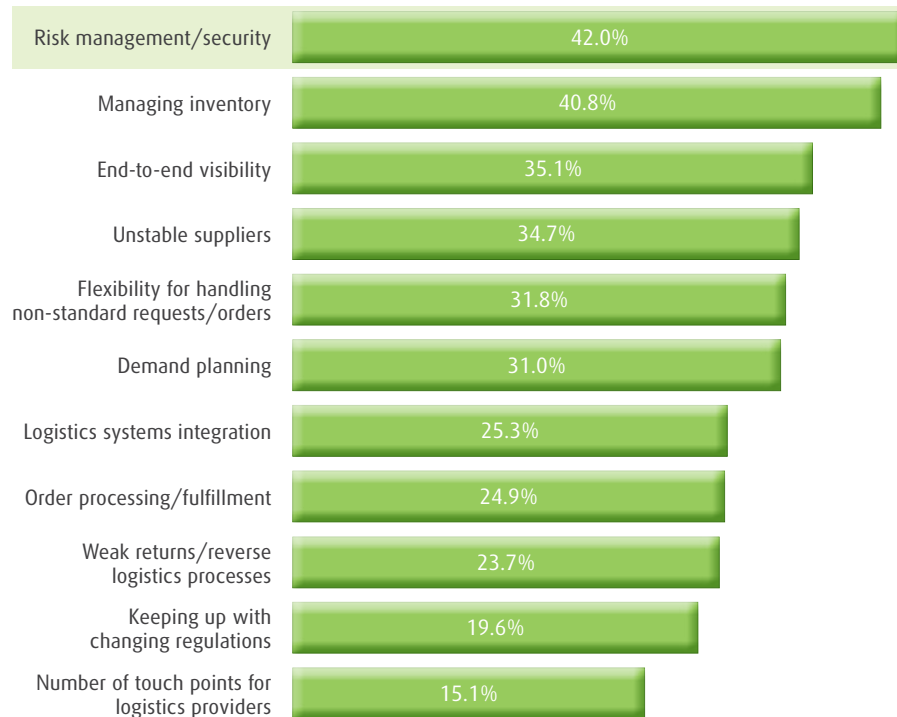
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Risk Management: A TOP CONCERN

Risk management emerges as a clear issue for high-tech supply chains, overshadowing others such as inventory management, which has long been an issue in the high-tech industry.

Weak Links in the APAC Supply Chain



Question: Which of the following are "weak links" in your supply chain?

Fast facts:

- Only 27% of companies plan to improve their supply chain resilience through better risk management going forward.
- While most companies have some form of risk management plan in place, only 11% have the resources or readiness to react fully in times of significant disruption.

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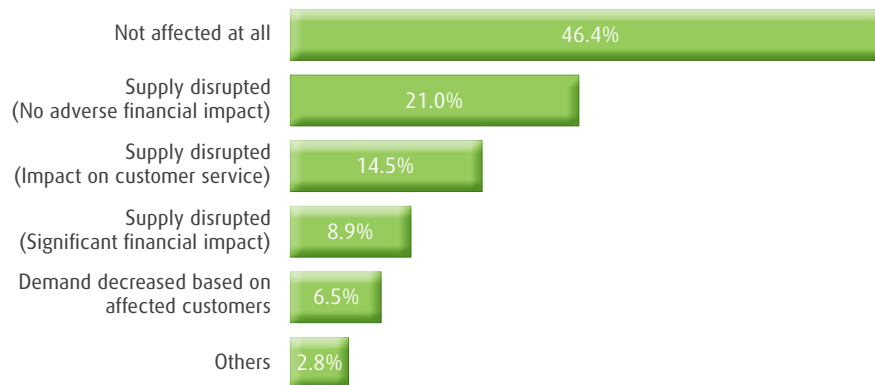
Risk Management:

IMPACT OF SUPPLY CHAIN DISRUPTIONS IN JAPAN

When asked about the impacts from the earthquake and tsunami that devastated Japan's East Coast in early 2011, most companies reported only experiencing minimal disruptions and expect the impact to be resolved by next year. These results are contrary to initial predictions by industry experts that many companies would experience major disruptions until the end of 2011.

