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2011 Supply Chain Top 25: Asia/Pacific

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Analyst(s): Marcus Blosch, Debra Hofman

This year, Gartner published its seventh annual Supply Chain Top 25, which highlights global leaders in the supply chain arena. Here, we examine the top 15 companies on the list that are based in Asia/Pacific.

Key Findings

- The Asia/Pacific cut represents a broad range of industries, from mining to consumer electronics, from across the region.
- Samsung stands out as a supply chain leader in the region, with consumer electronics companies in predominance.
- Uncertainty and weak growth in the developed economies have impacted companies, and most are now hoping to take advantage of strong growth in the emerging markets.
- Supply chain will be a key competency that helps companies reach new consumers across the region.

Recommendations

- Get a better understanding of what being demand-driven means in your industry. Learn the best practices of leading companies.
- Do a risk analysis of your supply chain to find out where your exposure is to potential disruptions or market weaknesses. Develop a supply chain strategy that allows you to mitigate those risks.
- Take a closer look at the emerging markets and how your supply chain operates in them. Looking forward, consider how you will meet the demands of local customers.
- For supply chain professionals in Asia/Pacific, get involved. Contact us and help shape the supply chain agenda for the region.

Analysis

There are some changes to the ranking of Asian companies in "The Gartner Supply Chain Top 25 for 2011." One of the major contributors was the increased pool of voters from the Asia/Pacific region, a trend we plan to continue to grow over the next few years. Here, we review the Asian companies from the Supply Chain Top 25. (Note: By Asia, we are referring to all countries in the Asia/Pacific region — from India in the west, to Australia and New Zealand, and Japan in the East.)

Regional Themes

In our discussions with clients this year, four regional themes emerged over and above the ones highlighted in "The Gartner Supply Chain Top 25 for 2011."

Continued Growth in Key Markets

Globally, economic recovery is under way, but while the U.S. and Europe have been growing, they have been doing so at a very slow pace. Many countries are struggling with debt, job growth is slow, and neither is set to change quickly. On the other hand, the emerging markets in Asia have been posting incredible growth rates, pulling the whole region along.

China and India remain the economic powerhouses, both with more than 10% in GDP growth. Both countries are experiencing the emergence of an urban middle class, with an increased appetite for products and services. This has benefited other countries in the region. For example, Australia escaped recession by supplying commodities largely to China, and Singapore, as a regional hub, was the region's star performer, growing at an amazing 14.7% for the year.

However, these impressive top-line figures hide the global slowdown's impact on individual companies. Many of the businesses in our Asia/Pacific Supply Chain Top 25 cut are very dependent on the export markets in the U.S. and Europe, and have suffered as a result. Looking forward, they are now aiming to address the dependence on U.S. and Europe as a source of growth by focusing more on developing economies — China and India, in particular.

The outlook for the Asia/Pacific region is good, with rapid growth set to continue for the foreseeable future. The opportunities for growth are likely to be within the Asia/Pacific region, rather than in the U.S. or European markets. Asia/Pacific is set to become more self-sufficient, with growth increasingly coming from serving local markets, rather than the export markets.

Switch to Domestic Consumption

Much of the regional growth over the last decade has been fueled by low-cost manufacturing and export, but change is under way. Between 2005 and 2010, labor costs in the coastal provinces of China rose by 69%. As the country develops, the cost advantage of manufacturing there erodes, particularly with high fuel prices adding to logistics costs. Many companies now cite that the main advantage of operating in China is to be well-placed to serve the local market.

The Chinese government is also aiming to move its industrial base up the value chain into higher value-added industries. It has identified seven industries in its 12th Five-Year Plan, which will be the focus of its investment and development:

- **Alternative fuels —** One of the main sources of pollution in China is cars. At one point, Beijing alone was adding 3,000 new cars a day to its roads. Carbon emissions and dependence on foreign crude oil are a motivating factor. The government is looking at funding alternative fuels, such as plant-based ethanol, and has launched a pilot program in five cities to subsidize electric and hybrid cars (see "China's Plan for Sustainable Growth").
- **Energy saving and technologies that improve environmental performance —** China is investing to upgrade its electricity infrastructure by developing a smart grid. It expects electricity generation and distribution to reach around 1,500 gigawatts (GW) by 2015, with much of it transmitted over large distances**.**
- **Alternative energy —** Aiming to reduce carbon intensity and increase renewable energy, China is already one of the world's leaders in wind power (the plan calls for an additional 70 GW of wind capacity) and is investing heavily in hydroelectric power. In addition to being the domicile of the world's first solar-power billionaire, a combination of early investment and labor arbitrage continues to fuel the rapidly growing photovoltaic industrial sector in China.
- **Advanced materials —** China has dominance in "rare earths" — that is, rare metallic elements needed in the production of electronics, among other things — as global manufacturers recently discovered. It currently supplies over 95% of the world's rare earths, and aims to capitalize on this position.
- **High-value-added manufacturing —** China aims to move away from low-cost manufacturing and move up the value chain to high-value-added products. It already manufactures many high-value-added products, from most of the world's computers to wind turbines and trains.
- **Biotechnology —** China is also a major agricultural producer, using its biotechnology to help develop new crops and increase yields. Despite having a large land mass, relatively little of it is good quality farmland, so its focus on increasing productivity is understandable.
- **IT —** China already makes most of the world's computers. It's also a leader in adjacent fields, such as nanotechnology and microchip design.

