



Reorganization of the supply chains

Special evaluation of the AHK
World Business Outlook Fall 2021

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Companies are reorganizing their supply chains

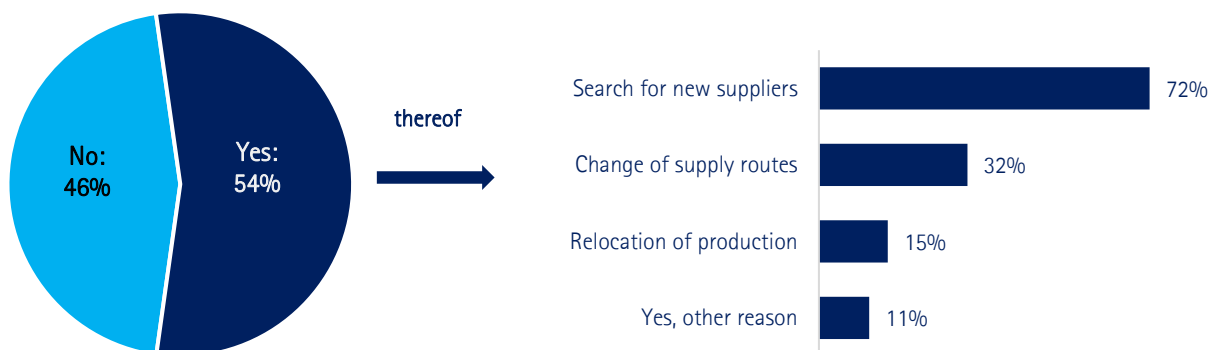
As the coronavirus pandemic unfolds, companies' international business relationships and supply chains face numerous challenges: travel restrictions, closed borders and transportation issues require significant effort and great flexibility in operations. Most recently, supply difficulties have become even more acute. More than half of German companies abroad report problems in their supply chains or logistics due to the coronavirus pandemic – that is 14 percentage points more than in the previous survey in spring 2021. 30 percent complain about missing goods and services, and one in five companies has even experienced its own production downtimes, for example due to sick leave.¹

There are many reasons for the current delivery difficulties and price increases. In addition to increased demand due to a global upswing on the one hand and insufficient production capacities on the other, companies are confronted with transport problems, in particular a lack of containers and freight capacities on ships as well as production downtimes at suppliers. Trade policy measures such as export or import restrictions are also creating obstacles.²

In view of the challenges in international business, more than half of the companies are planning to adjust their supply chains or are already in the process of doing so. Industrial and construction companies in particular want to reorganize their supply chains (67 percent), but also retail companies (59 percent) and service companies (37 percent). Obviously, companies that are affected by supply bottlenecks in particular want to take countermeasures in the long term: Here, more than two-thirds are planning or have already implemented adjustments.

The proportion differs slightly between the world regions. German companies operating in North America most likely want to transform their supply chains (63 percent), followed by South and Central America (62 percent), Africa and Middle East (62 percent) and China (61 percent). Companies in the Eurozone (49 percent) and Eastern and Southeastern Europe (excluding the EU, including Turkey and Russia) (47 percent) are less likely planning to transform their supply chains. The top value in the individual analysis of important German trading partners is achieved by the United Kingdom. There, 77 percent of companies are adapting their supply chains.

Proportion of companies that are diversifying their supply chain or have already made adjustments



Supply chain adaptation is being implemented in different ways: 72 percent of companies with such plans say they are looking for new or additional suppliers, while 32 percent intend to change or shorten their supply routes. 15 percent of the companies intend to relocate their production or parts of their production to new locations – a large proportion in view of the financial and organizational effort involved in setting up new production facilities.

¹ Analysis of further impacts of the coronavirus pandemic on businesses can be found in the [AHK World Business Outlook Fall 2021](#).

² This is shown by a [DIHK survey on supply bottlenecks and shortages of raw materials among German companies in Germany and abroad](#).

In addition, the companies had the opportunity to name further adjustments to their supply chains in the free text field of the questionnaire. Many companies stated that they wanted to add new products or services to their portfolio and increase the digitalization of their supply chains. The companies are also planning to increase their warehousing.