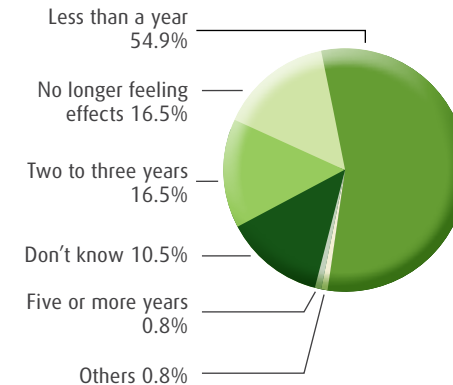
Most companies were not adversely affected by the dual natural disasters in Japan

Impact



Question: What was the impact on your company from the recent natural disasters in Japan?

Duration



Question: If you were impacted, how long do you anticipate the impacts will affect your business?

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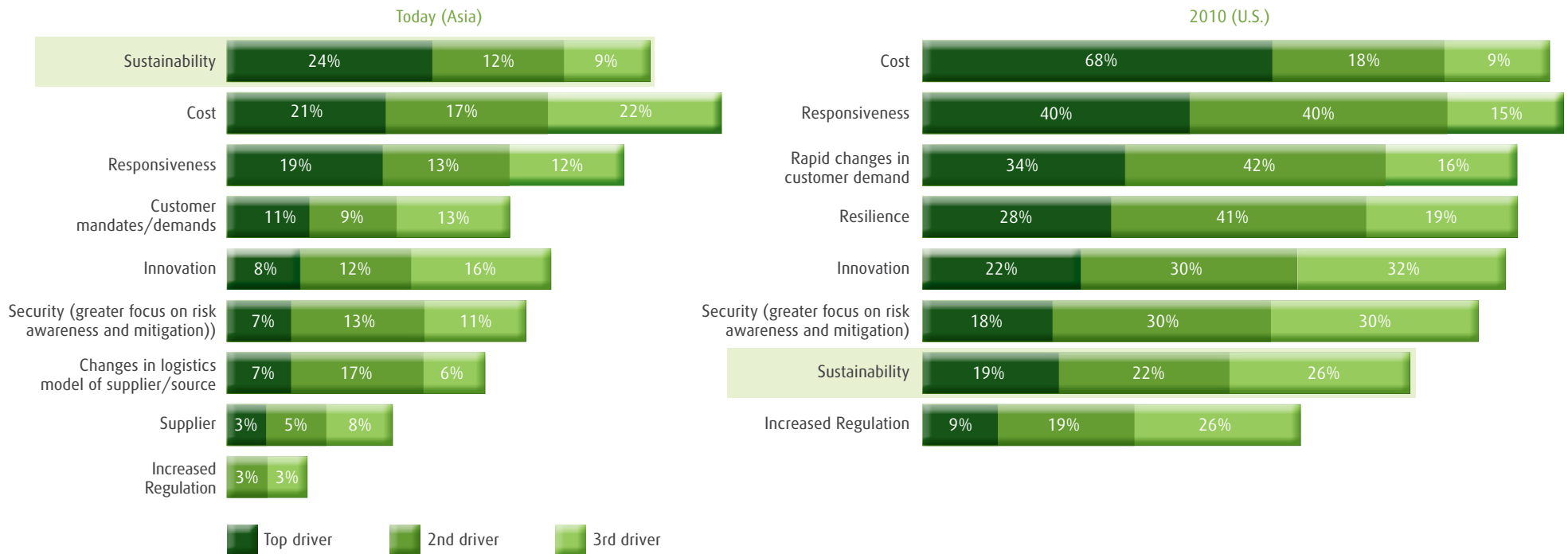
Sustainability

Survey results show that driving greater sustainability in the supply chain is a top priority for high-tech companies in Asia. Sustainability was selected by the majority of companies as the top initiative expected to drive change in the high-tech supply chain, outranking both cost and responsiveness.

