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2024 INDUSTRY TRENDS:
SUPPLY CHAIN

From planning, procurement, and inventory management to fulfillment, logistics, and distribution, supply chain leaders in 2024 are seeking ways to keep pace with the evolutionary nature of supply chain demands along with the complexity of further uncertainty. As the past five years have shown, industries have and are expected to continue confronting the ongoing challenges of staffing shortages and/or skill gaps in addition to a lack of end-to-end supply chain visibility. It's further anticipated that in 2024, there will be an increased emphasis on improving business cash flow, including but not limited to cost reductions and inventory optimization. We also expect that consumer action groups will return to demanding improvements from companies to restart their pre-COVID sustainability goals.

As we move into 2024, these trends will remain pivotal in shaping the future of advanced supply chain management practices and ensuring reliability and compliance across industries.

1. **SUPPLY CHAIN STAFFING AND SKILL GAPS**
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1 SUPPLY CHAIN STAFFING AND SKILL GAPS

The ability to identify and/or retain skilled supply chain staff remains the top supply chain executive concern as we enter 2024. In a 2024 HR report by isolvedhcm, results indicated there was a slight improvement in employee burnout from 2022; however, 72% of respondents reported that burnout has and continues to impact an employee's performance.

Further complicating the ability to recruit skilled supply chain staff is the expected rise in labor shortages, as reported in the most recent U.S. Chamber of Commerce labor report. It’s expected that labor constraints will be experienced across multiple industries, beginning with durable goods manufacturing, and followed by wholesale, retail trade, and health services. Additionally, the ability to relieve these gaps is further challenged by the fact that even if every unemployed person with skills in durable goods were employed, there would still be a labor shortage of 25%.

Taking into account these challenges, supply chain executives and leaders should keep a few considerations in mind. First, employers can provide employees with adequate time off – especially for those with institutional knowledge and the needed job-specific skills – to help alleviate employee burnout. Cross-training plans, including the documentation of processes and decision-making matrixes, can also further support knowledge retention. Organizations can also consider establishing succession plans to help ensure continuity if organizational changes occur. Lastly, a simple solution of implementing a regular cadence of check-ins with employees can be helpful, as incorporating consistent one-on-ones is a proven technique that improves employee morale. This time can be used to provide recognition and appreciation for the employee while offering an opportunity for the manager to assess an employee's flight risk.

While these recommendations can be considered quick wins, the ability to address supply chain staffing and skill gaps will require a longer-term solution. As we move into 2024, supply chain leaders will need to continue examining how to incorporate and/or advance prior best practices (i.e., outsourcing supply chain operations) and increase the ability to leverage Artificial Intelligence and Machine Learning to improve data analytics and decision-making.

2 OUTSOURCING SUPPLY CHAIN OPERATIONS

Supply chain leaders are continuing to explore how to address the increasing challenge of skill and labor shortages. One of these solutions includes Supply Chain as a Service (SCaaS), which was first reported by Gartner in 2021, when companies in the tech, retail, and healthcare sectors were said to be launching, beginning the use of, and/or exploring the use of this service. Within SCaaS, three different areas can be outsourced: (1) assets and contract operations, also known as Business Process Outsourcing (BPO); (2) business process as a service (BPaaS); and (3) digital business.

The growth within the BPO of SCaaS is also known as Contract Manufacturing Organizations (CMO), or outsourcing. It's expected that supply chain executives will begin and/or expand their investigation into moving their supply chain operations – from customer service, procurement, manufacturing, inventory management, warehousing, 3PL, logistics, and last-mile delivery, to other back-office areas such as accounts payable, accounts receivables, HR, IT, and engineering – outside, growing the industry to become a multi-million-dollar one. The benefit of using BPO is to leverage the provider's knowledge and expertise to reduce your expenses. Depending upon needs and the business model, a company can outsource any and/or all of its many business processes. This model, if implemented correctly, can provide improved execution while offloading the associated costs and tactical responsibilities, allowing the company to focus on commercial growth and brand equity.

