



State of the Supply Chain Industry

2023



BLUE RIDGE

 **SmartBrief**
A DIVISION OF FUTURE

EXECUTIVE SUMMARY

Supply chain organizations continue to seek new solutions as post-pandemic challenges remain, such as complex customer demand patterns, increasing market volatility, and managing new product introductions. Despite these obstacles, the industry collectively posted year-over-year sales growth of 9% in 2023, down from 13% in 2022 but up from 8% in 2020.



Organizations struggle to manage disruptions due to macroeconomic trends and inbound cost pressures. The current systems and processes are not positioning these organizations to address each scenario in an optimal and effective manner.

The industry's overall inventory on-hand levels have come up from the pandemic period, with 62% of businesses keeping more than one month of inventory on hand, a slight increase from 59% in 2022. Higher days-on-hand (DOH) did not improve product availability and customer service, possibly due to misplaced assortment or product location.

Distributors have done a slightly better job at inventory and service levels. This indicates that the

two metrics are not always a matter of trade-off but rather operational and planning efficiency.

As in previous years, revenue growth remains a high priority for the industry. In 2023, nearly half of all industries admitted this metric was their topmost priority. Notably, much of their revenue is likely foregone due to lost sales.

For the fifth year, Blue Ridge asked supply industry leaders to participate in a survey that delves into their challenges, possible solutions, and how the evolving landscape of technological advancement has affected operations.

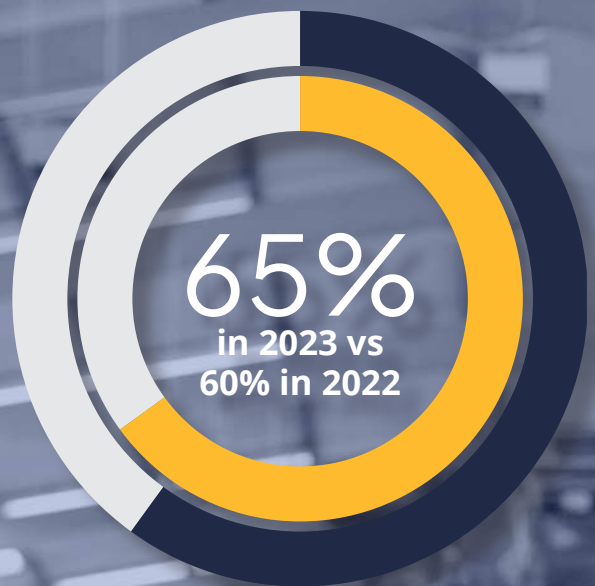
Blue Ridge customers and SmartBrief readers brought to light many of the same issues that beset the industry in previous years while also touching on vital new trends to offer insight into where the industry is heading.

Key findings for the 2023 survey include:

- Companies are shifting their attention and priorities to align more with consumer demand and customer service – revenue growth, demand predictability, and demand complexity. In 2023, organizations cited complex customer demand patterns (65%) and increasing volatility (79%) as their primary challenges.
- The challenges related to suppliers, such as extended lead times caused by supply, transportation, and capacity constraints, are not worsening compared to previous years. They do, however, remain a key concern.
- Inventory has grown at a slower rate than sales, which puts companies in a better position but, ultimately, still falls short of overall targeted goals.
- Technology and advanced analytics, like machine learning (ML), continue to gain movement in the industry. However, many organizations still find it difficult to see the macroeconomic value to justify the cost trade-offs in their field.

The volatile nature of the economy and consumer unpredictability make using tools, scenario evaluation, and forecast reconciliation an essential way for distributors to gain a competitive