Projecting a better corporate image is the top driver for companies to engage in greener practices, although many sustainability projects have been recast as cost savings initiatives, such as energy savings.

While sustainability is a growing priority in Asia, U.S. companies ranked it as one of their lowest priorities in 2010 with only 19% of companies identifying it as a top issue driving changes in their supply chain over the next 3-5 years.

“Green” priorities in Asia vary greatly from those in the U.S.



Question: What are the top three issues driving changes in your supply chain over the next three to five years?

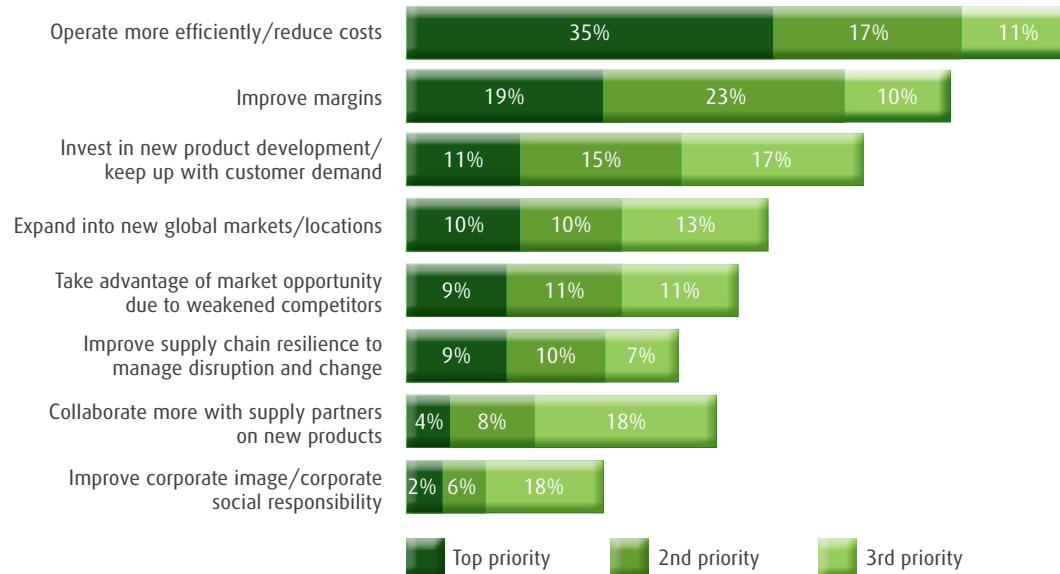
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Cost Management

Similar to what was seen with U.S. companies in 2010, cost management will remain a top business priority for high-tech companies in Asia in the near future as they attempt to improve margins through operational efficiency.

Cost reduction was identified as the top business priority for the next 18 months



Question: What are your business priorities for the next 18 months?

Fast facts:

- The majority of companies (63%) cited cost reduction and increased operating efficiency as a top three business priority for the next 18 months.
- 52% of companies intend to focus on improving margins.
- Cost ranked second as the top factor driving change in the Asian high-tech supply chain over the next 3-5 years, cited by 21% of companies as the number one factor driving change.

