Tradeshift®

The Tradeshift Index of Global Trade Health

Q3 2020

About the Index

Purpose

Over 1.5 million buyers and suppliers in more than 160 countries use the Tradeshift trade technology platform to exchange digitized purchasing and invoicing information. More than $500 billion in transactions cross the platform every year. The data these transactions yield provides us with a unique awareness of trading activity between businesses.

In July, we released Tradeshift's first ever Index of Global Trade Health. The Index analyses anonymized data flowing across our platform to reveal a timely perspective of how external events are impacting business-to-business commerce. Our analysis of trade activity in Q2 provided an indication of the devastating effects of lockdown restrictions brought on by COVID-19, followed by cautious recovery as the world's largest economies began to open up again.

The Q3 Index picks up the story where we left off: Will momentum of the recovery continue? Read on to find out more.

Methodology

The Q3 Index provides analysis of business-to-business transaction volumes (orders processed from buyers and invoices processed from suppliers) across the Tradeshift network during the period of July 1, 2020 through September 30, 2020.

For monthly comparisons, we looked at transaction volumes for each month during the third quarter and compared these figures to an average of the monthly transaction volumes we saw on our platform during the second quarter of 2020 (April 1 - July 31).

For quarterly comparisons we looked at Tradeshift platform data across the entire third quarter and compared this to data during the same period in Q2.

We use real-time data from our platform to inform our analysis. This data can be messy and we acknowledge that there are limits to how accurately our view of what is happening on our network can reflect how complex global supply chains are reacting to a variety of external factors. What our data does provide is a useful snapshot that provides clues as to what might be happening to the global economy. The patterns we see in our data become more valuable as we combine them with other third-party data and expert insight, something which you will see us draw on throughout this report.

The waiting room to recovery

Christian Lanng, CEO and co-founder, Tradeshift

As shared in our first edition of Tradeshift's quarterly Index of Global Trade Health, we were cautiously optimistic at the end of Q2 given the trends we were tracking in our network. After seeing trade activity slump to record lows as a result of the lockdown in early second quarter, signs of a recovery began to emerge in May and June as economies in the West began to reopen.

Trade activity continued to improve into Q3, as our platform activity between buyers and suppliers increased 15%. However, as we dig a little deeper, improvement has been uneven.

Transaction volumes across the Eurozone and in the US have rebounded in Q3 and are approaching pre-lockdown levels while the UK activity remains depressed. Trade activity in China has also failed to recover to its pre-COVID levels. China remains very volatile. Activity increased in March and April and again in July but has since dropped steeply in both August and September.

We're also seeing similar slowdown patterns emerge in other territories. Several factors are coming into play that could explain this:

The abrupt lockdown restrictions created a pressure cooker environment for supply chains. When the restrictions began to ease, we saw orders surge in June. This momentum continued into July and then tailed off as supply lines normalized.

The drop in orders during Q2 has also created a financial 'hangover-effect' that carried into Q3. Forty-five day payment terms are standard across supply chains globally, so the drop in orders in Q2 created liquidity issues in Q3. Global order volumes rose 20.1% in Q3, while invoice payments to suppliers bounced back by just 14.1%.

Our network businesses have a more optimistic outlook than they did just a few months ago; however, they still remain cautious. One US supplier said that businesses are putting off buying decisions until after the Presidential election. Others continue to worry about the resurgence of the pandemic.

Our Q3 Index trends are a reminder of the fragility of recovery. Choppy waters likely lie ahead. Riding these waves will require careful planning, close co-operation and a keen eye on the horizon.

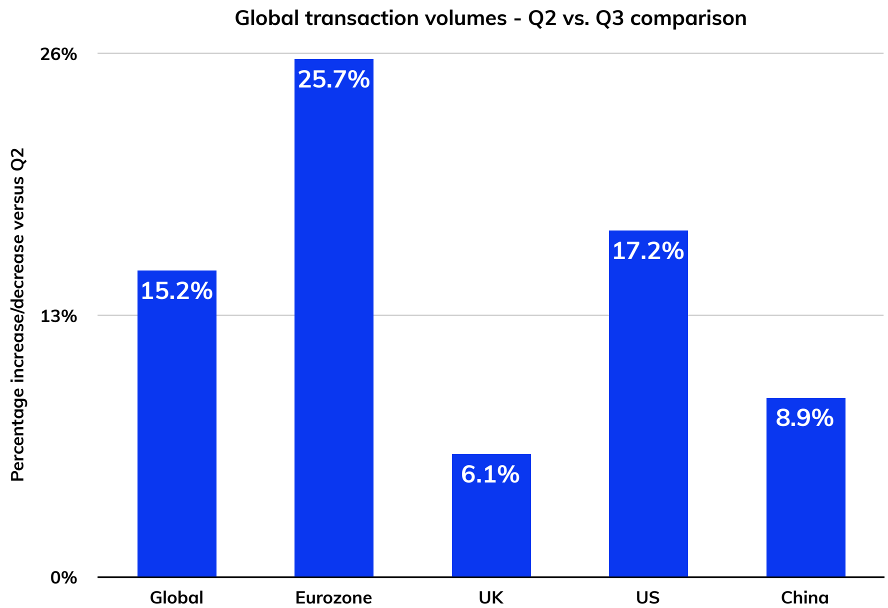
What happened in Q3?