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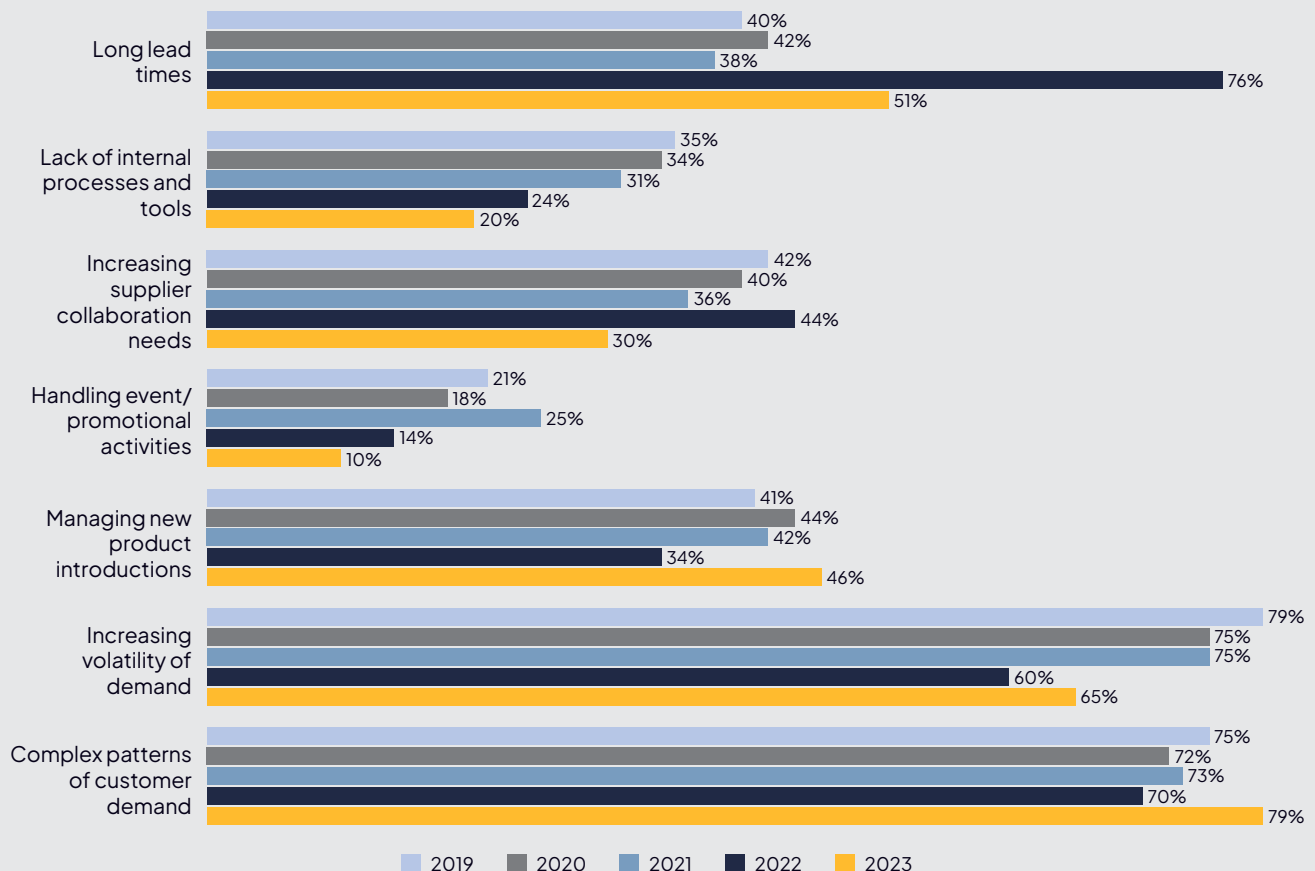
advantage. Even as advanced technologies continue to gain momentum year-over-year, some still find it hard to establish successful use cases in their industry.

Industry leaders, however, are making investments in advanced technologies and ML-powered systems to create winning strategies in their field. For this reason, organizations continue to invest in these tools that empower them to maximize their returns and more efficiently manage their inventory.

Survey details

As in previous years, distributors and manufacturers continue to hold more inventory to meet consumer demands. Still, increased customer demand volatility and complexity have been more of a challenge. The headwinds from macroeconomic trends compound an organization's problems.

Top 3 Forecasting and Inventory Planning Challenges Organizations Facing Now or Expecting in Near Future



The top challenges cited in the 2023 survey were:

- Complex patterns of customer demand (79% – up from 2022’s 70%, 2020’s 73% and 2019’s 72%)
- Increasing volatility of demand from new customers and competition, including e-commerce (65% – up from 2022’s 60%, but down from 75% in both 2020 and 2019)
- Managing new product introductions (46% – up from 2022’s 34%, 2020’s 42% and 2019’s 44%)
- Long lead times (51% – down significantly from 2022’s 76%, but still up from 2020’s 38% and 2019’s 42%)

While the two former challenges remained relatively steady over the past four years, companies now find it immensely more challenging to manage new product introductions than increasing supplier collaboration needs, which fell drastically to the fifth spot on the overall survey.

