RELEX

State of Supply Chain 2024: Retail & CPG Dynamics

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Key Findings

AI is a potential solution

While 57% of retailers and CPG companies plan to invest in predictive and generative AI in the next 3-5 years, artificial intelligence (AI) and machine learning (ML) ranked just fifth in importance for overall technology spend behind priorities like enhancing e-commerce capabilities, improving inventory management, and demand forecasting. Companies may be underestimating AI's role in tackling consumer demand volatility.

Social media's impact grows

94% of respondents were impacted by social media influencing or de-influencing through product surge buying or demand fluctuations over the last 12-24 months.

Ineffective collaboration

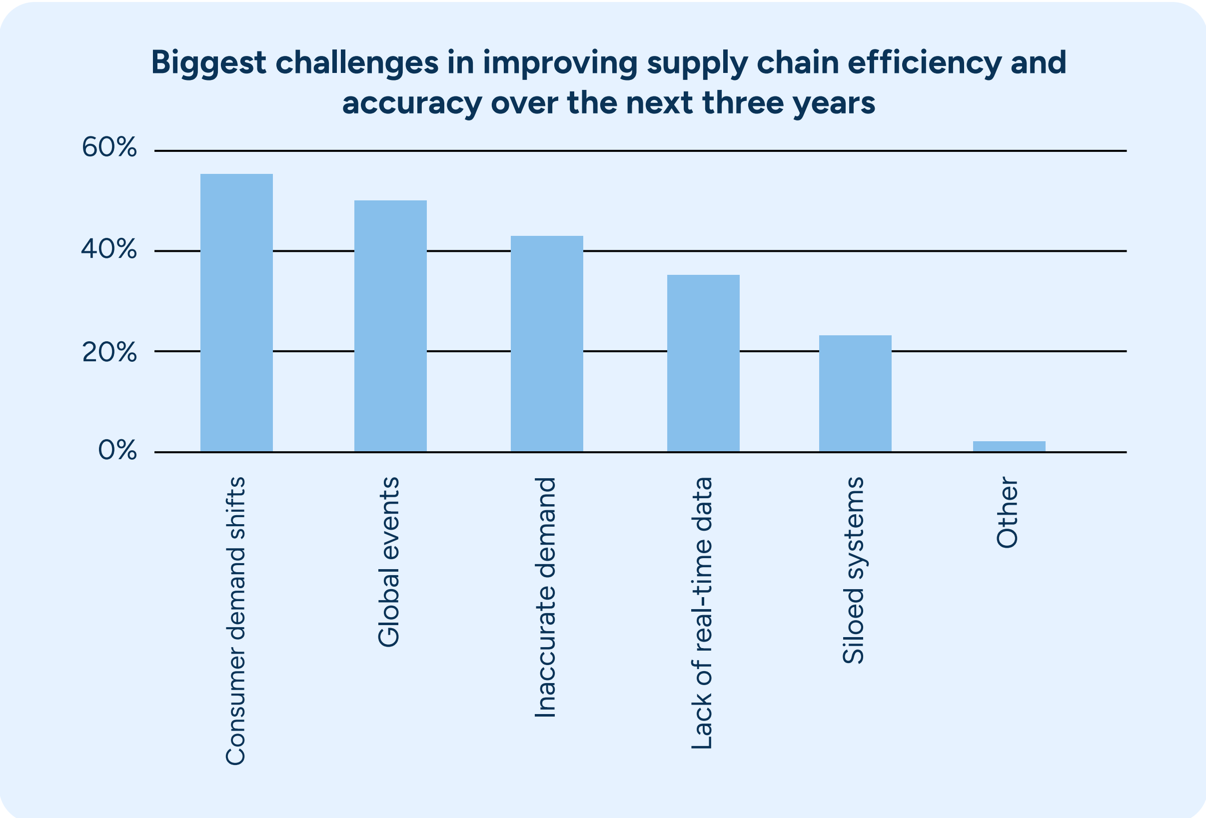
Respondents report increased operational costs (55%), lost sales (54%), inability to quickly respond to market changes (48%), and frequent stock outs or overstock situations (46%).