Key findings at a glance

- Trade activity across global supply chains rose **15.2%** compared to the previous quarter.
- The Eurozone was the strongest and most consistent performer across the quarter. Transaction volumes across the region's supply chains grew **25.7%** in Q3
- Transaction volumes in the US also exceeded the global average, increasing **17.2%** against Q2. Pent-up demand following lockdown fuelled an **85.5%** rise in orders in July compared to the monthly average in Q2.
- The UK had a more difficult Q3, with transaction volumes up just **6.1%**. Low invoice volumes through the quarter have left suppliers facing acute liquidity issues.
- China's momentum showed signs of plateauing in Q3 with trade activity up **8.9%** compared to an admittedly strong Q2, when transaction volumes jumped **31.8%**.
- Order volumes across Western economies grew significantly, which suggests a stronger Q4 in terms of supplier cash flow. But there are also signs that this momentum is slowing after a significant surge in July.
- While order volumes grew **20.1%** in Q3, the amount of money flowing to suppliers has not advanced at the same rate. Invoice volumes grew **14.1%** in Q3. Liquidity will remain a significant issue for suppliers until that gap closes.
- Across industry sectors, retail activity rose by the biggest margin. Transaction volumes rose **78%** in July as more shops reopened. Trade activity in the food and beverage sector also rose significantly in July.
- Both the manufacturing and logistics sectors performed well throughout the quarter. Activity in the healthcare sector dipped in Q3 as supply chains settled after a period of volatility.

A return to form or a false dawn?

"In the US and Europe, when and where activity starts to level out is important, since these regions still have a big hole to fill from Q2."



CEOs have largely given up hope of a V-shaped economic recovery claims a new study from the World Economic Forum. Our initial findings seem to strike a more positive tone.

After falling by nearly 15% in Q2, a post-lockdown surge in activity in July saw transaction volumes spring back by a similar margin in Q3 to reach a level not seen since the first quarter in 2020. The Eurozone has been the stand out performer in Q3. The level of activity across the region's supply chains rose 25.7% in Q3. In the US too, the wheels of trade appear to be approaching full speed again.

The big question is: is this momentum sustainable?

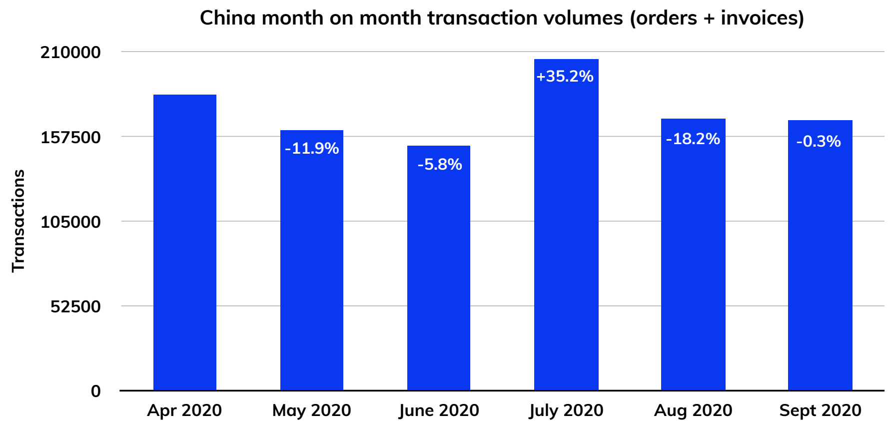
China was unlikely to repeat the rate of recovery we saw in Q2 when trade activity jumped 32%. The tapering off we have seen in Q3 was, to some degree, inevitable as the level of activity across supply chains settles following a period of extreme volatility. But that levelling off could also be a sign of weakening long-term demand.

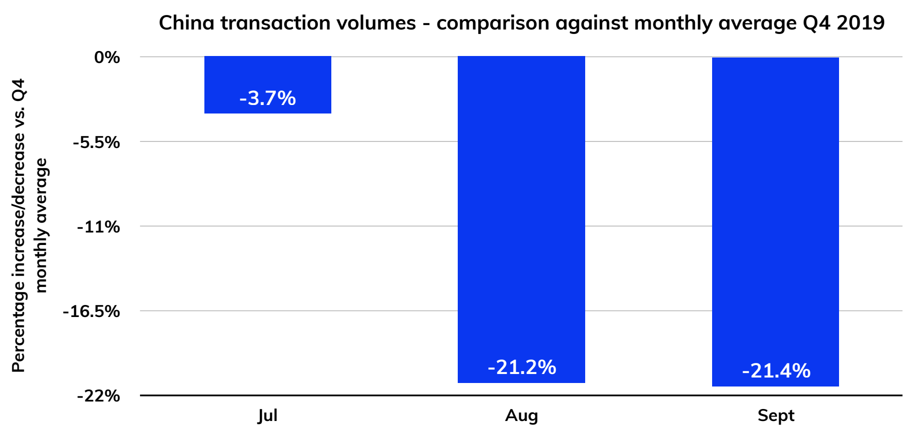
In the US and Europe, when and where activity starts to level out is important, since these regions still have a big hole to fill from Q2. UK activity on our network sank the furthest in Q2, so we would expect transaction volumes to bounce back sharply in Q3. The fact that trade activity has risen significantly below the global average is a concern.