Search for new or additional suppliers

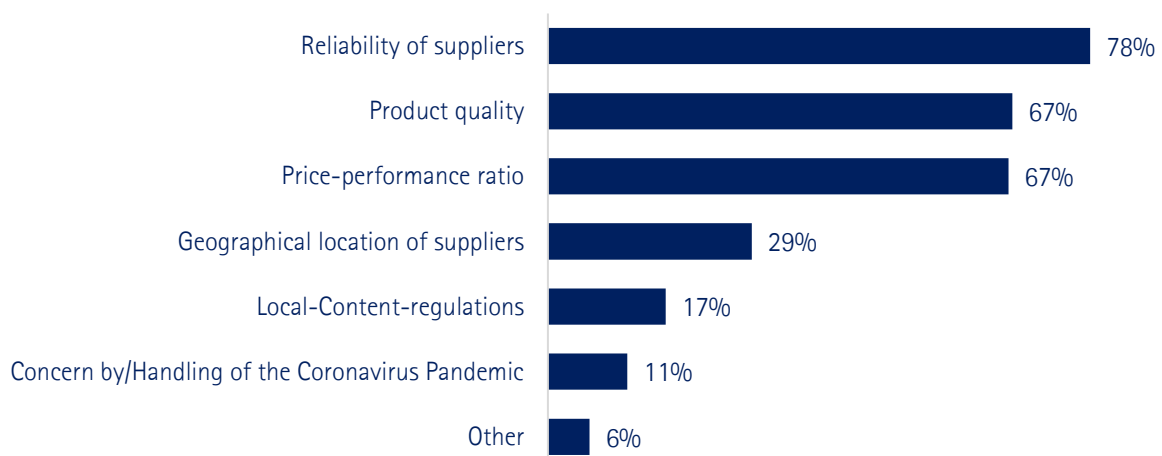
When looking for new or additional suppliers, companies attach importance to various aspects: For 78 percent, the reliability of their business partners is at the top of the list. For two-thirds of the companies, product quality and value for money play an important role each.

With the global expansion of localization regulations, such as Buy America in the United States, 17 percent of companies see local content regulations as an important criterion for choosing new suppliers. A country's local content regulations require that a specified percentage of a product must be manufactured in that country. This is a particularly important factor for companies in Africa, the Middle East (27 percent) and Asia and the Pacific, for example in view of Make in India and Made in China 2025 (29 percent).

One in ten companies pays attention to how the supplier is affected by and deals with the coronavirus pandemic – in the Asia-Pacific region, the figure is as high as 23 percent. Under other factors, expected trade barriers and regulatory framework conditions are also cited as factors in the search for suppliers. Sustainability is also cited by a growing number of companies as a criterion in their choice of supplier.

Relevant factors in the search for new or additional suppliers

(in percent, multiple answers possible)



For just under a third of companies (29 percent), the geographical location of suppliers is particularly important. In North America (42 percent), China (34 percent) and Asia Pacific (35 percent), the geographic location of suppliers plays a greater role compared to other regions.

Asked in more detail about the preferred location of new or additional suppliers, 34 percent indicate a location in the same country as their own production site and 43 percent in the region as preferred location of new or additional suppliers. In other words, regional proximity plays an important role in the location decision for new suppliers ("Near-Shoring").

Just under a quarter of companies would like to diversify more and are thus looking for suppliers in as many different countries as possible to spread the risk of delivery failures.

Preferred geographical location of new or additional suppliers

(in percent)



Recently, the prices of numerous intermediate products and raw materials have become considerably more expensive. Companies that are looking for new suppliers see themselves burdened by high raw material prices significantly more often than the average: Here, 62 percent name high raw material prices as a business risk, compared to 44 percent of the companies surveyed on average.

Change or shortening of supply routes

For just under a third (32 percent) of the companies, the adjustment of the supply chain relates to a change or shortening of their supply routes. At 93 percent, the proportion is particularly high in the United Kingdom, which is not least tied to the country's exit from the EU. The accustomed close economic relations within the EU single market have given way to a third-country relationship, which means more trade barriers especially in the logistics sector.

Companies planning to change supply routes are significantly more likely to see trade barriers or preference for domestic companies as a risk to their business (31 percent). Only 19 percent of companies that maintain their supply channels cite trade barriers as a business risk.