It should be noted that while the execution of the tactical aspects can be outsourced, the business decisions remain the responsibility of the business. These decisions may include identifying and/or selecting qualified suppliers and manufacturing partners, or establishing quality, engineering, and purchasing standards to ensure the product or services meet your brand's expectations. Furthermore, the ownership and management of the sales and operations/integrated business plan (S&OP/IBP) will also remain the responsibility of the business.

Another emerging area in outsourcing that has rapidly gained traction is Business Processes as a Service (BPaaS), which takes BPO to the next level. BPaaS is the delivery of BPO services sourced from the cloud and constructed for multitenancy, allowing organizations to leverage the SaaS cloud system by only paying for the electronic business processes it uses, in addition to any standard business processes used across other organizations. Take, for example, invoicing. This electronic business process is executed by every company, and it typically doesn't vary. Therefore, most companies should be able to leverage the same invoicing process, regardless of the technology. This would allow companies to focus on their core competencies instead of how to improve their invoicing process. By leveraging this model, an external company could deliver its invoicing business process model over the internet, as the cloud has made it more scalable and favors "units-economics" versus building an entire technology that must execute all the functional aspects of an entire business.

In essence, a technology company using a Software as a Service (SaaS) model could build separate electronic business processes and leverage its expertise to improve each process separately. They could then sell these services out to a volume of users, removing the highly transactionally focused, repeatable, and non-value-driving processes from a business's daily work.

The pandemic was a catalyst to push supply chain executives and IT leaders to examine how they could more effectively integrate data with more intelligent technologies. BPaaS can integrate with an organization's SaaS cloud system while leveraging the power of artificial intelligence (AI) and machine learning (ML) to generate insights to answer problems both identified as well as predicted. The use of BPaaS can also be used to reduce inefficiencies. Transactional tasks can be automated by software bots, freeing people up for more critical tasks and helping to mitigate staffing issues. These are just a few examples of how BPaaS can be leveraged, but there are many others.

While organizations have used or considered some aspects of SCaaS, the global market is expected to continue to grow and expand as companies seek visibility improvements through real-time data and insights into all areas of the end-to-end supply chain. The ability to integrate processes, data visibility, AI/ML, and decision-making support, along with improved predictive versus reactive analytics, will keep this as a trend to monitor for many years.

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3 AI CONTINUES TO SHAPE THE SUPPLY CHAIN

In recent years, the use of Artificial Intelligence (AI) has been discussed more broadly among industry experts, giving rise to debates over its use, control, ethical nature, and regulation. In 2024, we expect to see organizations use forecasting software solutions that incorporate AI into their predictive analytics algorithms. AI will also continue to reshape the supply chain through the integration of Robotic Process Automation (RPA) and autonomous systems, offering profound benefits and driving key trends.

RPA is becoming a cornerstone in enhancing supply chain efficiency, as it can automate repetitive tasks, such as order processing and inventory management. This not only accelerates processes but also reduces errors, leading to heightened accuracy and reliability in supply chain operations, providing predictive indicators, and assisting with the predicted shortage of skilled supply chain practitioners.

Another area where we'll see increased AI use is with autonomous systems, including drones and robotic vehicles. These systems are playing an increasingly pivotal role in logistics and warehouse management. As both AI and technology become more advanced, it's expected that the industry will increase its usage of these tools and processes, as they can allow for faster and more precise order fulfillment, optimized inventory control, and streamlined logistics operations. Further, these systems are expected to adapt dynamically to changing conditions, predict maintenance needs, and optimize routes, contributing to a more responsive and intelligent supply chain network.

Supply chains are also leveraging advanced AI tools to help plan for and adapt to supply chain disruptions. This is another area that could be used to assist with staffing shortages and skill gaps. As discussed above, BPaaS is capable of ingesting

diverse sets of data and providing recommendations on how to resolve issues, such as shortages and supplier disruptions, along with assisting with negotiations and supplier risk. These predictive analytical and AI tools can play a pivotal role in enabling supply chain professionals to foresee and manage risks in real-time, empowering decision-makers to make informed choices and contributing to a more agile and adaptive supply chain.