In recent years, supply chains have emerged as a critical area of focus for businesses and governments alike. The White House established a special council to enhance their resilience, while the European Commission launched initiatives aimed at diversifying supply sources, reducing dependencies on single suppliers, and strengthening domestic production. Likewise, countries in Asia have actively addressed supply chain resilience through policy measures, investment incentives, and international partnerships.

Despite these efforts, the industry continues to face a landscape marked by volatility and disruption. These challenges are not isolated incidents but rather indicative of the complex and interconnected nature of modern supply chains, underscoring the need to address vulnerabilities, improve preparedness, and create innovative strategies to navigate this ever-evolving terrain.

The RELEX State of Supply Chain 2024: Retail and CPG Dynamics research report, conducted by Researchscape, revealed that supply chain volatility from unpredictable consumer demand and global disruptions continue to exacerbate challenges like supply chain efficiency, lack of real-time data visibility and organizational silos. The State of Supply Chain 2024 report surveyed 285 retail, CPG, and wholesale leaders globally in February 2024, exploring the challenges, strategic investment areas, and opportunities for retailers and CPGs over the next 3-5 years.

Overall, respondents rated rapidly shifting consumer demand volatility (55%), global events and disruptions (50%), and inaccurate sense of customer-specific demand (43%) as posing the biggest threats to improving supply chain efficiency and accuracy over the next three years.



Fifty-eight percent of all respondents said that enhancing e-commerce and online sales capabilities is a top technology investment priority for the next 3-5 years, followed by improving inventory management and demand forecasting (49%), and leveraging data analytics and business intelligence (45%). Reducing waste and improving sustainability (42%) ranked closely behind as the fourth technology investment priority, as global organizations continue to be mindful of improving their carbon footprint and reducing waste in the supply chain. Additionally, as predictive and generative AI continue to proliferate, 57% of retail, CPG, and wholesale executives plan to invest in these technologies over the next 3-5 years.

However, surprisingly AI and ML capabilities ranked fifth in terms of importance behind enhancing e-commerce capabilities, improving inventory management, demand forecasting, and leveraging data analytics. Such a gap suggests that while these companies see the future potential of AI, they may be missing the point of how AI technology underpins many of the technologies aimed at improving inventory levels and forecasting against shifting consumer demand, such as customer demand sensing, and inventory optimization tools.