Many manufacturers are now re-evaluating their options. Some have already moved into lower-cost countries like Bangladesh or are staying closer to home. It's a fair bet that this pattern will be repeated in other emerging markets as they develop.

Companies in the Asia/Pacific region are re-evaluating their operations, and considering how to structure their manufacturing and distribution networks appropriately to manage cost and risk, as well as take advantage of the rapidly developing local markets.

Competition for Resources

To fuel their growth, China and India — the economic powerhouses of the region — are sucking in vast quantities of materials, from coal and iron ore to rare earths. China, in particular, has been very proactive in buying up sources of commodities around the world, now owns 98% of the world's rare earths. The country has even invested in dairy commodities in New Zealand. It has also seen oil consumption rise by four million barrels a day over the last decade, and accounts for 40% of the increase in oil consumption globally.

Although some countries, such as Australia, have benefited from this insatiable appetite for raw materials, most have seen costs rise as a result. As the Asia/Pacific region develops, competition for resources and rising costs will have a big impact on manufacturing and supply chains. China is now investing heavily overseas — in Africa, for example, where its investment is expected to rise to US$50 billion by 2015.

Sustainability

Across the region, environmental degradation has been the dark side of economic growth. In China, some 60% of fresh water is unfit for human consumption (see "Sustainability in China: An Interview With Ma Jun"). Although consumers and the public have been less vocal on environmental issues, this is changing, with increased pressure for companies to operate in a sustainable way, and take an interest in the operations of their partners and suppliers. Regulation and enforcement are still a long way behind the developed world, but they are evolving quickly. Companies operating in the region must start applying sustainable supply chain practices to their operations.

The Asia/Pacific Supply Chain Top 25 Cut

Turning back to the Supply Chain Top 25 ranking, here's a brief explanation of how we do the ranking. It comprises two main components: financial and opinion. Public financial data provides a view into how companies have performed in the past, while the opinion component offers an eye to future potential and reflects future, expected leadership, which is a crucial characteristic. These two components are combined into a total composite score for each company considered.

We derive a master list of companies from a combination of sources, including the Fortune Global 500, the Fortune 1000 and the Forbes Global 2000. Our primary source is the Fortune Global 500, which we then pare down to the manufacturing and retail sectors, thus eliminating certain industries, such as financial services and insurance.

In Table 1, we present a cut of the data for companies in the Asia/Pacific region.

Table 1. Gartner Supply Chain Top 25 for 2011: Asia/Pacific

2011 Asia/ Pacific Ranking	2011 Overall Ranking	Company	Return on Assets[1]	Inventory Turns[2]	Revenue Growth[3]	Composite Score[4]
1	10	Samsung	9.8%	16.9	22.5%	3.98
2	28	Hyundai	9.8%	17.1	8.4%	1.86
3	33	Rio Tinto	9.4%	2.5	27.3%	1.69
4	35	Lenovo	1.0%	20.9	6.5%	1.63
5	37	BHP Billiton	13.9%	2.0	3.0%	1.58
6	38	Woolworths	10.9%	11.1	5.9%	1.58
7	53	Honda	2.5%	6.7	-10.5%	1.32
8	55	LG	0.7%	22.3	4.6%	1.30
9	59	Acer	4.8%	10.7	10.0%	1.26
10	65	Toyota	1.0%	11.5	-8.5%	1.21
11	69	Tata Motors	0.7%	5.6	47.3%	1.17
12	90	Seven & i Holdings	2.4%	20.7	-3.1%	0.90
13	94	Flextronics	-16.9%	8.3	1.9%	0.83
14	105	Sony	0.2%	6.6	-5.8%	0.59
15	109	Komatsu	4.0%	2.5	-13.9%	0.52

Notes
1. ROA: ((2010 net income / 2010 total assets) * 50%) + ((2009 net income / 2009 total assets) * 30%) + ((2008 net income / 2008 total assets) * 20%)
2. Inventory turns: 2010 cost of goods sold / 2010 quarterly average inventory
3. Revenue growth: ((change in revenue 2010-2009) * 50%) + ((change in revenue 2009-2008) * 30%) + ((change in revenue 2008-2007) * 20%)
4. Composite score: (peer opinion * 25%) + (Gartner opinion * 25%) + (ROA * 25%) + (inventory turns * 15%) + (revenue growth * 10%)
2010 data used where available. Where unavailable, latest available full-year data used. All raw data normalized to a 10-point scale prior to composite calculation.