As with any technology, however, AI isn't the solution to all problems. The value of AI is reduced in stable supply markets where alternative suppliers are already known and there's limited uncertainty. It also doesn't replace the need to build supplier relationships or for the supplier to provide a significant amount of transparency. Furthermore, it doesn't support making the decisions, but it can provide "what-if" scenarios and assist with risk management.

In 2024, companies at the forefront of these technological advancements are not only redefining the efficiency of their supply chain operations but also future proofing their ability to navigate the dynamic and demanding landscape of modern commerce.

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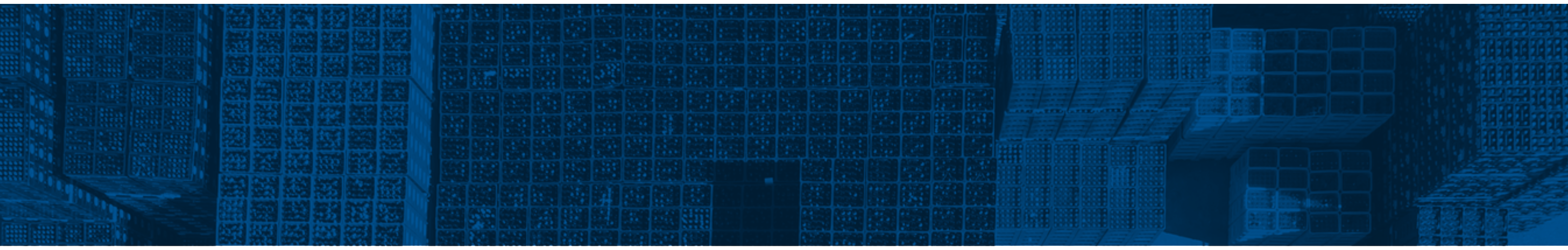


4 RESILIENCY & RISK MANAGEMENT AMID COST PRESSURES

In response to the challenges posed by mounting cost pressures, increases in supply chain inventories, global and regional challenges from natural disasters, and escalating trade tensions, there's a heightened emphasis on supply chain risk management and resiliency. In 2024, the imperative to construct resilient supply chains has never been more pronounced as companies grapple with economic and geopolitical uncertainties on a global scale. As such, it's critically important that organizations prioritize the development of a resiliency and risk management plan.

The ability for businesses to increase their resilience relies on their capacity to discover potential disruption before it occurs. The most resilient and agile supply chains do more than just push back against change. Instead, they can mitigate the disruptions and limit the negative impacts of those disruptions. Organizations that are most successful leverage modern technology and real data to improve their operations and identify solutions, both long-term and short-term.

Alternately, those who fail to be proactive can face a series of consequences, causing impacts like legal or regulatory issues, high levels of employee turnover, customer dissatisfaction, reputation impacts, lost opportunities, product and/or process failures, reduced profit and/or financial loss, and worst of all, complete business failure. Based on these outcomes, the question that needs to be answered is – why would resiliency not be a priority?

In order to enhance supply chain resiliency in 2024, business can take a number of steps:

1. Identify your business's most impactful vulnerabilities.
2. Ensure a safety stock strategy is in place before attempting to make changes.
3. Confirm you have a supply base that leverages alternative suppliers or an inventory strategy to support single or sole suppliers (*i.e., material, logistics, distribution, and manufacturing suppliers*) in order to reduce risks.
4. Utilize technology to ensure your operations can grow and/or are stabilized.
5. Focus on the placement of inventory so it's aligned with product distribution to ensure customer service levels are met while reducing the risk of excess and obsolescence (E&O).

The prevailing trend in 2024 should be to strategically optimize the supply chain network(s) without compromising resilience. Additionally, companies should make deliberate investments in technology, talent development, and contingency planning. Using this multifaceted approach will enable supply chains to not only remain adaptive and cost-effective but to also possess the robustness needed to withstand unforeseen disruptions.

5 SUSTAINABILITY IN THE SUPPLY CHAIN

Businesses define sustainability as a focus on three separate but connected areas: environmental, social, and governance (ESG). As we move into 2024 and beyond, the ability for businesses to define and establish an ESG plan will remain a predominant trend – here's why.