Top priorities

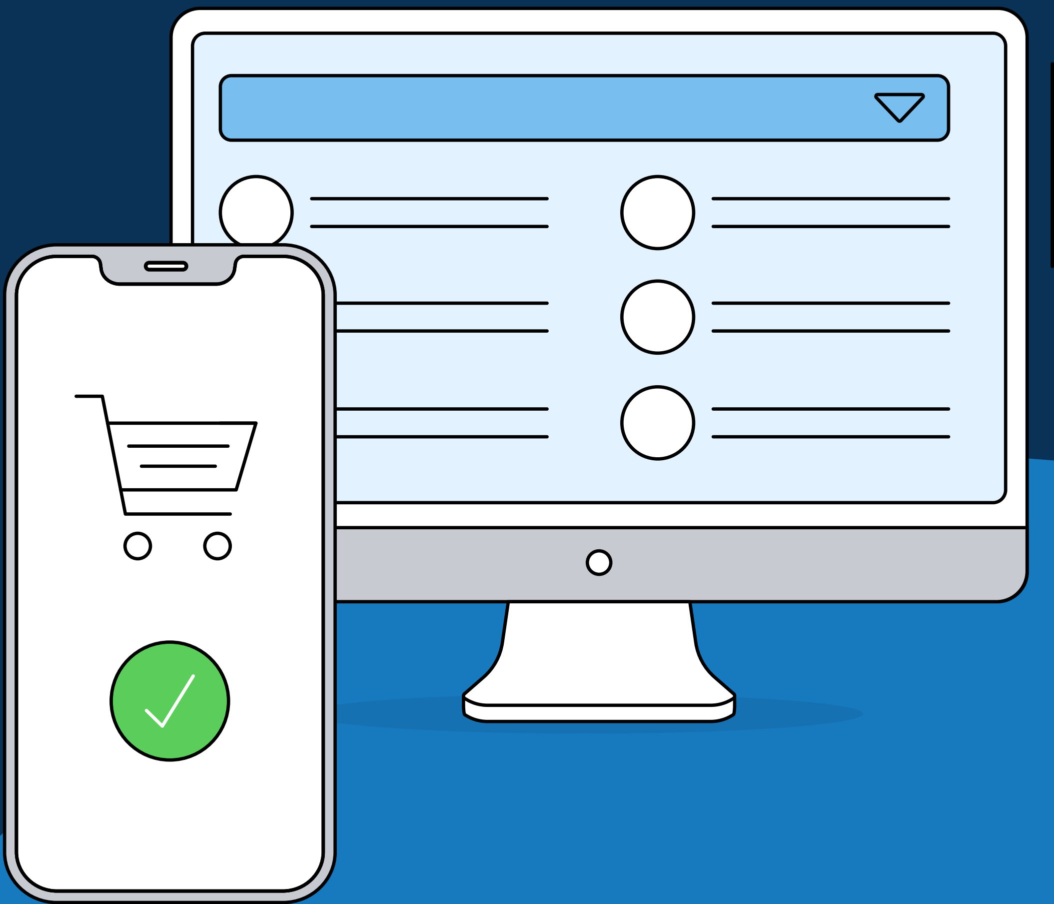
1. **Enhancing e-commerce and online sales**
2. **Inventory management and demand forecasting**
3. **Data analytics and business intelligence**
4. **Reducing waste and improving sustainability**
5. **AI and ML capabilities**

While essential to unlocking future potential for the industry, simply implementing AI solutions alone will not be enough. The study findings underscore the critical need for deeper collaboration between retailers, CPGs, and supply chain partners. The strategies respondents felt were most crucial for improving supply chain collaboration include:

- Joint forecasting and planning (cited as the most crucial collaboration strategy by 33% of respondents)
- Enhanced data sharing and transparency (26%)
- Building stronger relational networks (23%)
- Investments in collaborative technologies (18%)

> The winners will be those that can achieve resilience and flexibility, to sense and respond to disruptions and opportunities in real-time, and continuously adapt their strategies in the face of change. With the right mindset, tools, and partners, retailers and CPGs can build the supply chains of the future and unlock new levels of growth and profitability."
>
> **Laurence Brenig-Jones**
>
> VP of Product Strategy & Marketing, RELEX Solutions