Heading into Q4, the overall picture we see on our platform suggests supply chains, particularly those serving Europe, are beginning to stabilize. Nevertheless, businesses we've spoken to acknowledge that there a likely to be further hurdles to overcome in the next quarter. Most are looking further ahead to 2021 for a more stable period of recovery.

Is China's recovery losing steam?

"Trade activity in China was down more than 20% in September compared to the kind of volumes we were seeing in Q4 2019. Compensating for weak domestic and international demand is new territory for the region."





China trade activity surged by 35.2% in July, but this proved to be the high-water mark as activity on our platform quickly tapered off.

What followed was a pronounced slowdown in activity in August and September. Trade activity between Chinese buyers and suppliers was down more than 20% in September compared to what we saw on our platform over a typical month in Q4 2019.

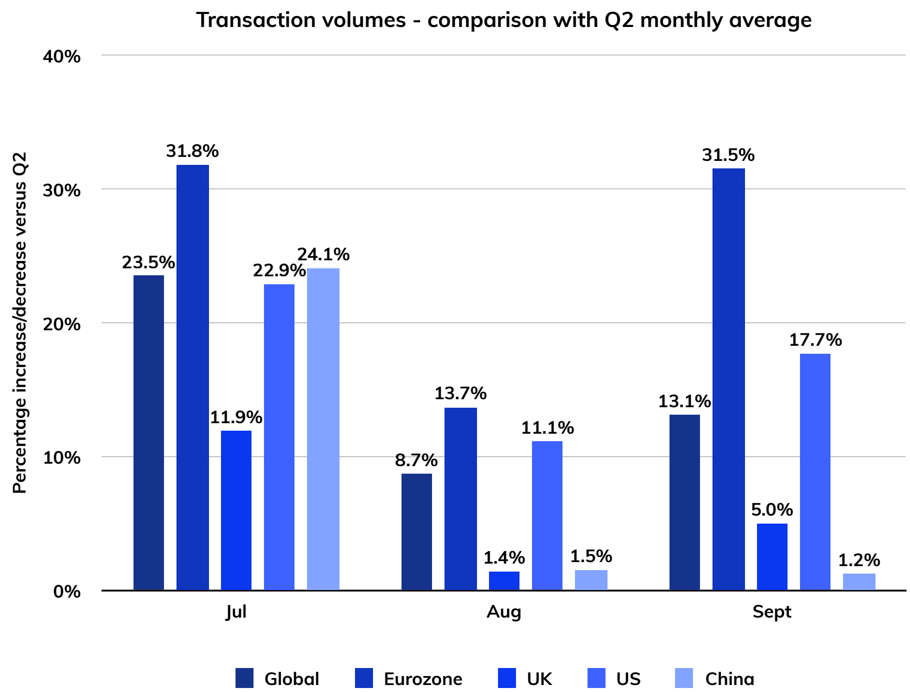
The apparent levelling off in activity we've seen in the past two months suggests local supply chains are reacting to short bursts of pent-up demand, first from China's domestic market, then from the reopening of key export markets in the West. As these bursts have dissipated, China trade activity on our platform has also dropped.

One recent report from Bloomberg suggests waning business confidence in China is causing recovery to lose momentum. Ramping up production capacity is something China does very well, but (as the FT reports) compensating for potentially weaker long-term domestic and international demand is newer territory.

China's capacity to recover quickly from its own lockdown remains impressive, but the pattern over the next few months will provide more clues as to how sustainable the region's recovery truly is.

The next few months will be critical

"A July surge in activity, fuelled by pent-up demand, gave the quarter a rosier glow than may otherwise have been the case."



Western economies are following a similar pattern to the one we're seeing in China, suggesting pent-up demand had a hand to play in fuelling a particularly strong bounceback period in July.

After dipping in August, trade activity across Western economies was once again running at a healthy, if not always spectacular, pace by September. The Eurozone in particular finished the quarter strongly, beating the global average by some distance. But they will need to hold that trajectory now to account for the steep fall in activity we saw on our platform between March and June.