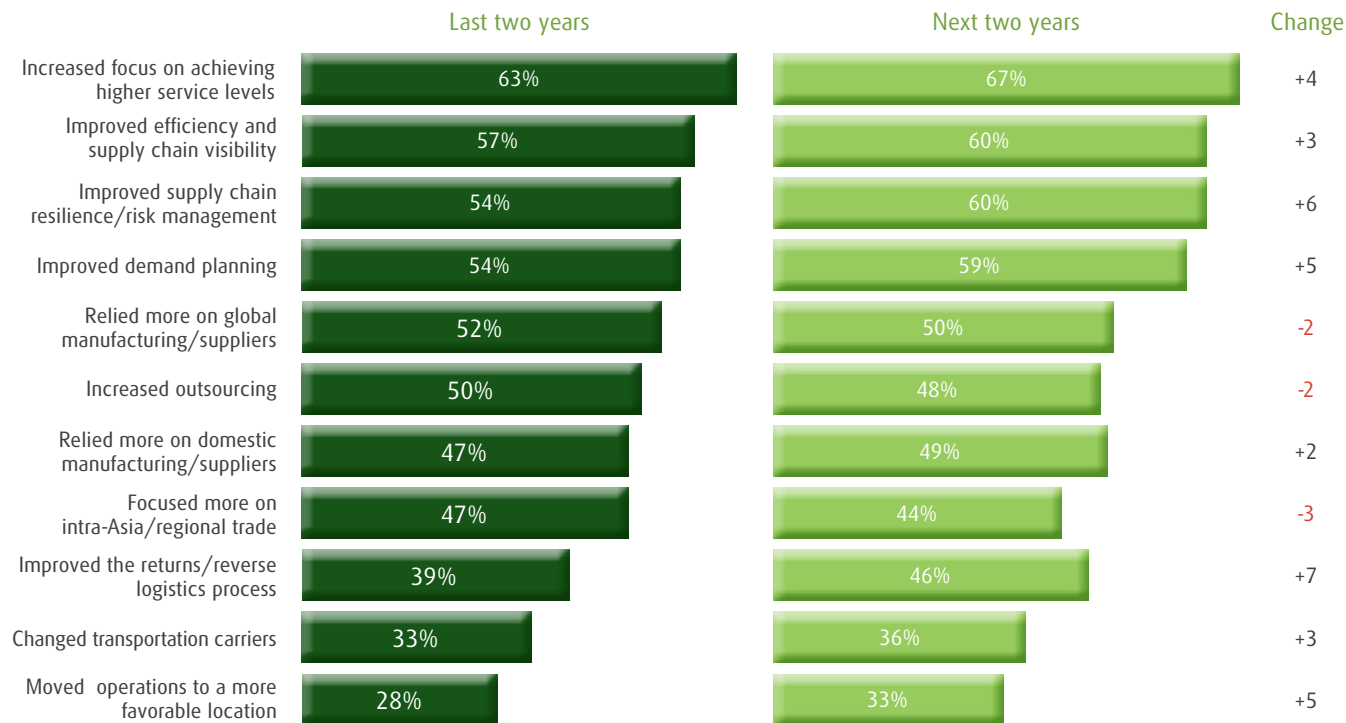
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Customer Service

Despite findings that reveal a continued focus on cost management in the future, responses also indicate that high-tech firms in Asia are beginning to move beyond cost to competing on service. Companies are working to achieve higher service levels, which has significant implications for high-tech supply chains.

Companies will continue to focus on customer service in the future



Question: What changes has your company made in the past two years and what changes do you plan to make in the next two years?

Fast facts:

- Achieving higher service levels is both the most frequent change made over the last two years (63%) and most anticipated for the next two years (67%).
- 61% of companies ranked “better balance of cost and efficiencies with customer service” as a top supply chain priority over the past 2 years.
- Responsiveness was cited as a top three driver of change in the supply chain over the next 3-5 years.