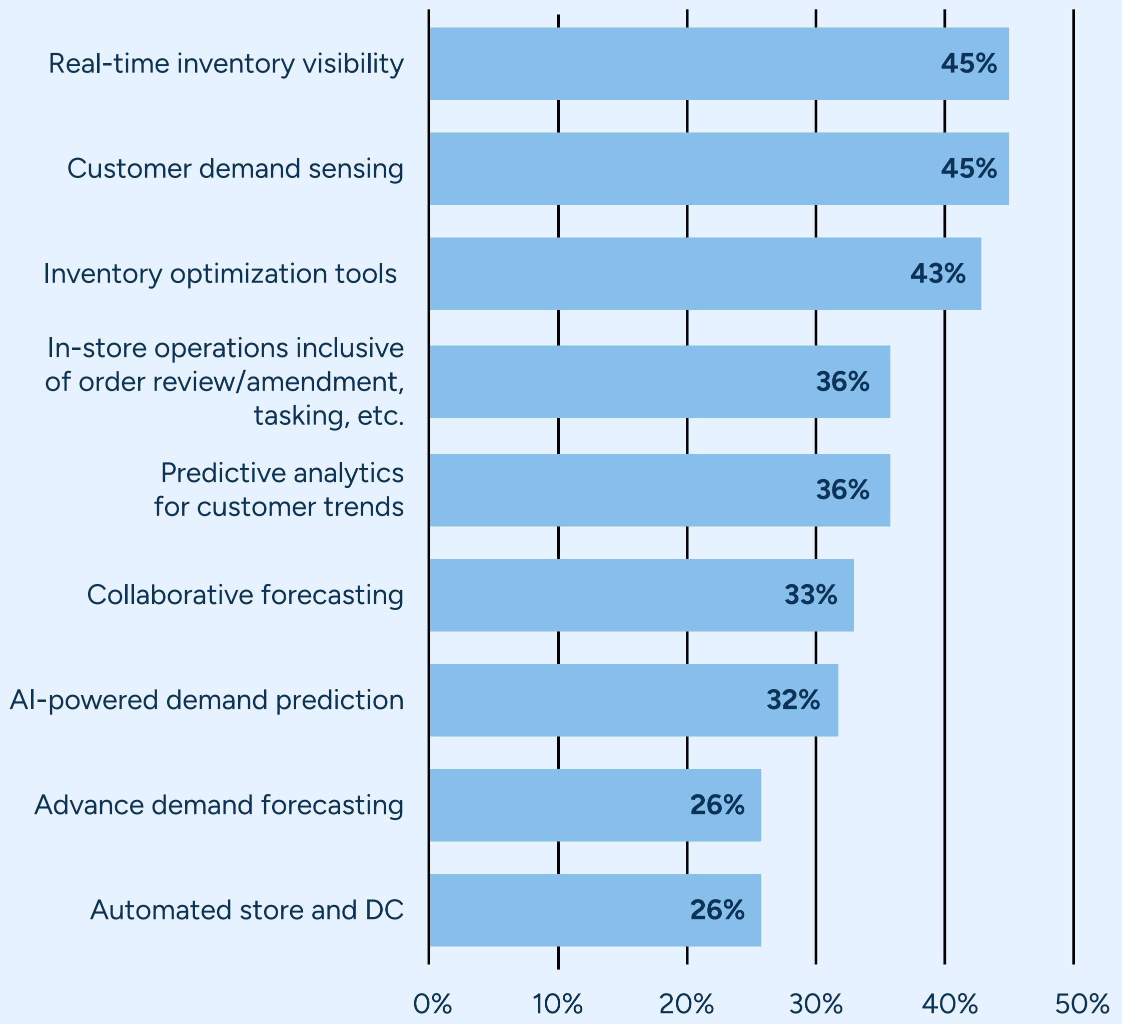
Retailers Reshaping Networks for Omnichannel Demand



Omnichannel demand has shifted retailers' networks. They are rearchitecting their supply chains to accommodate evolving consumer expectations, channel shifts, and disruptions. It's crucial that a retailer's supply chain also effectively manages inventory to avoid wasted products, costs, and time.

Anticipating customer demand was revealed as one of the biggest challenges for retailers, with 45% reporting that real-time visibility is crucial to balancing stock levels and making adjustments on the fly. Demand sensing is also a proactive approach, valued by 45% of respondents, enabling them to understand and respond to fluctuations in consumer preferences. Additionally, the use of inventory optimization tools allows retailers to be more responsive with streamlined management processes, as noted by 43% of respondents.

Essential capabilities for effectively managing inventory and anticipating customer demand



Our research also shows that 71% of retailers believe it is very or extremely important to have a unified planning platform as opposed to purpose-built solutions for different capabilities. This holistic approach underscores every stakeholder's desire for collaboration to better align all parties and improve processes such as those above, prioritizing a platform that captures and responds to demand from end-to-end.

While omnichannel changes can make things more difficult to manage, the end result is reaching more customers in more places, so companies are actively evolving their strategies. In fact, 59% of retailers are expanding omnichannel options from some locations to accommodate shifting consumer delivery preferences.

However, retailers are making broader changes to increase their supply chain resilience, too. Fifty-three percent are expanding their supplier base to diversify and mitigate disruptions, 52% are collaborating closer with their logistics partners to enhance agility, and 35% are investing in supply chain visibility and control tower solutions to better navigate supply chain complexities. That visibility is only effective through real-time data, and 53% of retailers we surveyed see Internet of Things (IoT) and location data as drivers in significantly improving forecasting.