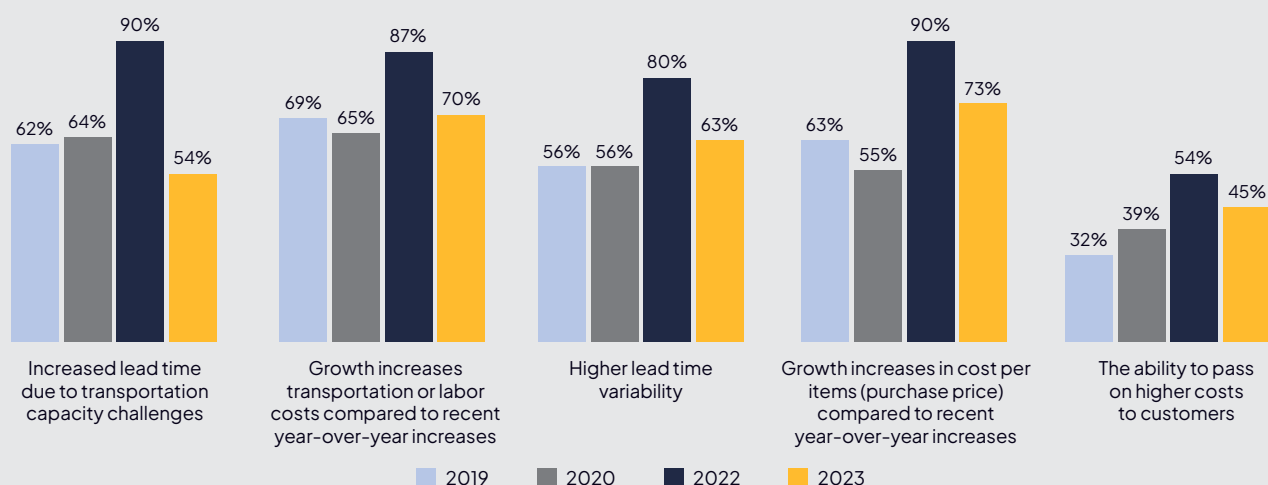
In addition, long lead times have become less of an issue this year due to the easing of the macroeconomic conditions and the supply chain teams adapting to the post-pandemic trends. Of all survey participants, 63% observed decreased lead time variability, down significantly from 2022’s 80% but still higher than 2020 and 2019’s 56%. On the wholesale distribution side, fewer distributors saw lead time variability increases (55% – down significantly from 2022’s 81%).



Managing new product introductions moved to the forefront for the first time in years after being deprioritized due to constrained inventory and supply chain challenges. This indicates that the industry is shifting its focus from being unable to provide products to customers due to pandemic-related transportation and capacity constraints to struggling with managing newer inventory as it hits the market.

The survey results paint an obvious picture of the struggle many businesses face. Even as cost pressures from COGs, labor, and transportation at all ends of the supply chain begin to level out to pre-pandemic numbers, participants still attribute the increases in the cost of items and the ability to pass on higher costs to customers as the driving challenges to their overall margins. Of all survey participants, 73% observed rising costs on the

Which of the Following Business Trends Have You Seen in Your Supply Chain in the Last Year?





front end when purchasing goods, down significantly from 2022's 90% but still much higher than 2020's 55% and 2019's 63%.

Costs remain on a growth trajectory for manufacturing/light assembly and wholesale distributors. Among wholesale distributors, 73% reported seeing more significant increases in the cost of items compared to recent year-over-year gains, while 71% of manufacturing/light assembly respondents mirrored these findings.

