



Feature 3

Establishing a More Flexible and Resilient Supply Chain

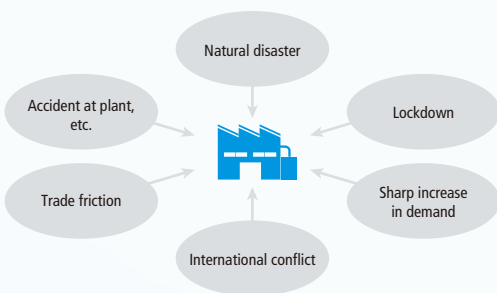
Why is it important?

A Manufacturer's Responsibility is to Supply Its Products Whenever Needed

Daikin believes it is important to deliver products to customers without delay no matter the circumstances. Our core products of air conditioners often require urgency and experience sharp fluctuations in demand caused by weather, as purchases are often made to counter a heat wave. This requires that our customers have access to a stable supply of air conditioners.

Stable production at our plants, flexible production adjustments, and sourcing raw materials and supplies are vital to this process. There is no way of knowing when a contingency may occur that threatens stable supply, such as natural disasters, accidents, pandemics, or economic disruptions caused by trade friction. With rising risk of supply interruptions caused by a combination of factors, we need to establish a resilient supply chain that can sustain production while avoiding these many risks.

Examples of Risk Factors Standing in the Way of Stable Supply



Daikin's Approach

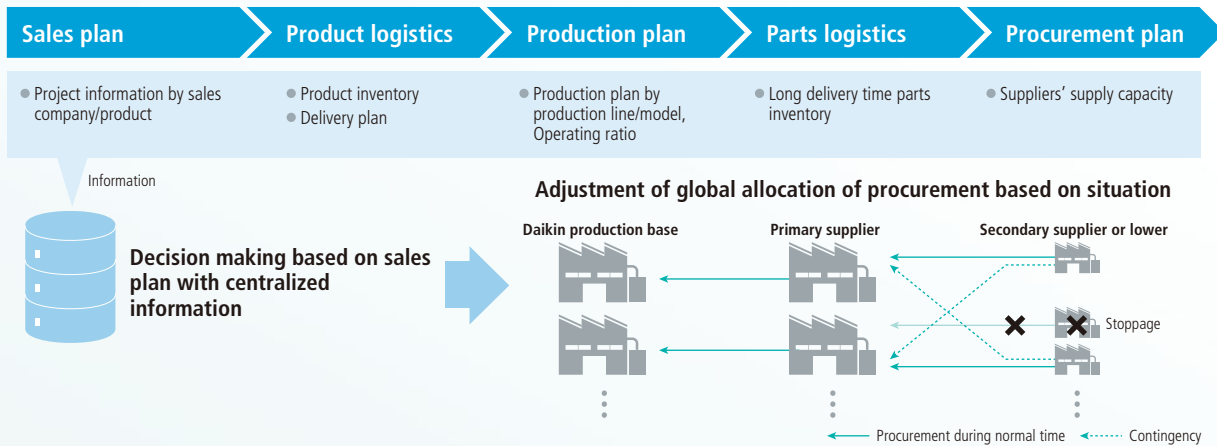
Establishing Systems to Instantly Cope with Demand Fluctuations Worldwide

To lower the risk of supply interruptions, Daikin has looked to market-localized manufacturing where we produce products in areas where they are in demand. Once a heat wave strikes, demand for air conditioning jumps as a lifeline for people without it. To ensure we can immediately address such sharp fluctuations, we have established a variable model variable volume production system at all of our production bases enabling us to constantly adjust the models being produced and production volume on a daily and weekly basis. For procurement as well, we have established a management approach that combines concentrated purchasing by our procurement divisions in Japan with local production for local consumption where production bases carry out procurement within their own respective areas.

Even with this flexible system in place, however, Daikin had to exert a great deal of effort to avoid the impacts from the Great East Japan Earthquake and the historic flooding that occurred in Thailand. For this reason, Daikin is taking unique steps to reinforce its Business Continuity Plan (BCP) aiming for a truly resilient supply chain.

The secret behind this is close collaboration among Group companies, divisions, and suppliers based on the shared mission to keep production going. For example, in the aftermath of the Great East Japan Earthquake, the development divisions updated product specifications so that substitute components could be used. Based on this experience, we have incorporated a system into our BCP that enables us to swiftly respond to the development of substitute components and products during a contingency.

Optimized Supply Chain Management using Digital Technology



Daikin's Performance

Global Collaboration Shines during the COVID-19 Pandemic's Procurement Crisis

In 2021, there was a worldwide shortage of semiconductors and other electronic components due to lockdowns, travel restrictions, and robust stay-home demand during the COVID-19 pandemic. Many manufacturers were forced to reduce production or suspend operations. Despite this, Daikin was able to maintain a stable supply of its products around the world.

We were able to adjust supply globally despite the pandemic because of the collaboration within the Group on a regular basis. Persons in Japan responsible for procurement, production, development, and finance held weekly meetings with the heads of the production divisions at overseas production bases. At these meetings, constantly changing information on risk was shared among each region, and after countermeasures were determined, approval was given on the spot to either develop substitutes for components in short supply or determine how to best to address delayed responses with the resources on hand. Action was then taken and the process carried out over again. Global procurement management functioned as a basis for this quick and timely decision making. Daikin ascertains and centrally manages information on supply in the supply chain and inventory at secondary suppliers and others. Therefore, we were able to secure the necessary components and correctly allocate them around the world, and swiftly determine the need for development of substitute components.

In this manner, we were able to supply products to customers in a stable manner despite a challenging situation.

Reaffirmed the Group's Solidarity During Contingencies

Chutharat Achima
Supervisor, Procurement Department,
Daikin Industries (Thailand) Ltd.



The tight supply-demand conditions of electronic components turned everything upside down. In response, we sharply increased discussions with other production bases and suppliers, and today the Global Procurement Division members in Japan have become like close friends after working so much together. We were able to supply products to customers without delay thanks to cooperation with members from development, manufacturing, production engineering, and planning as well as IT divisions that developed a highly accurate inventory simulation system for this occasion.

Next Challenge

Honing Our Strengths with Digital Technology

Amid rising uncertainty, such as global supply chain disruptions caused by natural disasters or trade frictions and decoupling on a worldwide scale, Daikin has positioned "Establishing a resilient supply chain" as a key theme of the Fusion 25 Strategic Management Plan. To ensure we continue to provide stable supplies to markets in the future, we will achieve optimal supply chain management Groupwide by centralizing supply chain information using digital technology and having regions take the lead in procurement to conduct local production for local consumption.