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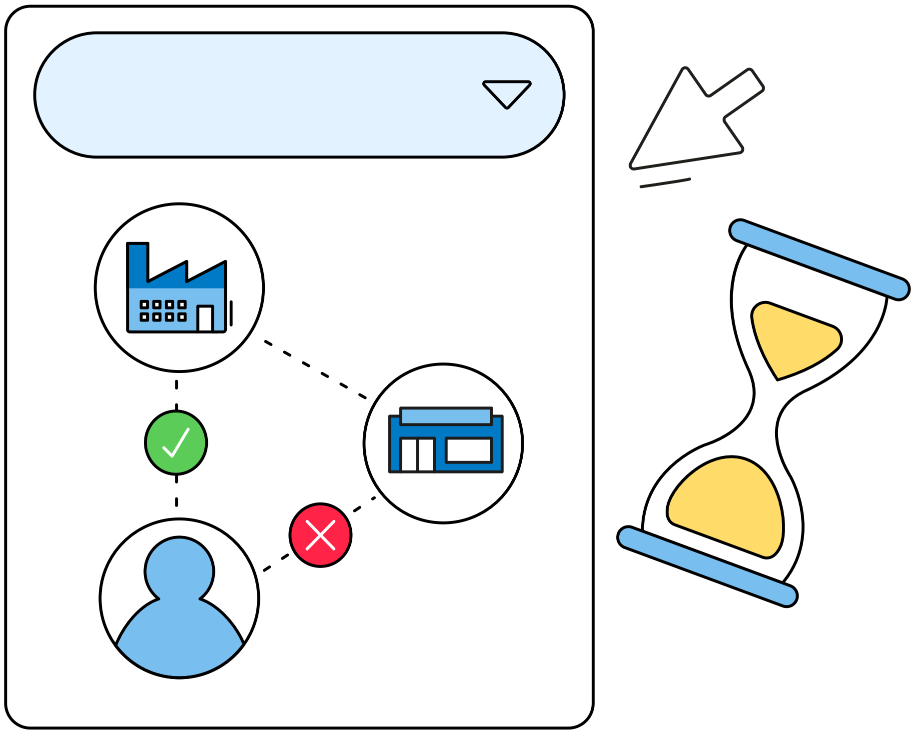
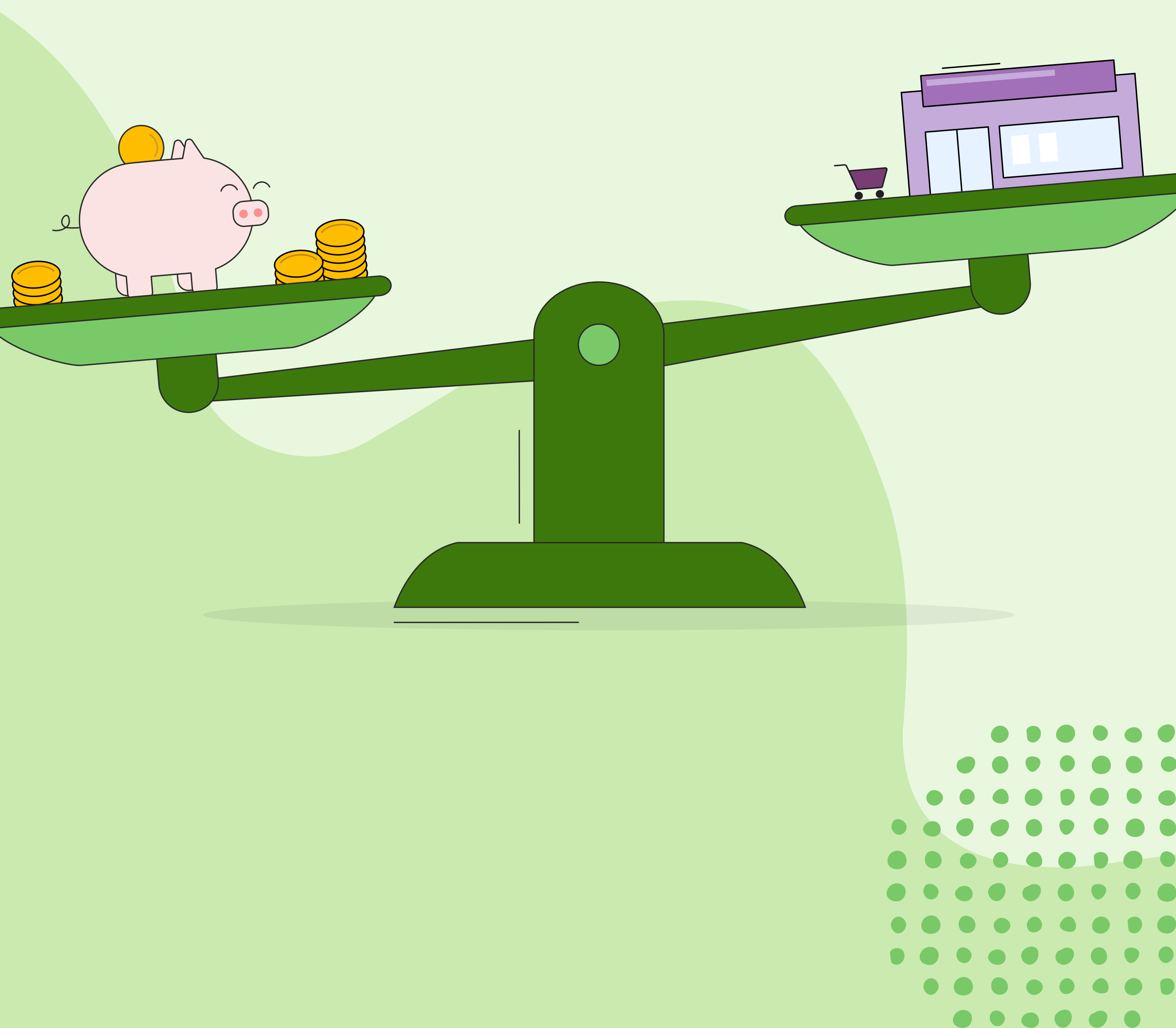
One potential threat to retailers is the direct-to-consumer (DTC) model. More than half (57%) of surveyed retailers already experience moderate impact from DTC initiatives by CPG companies on their category management strategy and private label approach. In fact, 21% have been forced to change assortment, pricing, and promotions. Another 10% say it's still too early to tell how or if they are affected. Optimizing pricing and assortment, as well as offering promotions, will therefore be the key to retaining a competitive edge.