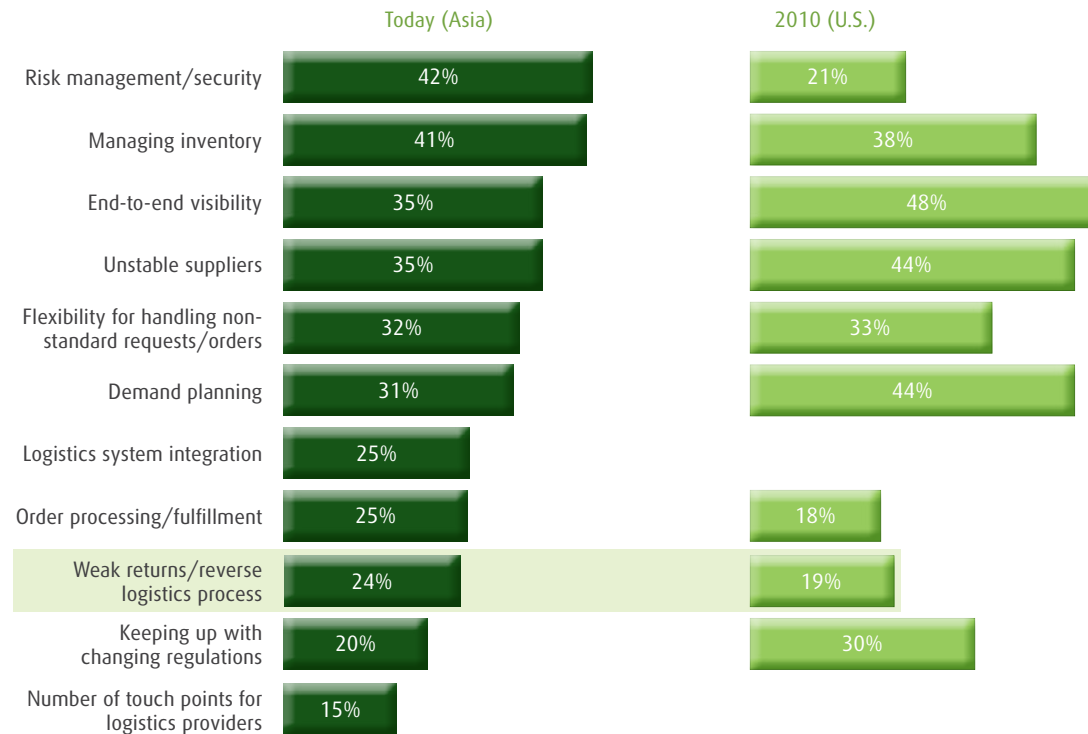
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Competitive Differentiators IN THE SUPPLY CHAIN

High-tech companies in Asia see the opportunity for returns/reverse logistics to be an advantage for both their businesses and their customers, but there is much room for improvement. Focusing more on returns presents a significant opportunity for high-tech companies to advance their overall goal to improve customer service.

Reverse logistics is a competitive advantage opportunity in Asia and in the U.S.



Question: What is the business impact of your current reverse logistics/returns process?

Fast facts:

- Only 39% of companies in Asia reported having made improvements to their reverse logistics processes over the last two years; 46% will make improvements in the next two years.
- When asked about the business impact of current reverse logistics /return processes, the majority of survey respondents (23%) said it benefits their business.
- While 24% of APAC companies selected reverse logistics as a weak link in the supply chain in 2011, only 19% of U.S. companies indicated that it was a weak area the previous year.

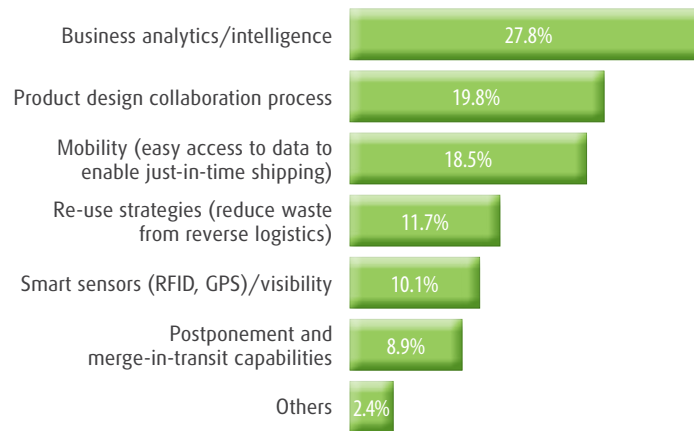
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Business Analytics & INTELLIGENCE

Business analytics/intelligence is considered the most impactful supply chain innovation in Asia.

Most impactful innovation in the supply chain over the past two years



Question: What has been the most impactful or important innovation in the high-tech supply chain over the past two years?

Fast facts:

- The majority (28%) of APAC companies selected business analytics/intelligence as the most significant innovation for managing the supply chain over the past two years.
- One component of business analytics, visibility technologies, arose as a challenge for high-tech supply chains, with 35% of respondents identifying end-to-end visibility as a top challenge the previous year.

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