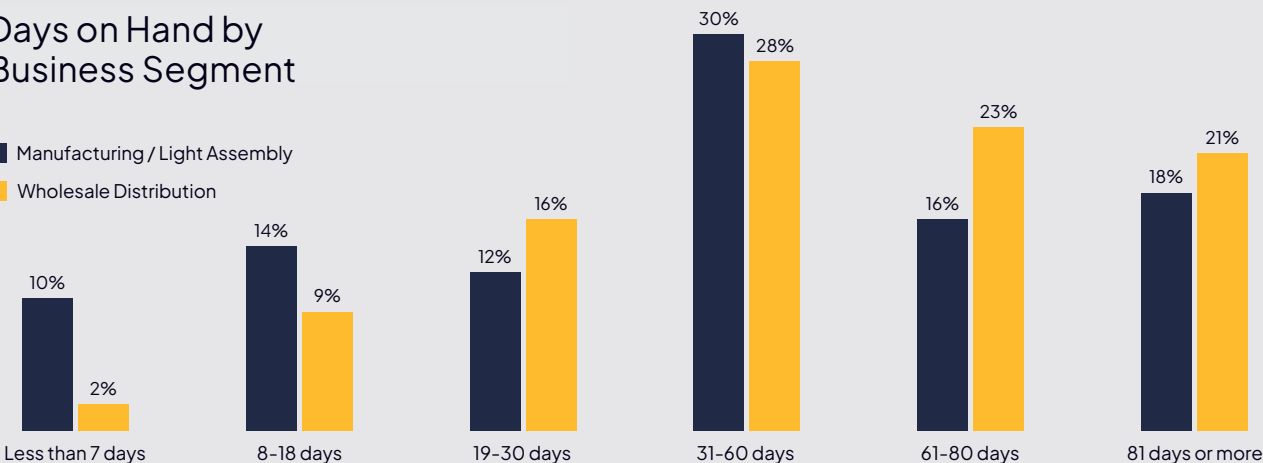
As companies continue seeking solutions to these issues, their primary objective should be to focus on effective inventory management. For example, a forecasting engine like that in Blue Ridge's solution automatically factors lead time variability into the safety stock calculations to secure availability and ensure service level goals are met. As demand continues to change, this objective becomes even more necessary.

The inventory picture

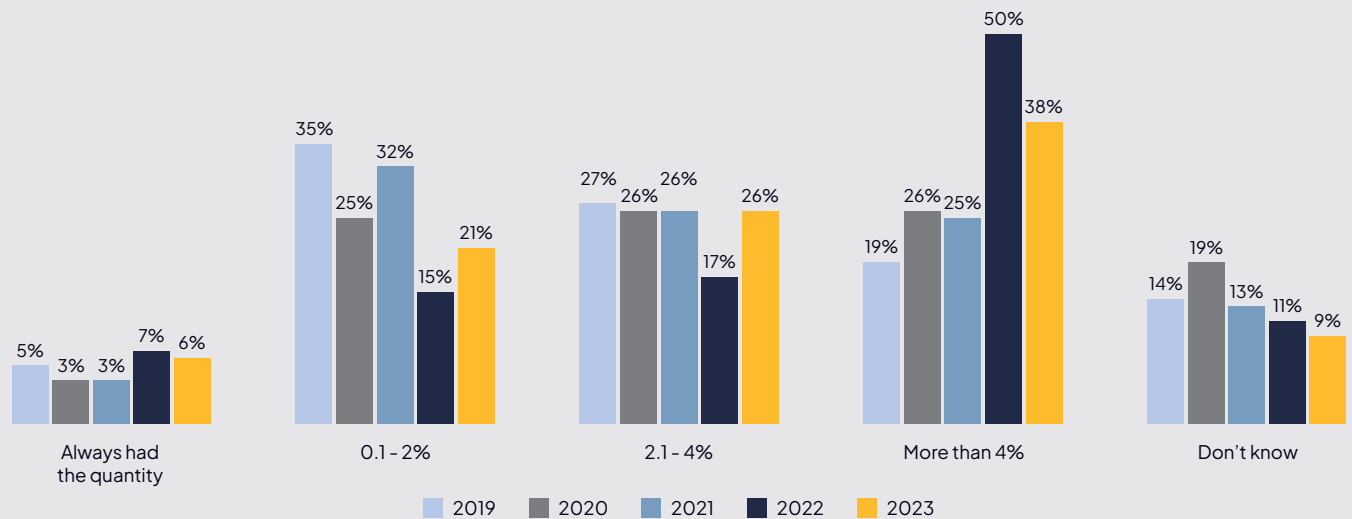
As in previous years, proper inventory management remains a pain point within the industry. The number of companies holding 61 days or more of inventory has slightly increased since 2022, nearing 2019's pre-pandemic findings, while those holding stock between 19-60 days have decreased significantly to the lowest levels since the survey began in 2018. Although this trend appears to be moving in the right direction when interpreting the data, long-term inventory management issues remain challenging. All data points to a mismatch between available inventory and complex customer demand.

Days on Hand by Business Segment

■ Manufacturing / Light Assembly
■ Wholesale Distribution



In the Last Year, on Average, What Percentage of the Demand Could Not Be Fulfilled from Current On-hand Inventory or Supplies?



In general, manufacturing and light assembly are better suited for managing inventory levels, with only 34% of supply stocked over 61 days on hand, most likely because they are upstream in the chain. Distributors, however, are not faring as well. According to the report, wholesale distributors carry 45% of the supply stocked over 61 days on hand.