Source: Gartner (September 2011)

For the second year running, Samsung held the No. 1 slot, with a commanding lead in the composite score, which is partly because of balanced strength across financial metrics, very strong growth and inventory turns that are solid, to say the least. More important to its huge lead is the dramatically higher vote totals won by Samsung among peers and Gartner analysts.

Samsung is a good exemplar of demand-driven supply chain principles. As a company, it remains eager to learn and progress. Samsung also continues to develop new and innovative products, such as its Galaxy Tab, and has been evolving the way it works with its channel partners.

In the No. 2 slot is Hyundai. With customer satisfaction a core company value, a dramatically improved brand image and a focus on sustainability, the company has been moving up the list, with strong financials and increased recognition from voters.

Lenovo put in a strong performance this year, moving from No. 12 to No. 3 in the Asia/Pacific cut. Lenovo is diversifying away from being just a PC maker, looking to use its deep technological skills in other related consumer products. It has the advantage of having a strong base in the Chinese market, with around 30% market share accounting for 50% of its sales. Lenovo is aiming to expand more into other emerging and development markets, and working hard to implement demand-driven principles in its supply chain, such as sharpening its customer focus and segmenting its supply chain to meet its needs.

The weakness of demand in the U.S. and European economies impacted LG's electronics division, which suffered a US$220 million loss in 4Q10. The company has also been behind in key markets such as handsets and televisions. LG has set itself ambitious growth targets for 2011, and will make significant investments in its electronic division to support growth. The supply chain is seen by LG's senior management as a key to success, and the company has been working to transform its supply chain to become demand-driven.

Other consumer electronics companies made the global ranking and the Asia/Pacific cut for the first time. Acer is the only Taiwanese company represented, and Sony the only Japanese company. These companies represent the highly competitive consumer electronics markets, where Gartner sees product life cycles shortening and competition building in intensity. Applying demand-driven practices to their supply chains is key to success in these markets.

At No. 10 is Tata Motors, India's largest automotive company, which is headquartered in Mumbai, with 2010 revenue of US$20 billion. The company is the world's fourth-largest truck manufacturer and second-largest bus manufacturer, and it produces a wide range of cars, such as its well-known Nano, which sells for around US$3,500. Tata Motors is a truly global company that's expanding rapidly.

Automotive companies Toyota and Honda also make this year's Asia/Pacific cut, although both dropped in the ranking, suffering from the global downturn hitting new car sales hard. Toyota, in particular, suffered with a number of high-profile product returns, which negatively impacted its voter results. This accounts for it ranking behind Honda this year. Although Honda doesn't have the broad visibility of Toyota through programs like the widely adopted Toyota Production System (TPS), it demonstrates best-in-class practices in supplier relationship management and development, with a strong focus on supply chain talent (see "Successful Supply Management: It's

About How the Relationship Is Defined"). (Note: This document has been archived; some of its content may not reflect current conditions.)

Two retailers make the list: Woolworths of Australia and Seven & i Holdings of Japan. Certainly, these two deserve a spot, but they also deserve to have done better in the votes. We've seen some genuinely cutting-edge thinking from Seven & i, and Woolworths adopted supply chain innovations.

Looking Forward

Although this cut of the global Supply Chain Top 25 data is insightful, it raises many questions. For starters, there are many companies with world-class supply chains missing from the list, such as Li & Fung, Foxconn Technology Group, Haier, Geely International and Huawei. To remedy this, and to provide us with better insight into Asia, we plan to develop our Asia/Pacific focus in the global Supply Chain Top 25, launching an Asian Supply Chain Top 25.

As a complement to the global Supply Chain Top 25, the Asian Top 25 will focus on companies headquartered in Asia/Pacific that are voted for by supply chain professionals in the region. We expect that this will highlight a whole new set of companies with new insights into supply chain management, providing us with a better understanding of the companies that are seen as leaders by Asian supply chain professionals.

The Supply Chain Top 25 is intended to provide a foundation for vigorous debate about what constitutes leadership and supply chain excellence. Our intent with all this is to continue driving the advancement of supply chain as a discipline worldwide. We welcome comments, feedback, ideas and input, whether about the methodology we use or the results.

To get a better understanding of the Asia/Pacific cut or to find out how to participate in the voting for the Asian Supply Chain Top 25, contact Marcus Blosch at marcus.blosch@gartner.com or Debra Hofman, who also leads the global Supply Chain Top 25, at debra.hofman@gartner.com. You'll, of course, receive a free copy of the report and, perhaps more importantly, help shape the direction that our supply chain research takes moving forward.

Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"The Gartner Supply Chain Top 25 for 2011"

"Supply Chain Top 25 Methodology: What About Working Capital?"

"Changes to the 2010 Supply Chain Top 25 Methodology: Our Ideas"

"China's Plan for Sustainable Growth"

Regional Headquarters

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
USA
+1 203 964 0096

Japan Headquarters
Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Latin America Headquarters
Gartner do Brazil
Av. das Nações Unidas, 12551
9° andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509

Asia/Pacific Headquarters
Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600