Environmental, social, and governance initiatives have moved from a "nice-to-have" public relations tactic to an enterprise-wide strategic imperative that deeply involves supply chain management. It's no longer enough to optimize procurement, operations, and logistics networks to create a competitive advantage. From the board and CEO down, leaders must manage the environmental and social impacts of their end-to-end supply chain or face stark financial consequences.

The area that garners the highest focus within ESG is the environmental aspect. At the end of 2023, climate scientists issued a stark warning identifying the year as the hottest on record, capping off the warmest decade (2011 – 2020) in history. They went on to indicate that the current rate of climate change is accelerating at an alarming pace. This has led to various challenges for businesses as they work to source materials globally, while also being required, by various governments and consumers, to improve as well as report on sustainability improvements.

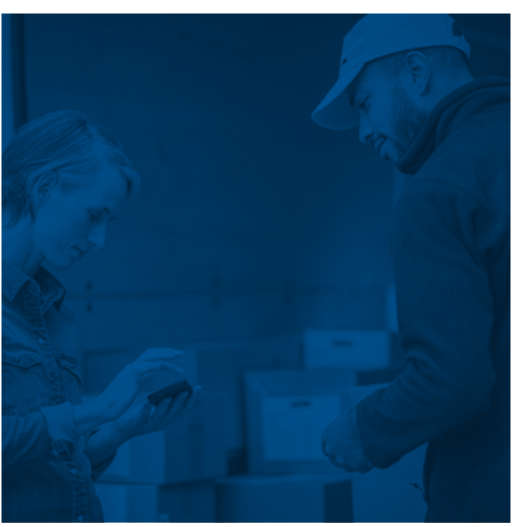
Businesses are facing challenges when it comes to environmental sustainability – from water shortages and stress, to the degradation of forests and land, to floods, wars, pestilence, and plagues. Each and every one of these challenges can and are impacting the materials used in or for the manufacturing of consumer goods, agriculture, food supplies, medical, and pharmaceuticals.

Over the next few years, environmental sustainability will be a significant business differentiator as the regulations launched by the International Sustainability Standards Board (ISSB) in mid-2023 are implemented. According to MSCI, The EU, U.K., and Australia begin reporting this year, with Hong Kong, Japan, and Singapore in 2025. For companies who conduct or wish to conduct business in the international markets, it's important for them to be prepared for these upcoming changes.

The social aspect of sustainability has also gained momentum as companies are being evaluated on how they're addressing the people within their organizations as well as how their suppliers treat theirs. Areas being assessed are diversity, work conditions, employee relations, health and wellness, safety, and conflict resolution. As supply chain leaders work on identifying methods to improve their recruiting and retention programs, this is a key area that should be addressed internally. Supply chain leaders should also be aware of the social aspect of their strategic sourcing and procurement strategies. Often, this area can cause significant issues for organizations if not taken seriously, and supply chain leaders must be aware of the labor conditions used by their suppliers. It's important that your suppliers are aware and aligned with your company's values and expectations concerning social sustainability.

Lastly, the area of governance refers to corporate governance. How a company is led and managed has become important, as it refers to "how leaders' incentives are aligned with stakeholder expectations, how shareholder rights are viewed and honored, and what types of internal controls exists to promote transparency and accountability on part of the leadership of the company." Within the supply chain, this is critical, as organizations seeking to work with your company want to ensure there's transparency and governance. Additionally, as you look to conduct business with others, it's equally as critical to understand these aspects of your suppliers.

As businesses prepare for 2024, setting realistic goals for each area of ESG will be essential for both short- and long-term success. As businesses begin their ESG journey, they should communicate why this is important for their organization, set small and realistic goals, publicize and report on any achievements, and celebrate successes. For businesses already on this journey, be sure to continue to seek out ways to improve or expand upon what's already been achieved.



LOOKING AHEAD

Looking ahead, these trends reflect the challenges faced by supply chain executives and business leaders across all industry sectors. The ability to address and develop plans will allow supply chains to differentiate and prepare themselves for a rapidly changing world. Undoubtedly, a supply chain's capability to improve its processes will ultimately improve a business's profitability.

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