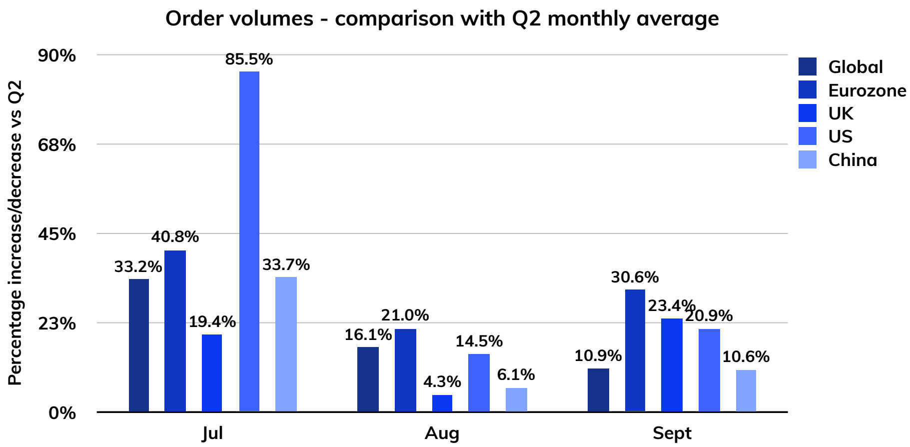
That may be easier said than done. In the US, economists are saying uncertainty over the presidential election and the timetable for a COVID-19 vaccine is causing a slowdown in hiring and business investment. Our data appears to back this up, with transaction volumes in the US slowing significantly in August, before picking up a little in September. The same is true for the UK, where activity started off slow, and got even slower through the quarter.

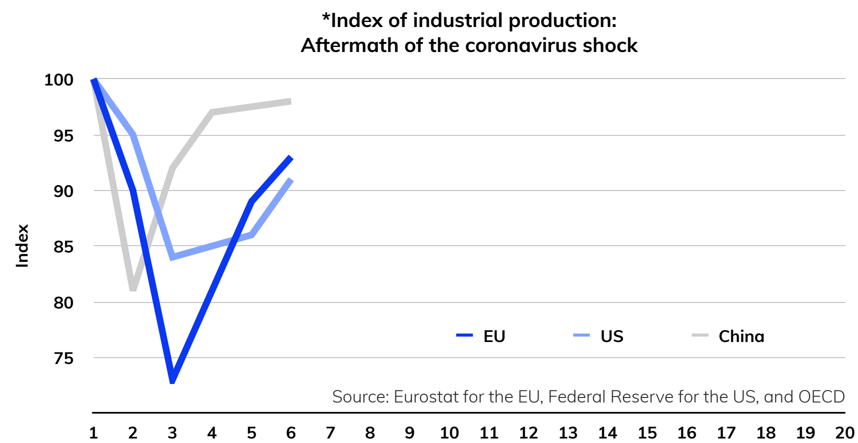
A gap is emerging between countries (and businesses) that have a clear plan and strong leadership, and those that do not. The extent to which that gap turns into a chasm will depend on the next few months.

Pent up demand boosts orders in July

"The huge rise in orders we saw in the US during July follows the same pattern of pent-up demand being released that we've already seen in the Eurozone and China, but it's playing out with a delay."

Order volumes are up significantly in almost every market. This data gives us a clue as to what GDP could look like in the following quarter, so the level of activity we're seeing is a good sign.





Order volumes in the US had struggled to pick up momentum in Q2, but they roared back in July with the kind of volume increase that only happens very rarely on our platform.

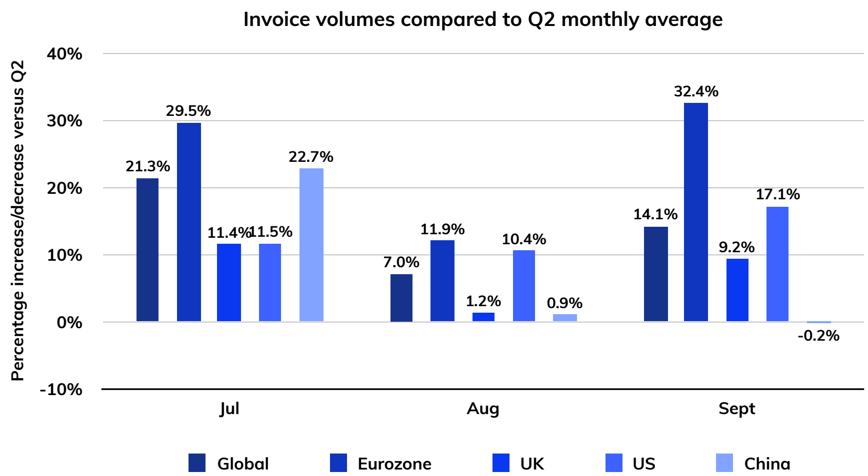
What's interesting however is the timing of the US order surge. In our Q2 report we saw orders in the EU and UK making similar significant gains in June, while activity in the US remained a little flatter in comparison.