In terms of the impact of the coronavirus pandemic, companies planning to change supply routes are significantly more likely than average to experience supply chain disruptions (77 percent, 55 percent globally) and travel restrictions (69 percent, 65 percent globally).

Relocation of production

15 percent of companies that want to make changes in their supply chains are looking for new production locations themselves. The criteria for the location decision often reflect the different risks that companies see for their business development. For example, with 44 percent, an above-average number of companies looking for new locations are suffering from a shortage of skilled workers (average of all companies surveyed: 37 percent). Accordingly, 54 percent of the companies also cite the availability of skilled workers as an important criterion for the location decision.

Companies with relocation plans also fear above-average trade barriers or the preferential treatment of domestic companies (35 percent, all companies surveyed: 22 percent) or a lack of legal certainty (24 percent, all companies: 18 percent). Correspondingly, the economic framework conditions are also named as important location criteria by 43 percent and legal certainty by 32 percent.

For a quarter of the companies, local content regulations are relevant when deciding on a location, too.

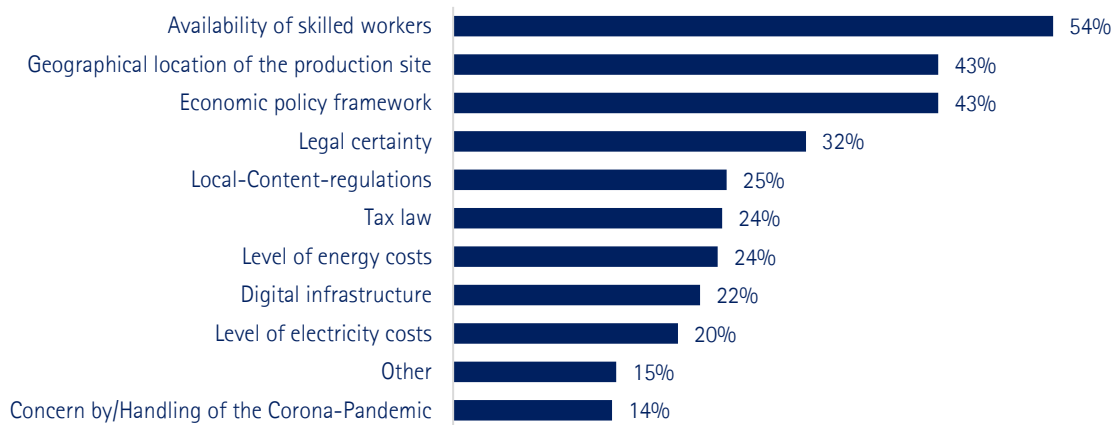
The level of energy costs plays a role for 24 percent and the level of electricity costs for 20 percent of the companies in their decision to set up a production site at a location. The proportion of companies that see high energy prices as a business risk is significantly higher. Here, as many as 60 percent see the level of energy costs and 53 percent see the level of electricity costs as a relevant factor in the choice of a new location.

Just under a quarter of companies are looking at local tax law as a relocation factor. For 22 percent of the relocating companies a well-developed digital infrastructure is relevant. For 14 percent, it is important how the new location is affected and how the coronavirus pandemic is dealt with.

In the free text field, many companies also stated that they wanted to minimize general costs and avoid trade barriers by relocating their production.

Relevant factors for the choice of new production sites

(in percent, multiple answers possible)



43 percent of companies that want to relocate attach particular importance to geographical location when looking for new production sites. The diversification factor plays an even greater role here than in the search for suppliers. Almost half (44 percent) of these companies want to spread their production across as many countries as possible to spread the risk of production losses. Slightly less than a third (29 percent) want to locate new production sites in regional proximity to existing ones. Almost as many companies (28 percent) want to locate new production sites in the same country as existing production sites.

The different importance of geographical locations could be related to the time factor: While short-term changes are often required in the selection of suppliers due to Corona-related economic challenges, long-term developments play a greater role in the significantly more complex relocation of production sites: suspected structural changes, future crises or even trade conflicts.

Preferred geographical location of new production sites

(in percent)



Methodology

The special evaluation of supply chains is based on additional questions that were asked as part of the [AHK World Business Outlook in autumn 2021](#). More than 3,200 German companies worldwide took part in the survey in September 2021.

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