Retailers are clearly feeling pressures from all angles — changing consumer preferences, channel shifts, supply chain disruptions, and economic factors influencing demand volatility. By focusing initiatives on strengthening core capabilities like demand forecasting, inventory optimization, and systems integration with suppliers and partners, they can create a seamless framework for understanding and profitably fulfilling customer needs through any channel.



CPGs: Balancing Investments with Tighter Retail Collaboration



On the other side of the coin, CPGs are vying to balance volatility and retail collaboration while expanding consumer touchpoints. This navigation requires building more integrated and agile supply chain planning capabilities, but overcoming complex legacy constraints and organizational silos remains an obstacle to achieving the responsiveness needed to profitably meet demand swings.

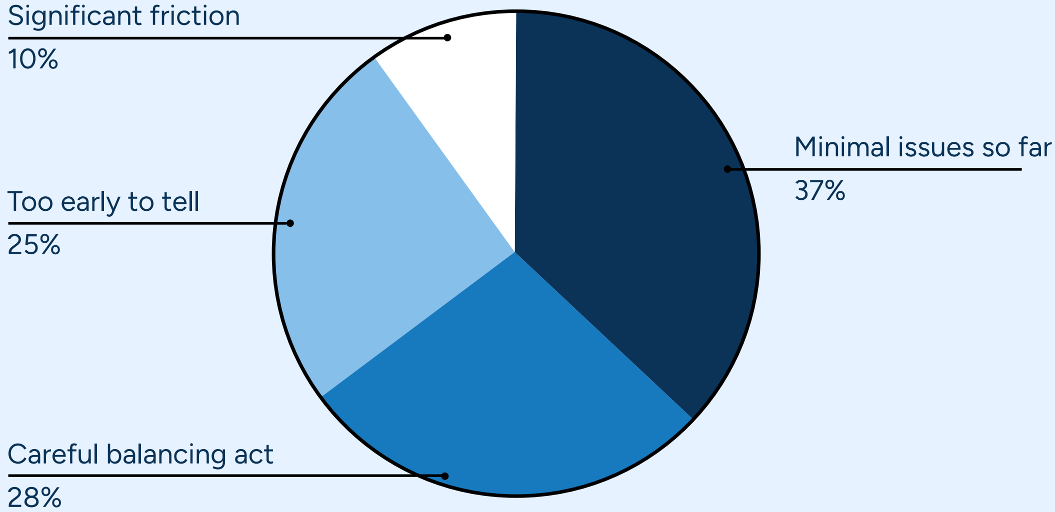
The key is planning — 79% of respondents surveyed view day-level planning as very or extremely important, yet 32% say disconnected planning across different teams, systems, and regions is their top challenge. Another 27% say their top challenge is slow and misaligned planning levels impacting the ability to sync end-to-end value chain planning with execution today.

On the supply side, CPGs face frequent disruptions, with 82% reporting issues like material shortages and production outages routinely impacting their ability to meet orders. Amid economic pressures from inflation and recession risks, 48% are adjusting inventory strategies by carefully monitoring demand signals, while 22% are building safety stock, and another 22% are optimizing inventory turns.

With integrated operations and the right digital backbone, these companies can capitalize on emerging opportunities like DTC programs while still aligning priorities with retail partners. Enhanced responsiveness allows them to profitably fulfill demand surges through any channel, mitigating disruptions or conflicts.

However, collaboration with retailers is also a delicate balancing act. While 57% of retailers report DTC initiatives impacting their category management, only 10% of CPGs acknowledge significant friction or channel conflict from these efforts. If DTC gains greater consumer traction, channel conflicts could arise and compete with retail partnerships rather than complement them. Circumventing this will likely require growth in effectively collaborating with their retail partners to ensure there are complementary strategies between both to maximize the performance of both the retailer and CPG. After all, a great brand perception combined with making it easy for consumers to engage (no matter what channel) is beneficial for both.

Perception of DTC initiatives



Underpinning all these efforts, CPGs must address organizational barriers. Leadership should evaluate ways to unify data sources, processes, and metrics across silos to achieve the integrated supply chain planning capabilities they seek.

Conclusion

Amid market volatility and shifting consumer demands, this report underscores the urgent need for retailers and CPGs to adopt advanced supply chain strategies, including improved visibility, predictive planning and forecasting, and collaboration. Embracing technology and innovation in operations is crucial for resilience, agility, and meeting today's consumer expectations.

Methodology

On behalf of RELEX, Researchscape International conducted a global online survey of 285 business leaders in CPG, retail/wholesale, and distribution. The survey was fielded from Jan. 11 to Feb. 13, 2024, in English, French, German, Indonesian, and Thai. Responses were not weighted and were collected from Australia, France, Germany, Indonesia, Ireland, Monaco, Singapore, Thailand, the United Kingdom, and the United States.

About RELEX Solutions

RELEX Solutions provides a unified supply chain and retail planning platform that aligns and optimizes demand, merchandising, supply chain, operations, and production planning across the end-to-end value chain. We help retailers and consumer goods companies like ADUSA, AutoZone, Coles, Dollar Tree and Family Dollar, M&S Food, PetSmart, and The Home Depot drive profitable growth across all sales and distribution channels, leading to higher product availability, increased sales, and improved sustainability.

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