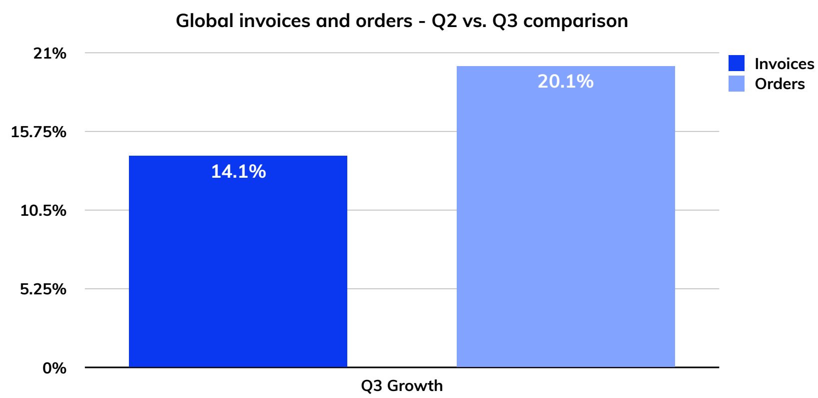
In pandemic terms, the US is a few weeks behind the EU and UK, and nearly a full quarter behind China, which saw a huge order volume increase at the end of February. Consequently, what seems an impressive return to form in the US is likely the same pattern of pent-up demand being released that we've seen in other territories, playing out with a delay. Analysis compiled by VoxEu* presents a similar picture through the lens of industrial production.

Has the recovery in orders already plateaued? Chinese order volumes tapered off significantly at the end of Q3, suggesting a relatively flat Q4. Order volumes in the West have also cooled since July, and that's particularly the case for the US. But the fact that the EU, UK and US all beat the global average in September remains a positive indicator going into the end of a difficult year.

Liquidity remains a problem for suppliers

"Globally, orders jumped 20% in Q3, but invoice volumes failed to keep pace, rising 14%. Suppliers should see a bigger jump in liquidity in Q4. Whether all of them make it that far is another question."





If orders give us clues to the road ahead in GDP, then invoices act like the rear view mirror. Lengthy standard payment terms mean suppliers tend not to feel the full impact of a slowdown in orders until at least a couple of months after the drop.

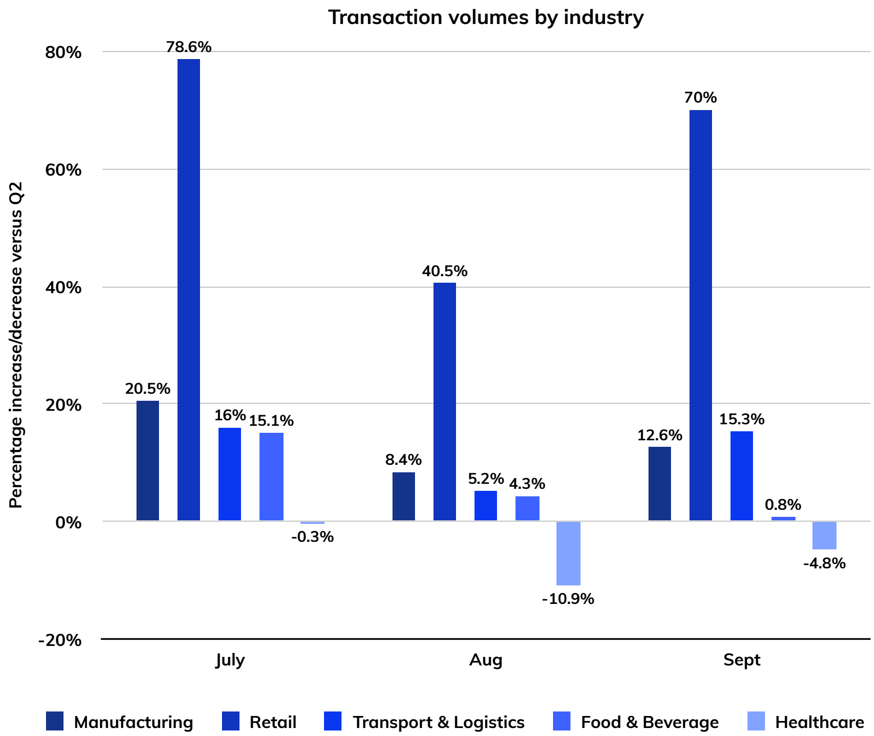
According to the Hackett Group, payments to US suppliers are running at 60 days, so while US order books look pretty healthy in Q3, the amount of cash flowing to suppliers in the form of settled invoices is still unclear. Invoice volumes have increased, but our data shows they're largely following the shallow trajectory that US order volumes showed in our Q2 Index. Something similar is happening in China, where the tail off in activity at the end of Q2 is now translating into a shortfall in invoice payments to suppliers.

Globally, orders jumped 20.3% in Q3, but invoice volumes failed to keep pace, rising just 14.1%. The Eurozone is the only region to beat the global average consistently, thanks largely to a significant uptick in orders at the end of Q2, which is now translating into suppier payments.

