

The SE Asia Supply Chain Reality – The Continuing Opportunity

To many, the focus on supply chain challenges in the U.S., congested ports globally, high international freight rates and container shortages paints a picture of international trade in turmoil and decline. The facts tell a different story. According to the U.S. Census Bureau, through November 2021:

- U.S. imports from China were \$456.8B, already 5% higher than all of 2020, and higher than 2019 - the last pre-COVID year. China remains the largest import source – 30% greater than #2 Mexico.
- Imports from Vietnam of \$92.3B were 16% higher than 2020 and 38% higher than 2019.
- Imports from Malaysia of \$51B equaled the full year 2020 level and were 25% higher than 2019 – the trend is repeated with other SE Asia trading partners.

The story of U.S. exports is the same. Through November 2021, U.S. exports to China were 10% higher than the 2020 total and 29% higher than 2019. Exports to other SE Asia countries have a similar growth story. Even COVID has not altered the fact that cross-border trade is growing and vibrant.

Reference: <https://www.census.gov/foreign-trade/statistics/highlights/index.html>

What has changed in 2022 are the options Western companies have to find, qualify, and manage cross-border trading initiatives. Routine, foreign business travel has been eliminated as a tool to develop relationships with suppliers, customers, and operations. With COVID-related quarantines and mandates, travel to any SE Asia country is not practical. When international travel will return to pre-pandemic norms is anyone's guess.

Actual cross-border trade trends reconfirm that international trade (sourcing or markets) remains an important competitive opportunity. Today's challenges may be different, but U.S. companies are solving the puzzle to drive strong import and export growth with SE Asia and China. Walmart, Home Depot, and countless other U.S. companies working the region before the pandemic, built capable in-region teams and processes. Companies that don't have that infrastructure in place face more daunting challenges to success. The good news is that effective solutions exist for these companies as well.

So how does a middle market company dependent on a strategic SE Asia or China supply relationship but lacking in-region resources, position for success?

WMC Consulting recommends a structured approach to “*virtual management*” of these suppliers. China may be the largest player in the global supply chain, but it is not the only game in town. Rapid industrial progress in other countries is establishing viable alternatives to diversify offshore sourcing for companies that perform diligent supplier management. The key to sourcing success in SE Asia and China today is finding services partners in the region with the capabilities to provide supply chain management services.

Step #1: Supplier Qualification – Confirm Capability and Sustainability

There is no substitute to “*boots on the ground*” inspection and assessment of a supplier's capabilities. This means reviewing the production floor and management processes including quality systems, supplier management, materials, and other functions important to the company. WMC Consulting

works with professional supply chain and quality partners in SE Asia and China to conduct supplier assessments to identify potential risks before engagement.

Step #2: Synchronize and Document Performance Expectations

"If it's not in writing, it didn't happen! If it's not in writing, it's not important!" Language, time, culture and varying commercial sophistication are obstacles to long-term offshore supplier relationships. For important supply relationships, there is no substitute to documenting all expectations, and rules of engagement to avoid unintended consequences caused by misunderstandings. For all non-trivial supply relationships, it is recommended that supply contracts be executed detailing all commercial, quality, operating, IPR, logistics, and financial considerations. WMC Consulting has a field-proven approach and toolset to help companies develop customized supply contract terms.

Step #3: Monitor and Confirm Performance

"Trust but verify!" Initial supplier qualifications are important, but supply success is dependent on continuing commitment to quality performance to agreed standards. WMC Consulting recommends at least annual requalification audits to monitor changes in facility, equipment, staff, and process that inevitably happen. The objective is to identify dynamic opportunities and risks and react before field problems develop. For critical buys, pre-shipment inspection to defined AQL standards is a valuable tool to minimize quality issues that otherwise go undetected until the product lands on your receiving dock. WMC Consulting's quality management team can conduct these follow-up qualification assessments and pre-shipment inspections.

Step #4: Performance Improvement or Supplier Replacement

Periodic assessments and improvement programs – coupled with on-going industry monitoring – are important tools for sustained supply success. WMC Consulting has formal tool sets and in-region capabilities to assist U.S. companies to build this model for sustained success.

The SE Asia and China supply chain opportunity remains a powerful tool for U.S. middle market companies who develop creative approaches to full-scope supplier management. WMC Consulting has the management methods, tools, and team to help companies build new supply chain strength.

WMC Consulting is a project management and advisory firm assisting North American companies and private equity groups to identify and solve cross-border business challenges primarily in SE Asia and China. Over the past 17 years, the WMC team has worked on 400+ international projects for 300 North American companies and 50+ private equity groups.

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