Voice of the CSCO

Inventory, working capital, and automation spotlight

Given our role in serving influential organizations across the globe, KPMG has frequent touchpoints with chief supply chain officers (CSCOs) leading to insights regarding top-of-mind issues and trends. In our most recent conversations, CSCOs are telling us that their supply chains are regaining stability and singled out inventory, working capital, and automation as their most significant current concerns.

Key takeaways

- CSCOs are finally able to see their inventory levels stabilize after years of having to manage supply chain disruptions caused by the pandemic and global events.
- With supply chains now more reliable, CSCOs are taking a "back-to-basics" approach to managing inventories, such as price negotiations, sourcing, and demand planning. At the same time, with the uncertain economy and rising interest rates, CSCOs are carefully watching their working capital levels.
- Even with more reliable supply chains, visibility remains at top priority for CSCOs. Facilitated by a "control tower" approach, visibility can help increase efficiencies, promote cost optimization, and manage risk.
- Finally, CSCOs are looking at automation and robotics for their warehouse and shipping operations, but most are taking a measured approach, testing out solutions in specific facilities before turning to more organization-wide deployment.

Inventory and working capital

CSCOs tell us that their organizations' inventories are beginning to stabilize, following the disruptions caused by the pandemic and geopolitical events. Lead times have improved, and companies have reduced their inventories over the past year. Companies are now in a position to rebuild inventory safety stock and return to prepandemic levels.

In short, supply chains are more reliable, and products have become more available, so inventory positions are in better shape.

Given this normalization of inventories, CSCOs are taking a "back-to-basics" approach to inventory management and returning to some practices that were put aside because of the supply chain disruptions of the past three years. These include cost control, sourcing strategies, and attention to demand signals.

At the same time, inflation and rising interest are putting a strain on working capital, making it another area of focus among CSCOs. For some, that means not only looking at inventory levels, but also at price negotiations with suppliers as a means of cost containment. During the supply constraints of the past few years, companies were happy to receive the supplies they could get and didn't worry about finding less-expensive sources. Now, with supply chains becoming more reliable, CSCOs are engaging in pricing conversations with suppliers. If those conversations aren't successful, CSCOs said they are returning to sourcing initiatives, such as formal requests for proposal (RFPs).

Another economic factor that is a concern for CSCOs, particularly those whose company's inventory is affected by commodity prices, is the prospect of deflation. Companies stockpiling building materials to supply construction projects, for example, could see the value of their inventory decline if certain commodities prices fall. Another concern: Rising interest rates could cause some of those building projects to stall, leaving that supplier with a large amount of inventory with nowhere to go.

Control tower and visibility

As supply chains begin to normalize, CSCOs are looking to other issues, such as network optimization, network redesign, transportation optimization, demand planning, and working capital. Nevertheless, they know that visibility into their suppliers, at all tiers, remains a top business imperative.

To gain that visibility, as well as gain new efficiencies and better manage risk, CSCOs continue to turn to the control tower approach to supply chain management. It's fair to say that control towers are now table stakes.

For example, companies are focusing on cost optimization. As part of an overall strategy, a control tower can be a critical element of that effort enabling chargebacks to customers or finding arbitrage opportunities.

Additionally, an end-to-end supply chain control tower can provide more visibility that can help with contingency planning by helping to identify disruptions and bottlenecks. These visibility tools can improve the entire supply process.

CSCOs also see control towers as being able to assist with moving suppliers and customers beyond a transaction-based relationship to become business partners in their planning efforts.

Demand-signal visibility remains important, as well, and CSCOs are looking at software models that can understand patterns with greater accuracy. Some of these platforms are incorporating artificial intelligence to create advanced forecasting solutions.

Automation

CSCOs are increasingly turning to automation to help manage physical inventory and are deploying various robotic technologies in targeted and strategic ways.

Often, this involves trials applied only to a portion of the business, for example, focusing on newer facilities where implementation may be easier. In other cases, the business is deploying automation in a surgical way, first doing process assessments to find bottlenecks and then using technology to alleviate those constrictions.

Still other CSCOs are incorporating automation throughout their entire supply chain as part of their strategic plan. That can include testing different technologies at various distribution centers to determine what would be more effective and more efficient or exploring different robotic applications to automate various processes across the organization.

Additional insights: economic outlook

The economy has been unpredictable, which is making demand planning for CSCOs more difficult.

KPMG Economics forecasts what it's calling a "slowcession" for the remainder of the year, in which the economy slowly stalls out and unemployment rises. Most anticipate this stalling out of the economy, and likely a recession, because the Fed, which is trying to avert the mistakes of the 1970s, believes that an increase in unemployment is the only sure way to guard against a more pernicious bout of inflation, or worse: stagflation.

Core Personal Consumption Expenditures (PCE) inflation, the measure of inflation that the Federal Reserve targets, is expected to fall to 2 percent sometime early next year according to the Fed's Summary of Economic Projections. (The Bureau of Labor Statistics reported that the consumer price index rose 4.9 percent in April from a year earlier, down from March's 5 percent increase.[1] Core PCE stood at 4.6 percent in March.) Our forecast has a slower deceleration in inflation. We dip below 3 percent in the first quarter, which enables the Fed to cut by March.

As for the labor market, hiring currently remains high, although we expect some slowdown with unemployment peaking at around 5 percent in late 2024. That is half a percent above what the Fed predicts, and is sufficient to call a recession. (Employers added 253,000 jobs in April, according to the Labor Department. The unemployment rate fell to 3.4 percent, matching the lowest reading since 1969.[2])

The Fed hiked rates another 25 basis points in May. KPMG expects the Fed to pause at the current rate of 5.25 percent before cutting in Q1 2024. The threshold for the Fed to raise rates is lower than the threshold to cut rates.

CSCOs can finally look beyond managing recent supply disruptions and return to more business-as-usual activities, such as cost optimizations and monitoring demand supply. Nevertheless, they shouldn't forget the lessons of the past few years. Visibility, via control towers, has become an essential element of supply chain management. Meanwhile, innovation around automation and robotics must be considered as organizations look to gain efficiencies and grapple with labor availability. And with economic uncertainty in the form of inflation, a potential recession, and higher interest rates, CSCOs need to remain prepared for the unexpected as they manage short-term business needs, while staying on track with long-term strategies and investments.

[1] Source: "Inflation Eased in April but Remains Stubbornly High." WSJ.com, May 10, 2023.

[2] Source: "Robust Hiring in April Shows U.S. Job Market Remains Hot in Cooling Economy." WSJ.com, May 5, 2023.

Additional insights

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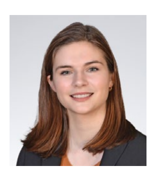

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