Improving order volumes in Q3 suggest suppliers globally should see healthier cash flow in Q4. Whether all of them will make it that far is another question. The average small business has around 27 days of cash on hand to survive without an income. Suppliers can't afford to wait for invoices to mature. Instead they need to start looking at ways to unlock liquidity from that July order surge and turn it into cash flow. Fast.

Retail is back... For now

"Retail is getting back to somewhere near normal, but that doesn't mean the road ahead will be easy. Far from it. A more general disruption in terms of the shift to ecommerce will likely lead to more pain before the outlook settles."



Q3 marked a return to form for retail after a devastating period that lasted from late March to mid-May. Store reopenings and government intervention have so far kept consumer purchasing power intact, and that helped trading volumes rebound to pre-pandemic levels. That doesn't mean it will be an easy road ahead. In the UK, the threat of new lockdown restrictions saw high street footfall drop 6.6% in September. A more general disruption in terms of the shift to ecommerce will likely lead to more pain across the sector before the outlook settles.

One sector which has benefited from the shift to ecommerce is transport and logistics. T&L companies we spoke to said they were able to make up for a slowdown in traditional B2B courier activity by shifting to ecommerce. Trade activity across the sector had remained relatively buoyant throughout Q2, and this has continued through Q3. Activity across manufacturing supply chains also bounced back quickly in Q2 so the additional gains we saw in Q3 are a positive sign. Transaction volumes have dropped in recent weeks, however, a trend that correlates with reports from the US Fed and the UK's Confederation of British Industry which have both pointed to a manufacturing slowdown in September.

There were bright spots for the food and beverage industry in Q3, with activity on our platform increasing by a healthy margin in July as hospitality venues opened up, but activity has since tailed off. Many offices remain empty and new lockdown measures have impacted demand. Healthcare supply chains are settling at business-as-usual levels after huge spikes at the end of Q1. Several suppliers we spoke to said demand from buyers had normalised since July as organisations built sufficient capacity to cope with demand.

What happens now?

Taking a proactive approach—The view from IBM

Tony Menezes, Managing Partner—Service Line Leader, IBM Services

A recent survey by the IBM Institute for Business Value revealed that many supply chain executives surveyed were caught unprepared by COVID-19 pandemic and had to quickly strategize to help meet demand in response to the confusion and disruption it caused. The COVID-19 pandemic served as a wake-up call to many business leaders surveyed who are now thinking proactively about building resilient systems to help better prepare for future unforeseen disruptions.

You see, so much of modern life appears seamlessly efficient that it can be easy to forget that it rests on a complex foundation. But when disaster strikes, we come to recognize how fragile that foundation is. We have seen this reality hit home hard when people accustomed to full and immediate supplies of goods like meat, toilet paper, medicine and personal protective equipment were shocked to face empty store shelves and long waits.

Many companies surveyed realized their supply chains—many of which are staggeringly complex, involving hundreds of suppliers, providers, and distribution centers across the globe—were much more fragile than they realized. Many chief operating officers (COOs), alert to the possibility to further disruptions in the future, have been using this time since to better understand and find ways to help improve their processes.

Building resilience into supply chains is not a simple task, but there are some steps enterprises can take on that journey, like enhancing traditional sales and operations planning with continuous collaborative planning. For example, IBM can provide an approach to its clients using what's called the Continuous Intelligent Planning (CIP) solution. This solution is designed to utilizes AI-augmented capabilities to help enable its clients to:

Look forward and see across the entire supply chain and better forecast demand

By inputting data from all their sources, companies can see where their products are—in near real -time and in full view—across geographies. AI helps predict potential disruptions allowing you to prepare for them. Replacing spreadsheets—often assembled by hand—with dynamic near real-time data makes demand forecasting much more accurate, allowing you to better stock inventory.

Automating workflows, which helps employees focus on higher-value work

Surprisingly, many organizations still use inefficient and resource-intensive planning processes. Using automation can save time and free employees to more interesting work and can drive both cost and operational improvements.

Constant collaboration with ecosystem partners

Siloed departments both inside and outside a company can lead to data hoarding and make timely decisions difficult. CIP can allow supply chain leaders to join forces with ecosystem partners to help understand impacts across their joint supply chains in near-real time. Together, they can help determine how to respond to and resolve issues—sometimes before they occur.

By taking much of the guesswork out of their current ecosystem realities and demand forecasts, technology can enable organizations to help drive efficiencies, build resiliency, and ensure that their company is prepared to handle future external shocks.

Planning for the unexpected

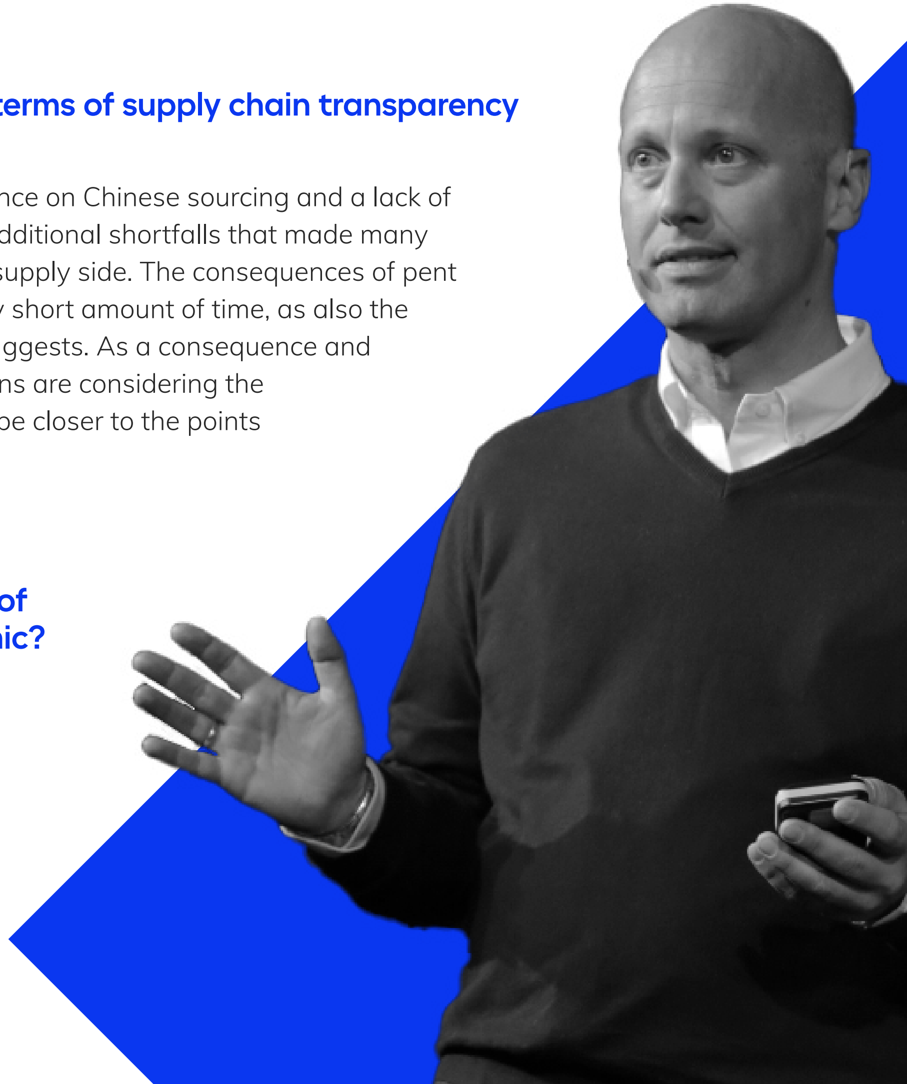
Q&A with Marcus Fromm
Managing Director, Accenture, Switzerland

Why did COVID create such major issues for supply chains?

COVID represented an unprecedented disruption to the global trade system. The transport of goods was massively interrupted, especially out of China, due to additional hygiene protocols, quarantine requirements, lockdowns and even closures of borders– representing trade barriers which had not been encountered in previous pandemics like SARS or MERS. Many organisations did not have the appropriate plans, protocols and tools available to deal with a pandemic disruption of this magnitude.

What gaps did COVID expose in terms of supply chain transparency and preparedness?

Apart from proper planning, an over-reliance on Chinese sourcing and a lack of real-time visibility and traceability were additional shortfalls that made many organisations struggle, especially on the supply side. The consequences of pent up demand could be coped with in a fairly short amount of time, as also the data of your Global Trade Health Index suggests. As a consequence and learning from the crisis, many organisations are considering the re-configuration of their supply chains to be closer to the points of consumption.



Could technology have helped organisations reduce the impact of disruption caused by the pandemic?

A combination of real-time supply chain risk management and global trading and sourcing platforms are the proper toolkit to support better planning and faster execution in times of disruptions of this kind. Cloud platforms can help manage fluctuations in business demand since they offer more flexible, consumption-based cost structures.

How can technology help support recovery and build in resilience to future disruption?

The "physical internet" represented by the logistics industry has demonstrated an incredible ability to adapt to the dynamically changing paradigms of this pandemic, making it a winner of the crisis. Combining the power of data platforms with the power of physical logistics networks is a key enabler for building stronger and more resilient supply chains. Technology advancements like shipment level traceability and real time supply chain risk management can further strengthen the resilience of supply networks.

How should businesses approach the question of return on investment?

Supply chain risk management follows the logic of the insurance business. The COVID pandemic has created a need to re-evaluate supply network risks and the associated damages in form of lost sales, reputational damage or even bankruptcy. The ROI of supply chain risk management can in most cases only be evaluated in hindsight, and it needs to be considered as an investment that is made into the future and longevity of a business.

How has COVID changed the conversations Accenture is having with its clients?

Many of our clients expressed the wish that they had already been more digital, more in the cloud, and more variable in their cost structures to better cope with the fluctuations in business volumes that occurred during the pandemic.

Building resilience—A buyer's perspective

"We've accelerated our transition towards full digitalisation of our P2P process as a result of the pandemic. We had begun this process before the outbreak of COVID-19 and we had a number of clear objectives in mind. The first was harmonization and standardization: we had different systems and different ERPs and we needed to fix that. Secondly, and more ambitiously, we wanted to eliminate paper-based processes in order to increase productivity and reduce costs.

"When we first set out on this project we encountered some resistance on the part of colleagues within the business. We also needed to convince suppliers to join the platform and start to submit their invoices electronically. After the pandemic hit, colleagues asked us to accelerate the implementation of digitized processes. Suppliers also came to us proactively to send us their invoices electronically in order to accelerate the payment process. In the space of just a few days, we were able to speed up our transition by weeks."

Xavier Jegard
Directeur, Comptable, Consolidation, Fiscalité
Eramet, France

The path ahead—the supplier view

"The work we do is essential to the production of handwash, so we saw a huge spike in orders in April as our customers built up stock. We had to put in strict controls to allow us to continue production during lockdown measures. We've even had workers staying on site for extended periods to mitigate any danger of the virus spreading in our facilities. Cashflow is healthy in general aside from one or two issues we've had in certain markets where it's taken a long time to settle invoices."

—Swarada Dhoshi, Rasino Herbs, India

"We produce pump dispensers, so demand for our products has been very high throughout the pandemic. Things have started to calm down slightly in September. Supply chains have adapted and there's capacity now to cope with demand. It's largely business as usual for us today, but if we can't get the virus under control then certainly there could be wider economic difficulties ahead. That's certainly at the back of my mind as we plan for the next six months. We've been strict on the controls we've put in place to try to control the spread, and as we head into autumn we'll be upping those controls to another level."

—Roy Wang, Vietnam K.K. Plastic Co., Vietnam

"One of the biggest shifts during the pandemic has been the growth in the number of people buying online. We've redirected a lot of our focus to ecommerce as opposed to the regular business to business courier service that we typically focus on. From a business standpoint, I'm optimistic about the next six months even though there are still a lot of unknowns."

—Inna Kreynberg, T-Force Logistics, Texas, USA

"I think we're starting to get back on track and I can see that trajectory continuing. But I think COVID will change the landscape for our business. With so many people working from home, it will have an impact on major cities. I think COVID has brought a lot of fresh perspectives. This will create challenges, but also opportunities in new areas. Flexibility will be the key to adapting to the new economy."

—Evelyne Farkas, Accounting Manager, Vins Du Monde

"I believe there's a lot of pent up buying demand from businesses that are just waiting to be given the green light. I don't see much happening in the next three months, partly because of COVID and partly because the election cycle tends to put the brakes on investments. Provided we get the pandemic under control, I can see things really starting to happen in the first six months of 2021, and then the second six months of the year will be bigger."

—Perry Graehling, Materials Systemation, Ohio, USA

Final thoughts

From business continuity to organizational resilience

Heading into final quarter of 2020, our data indicates that businesses and the wider economy are starting to adapt and solve for the many questions posed since the gravity of the pandemic took hold. After a deeply tumultuous Q2, organisations have found workarounds to breathe life back into supply chains despite uncertainty. Some have gone as far to say that it has been largely business as usual. However, it's also becoming abundantly clear that what got us to this point, will not be enough to take us where we need to go.

The pandemic has magnified and accelerated a massive wave of disruption. Business models of entire industries have been turned upside down. Organizations that thought they were 100% digital before the pandemic have found that what they actually had was pretty user interfaces covering 30 years of business crust and manual processes.

The result? Complete lack of transparency across supply chains, and weak supplier connectivity exposing the fragility of entire ecosystems. Today, thousands of suppliers are facing income and liquidity challenges, both completely avoidable had true digitization been in play.

Ingenuity in the face of this crisis has enabled many to put a band-aid on systemic operational issues that threaten to make a bad situation worse. But those issues haven't gone away. The question every business leader should be asking themselves right now is whether or not that quick fix will survive a second wave.

We are entering a critical recovery phase. Short-term business continuity measures must give way to long-term resilience planning to address outdated operational models which unravelled so rapidly in a crisis. It's time to rip off the band-aid, wash out the wound and build a truly digitized relationship between buyers and suppliers.

About Tradeshift

Tradeshift drives supply chain innovation for the digitally connected economy. As the leader in supply chain payments and marketplaces, the company helps buyers and suppliers digitize all their trade transactions, collaborate on every process, and connect with any supply chain app. More than 1.5 million companies across 190 countries trust Tradeshift to process over half a trillion USD in transaction value, making it the largest global business network for buying and selling.

Learn more at tradeshift.com.