When all the data is gathered, one thing becomes clear – higher days on hand do not improve product availability or customer service, particularly in the face of market volatility and the more complex patterns of customer demand. As in previous years, more inventory on hand is not the solution. The keys to success are the right inventory and a lean supply chain that can adapt to macroeconomic pressures.

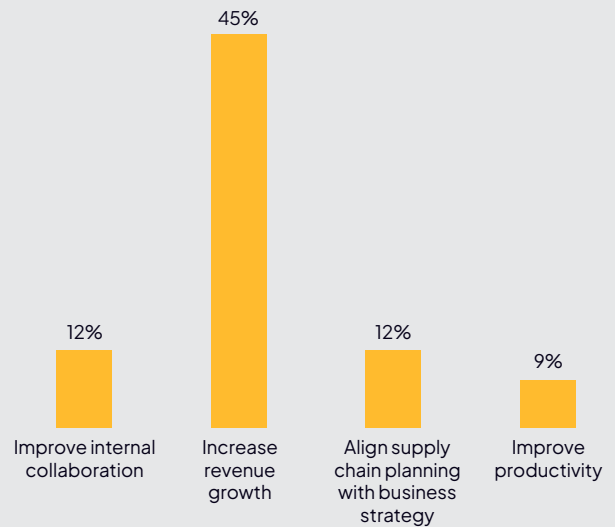
One factor that is important to consider when discussing industry challenges is the out-of-stock question. Nearly half of all those surveyed, 40% to be precise, reported that they could not meet consumer demand more than 4% of the time with current on-hand inventory or supplies. While 2023's data in this regard has decreased from 2022's 50%, this alarming number is still much higher than 2020's 25%, 2019's 26% and 2018's 19%. 2023's findings in this regard are still two times as high as the pre-pandemic levels.

Nine percent of respondents said they did not know how this affected their business, this hints at





What is Your Organization's #1 Priority?

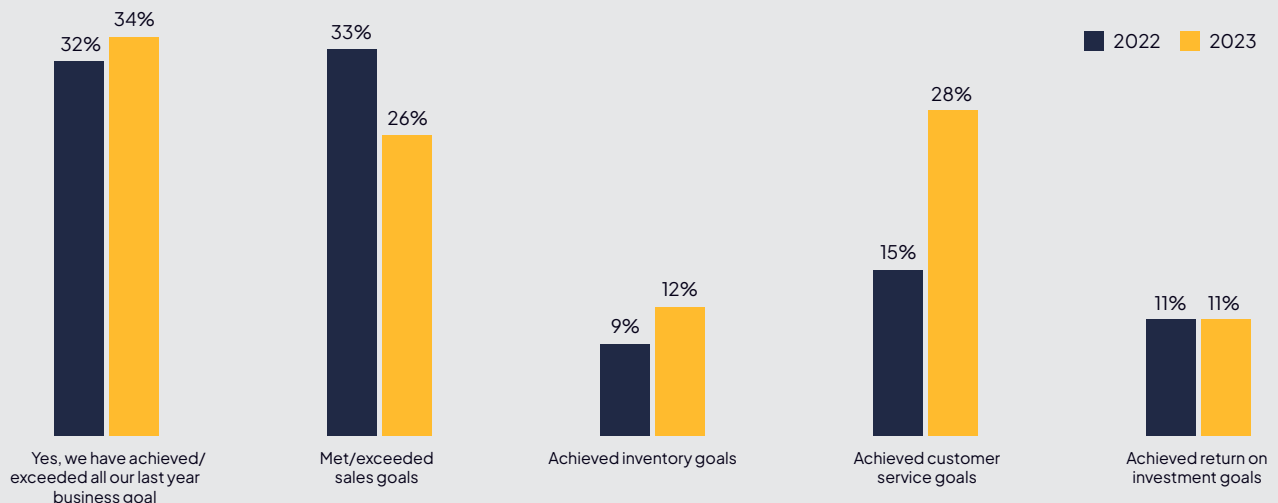


their lack of effective measurement tools and visibility to address possible issues. Notably, this percentage has decreased year-over-year and is now lower than pre-pandemic levels. Even as the market is starting to adjust to post-pandemic realities, the number of companies that can benefit from incorporating measurement tools for increased visibility remains close to half.

Meeting business goals

The number one priority for almost half (45%) of the survey participants was to increase revenue growth.

Have You Achieved Last Year's Business Goals



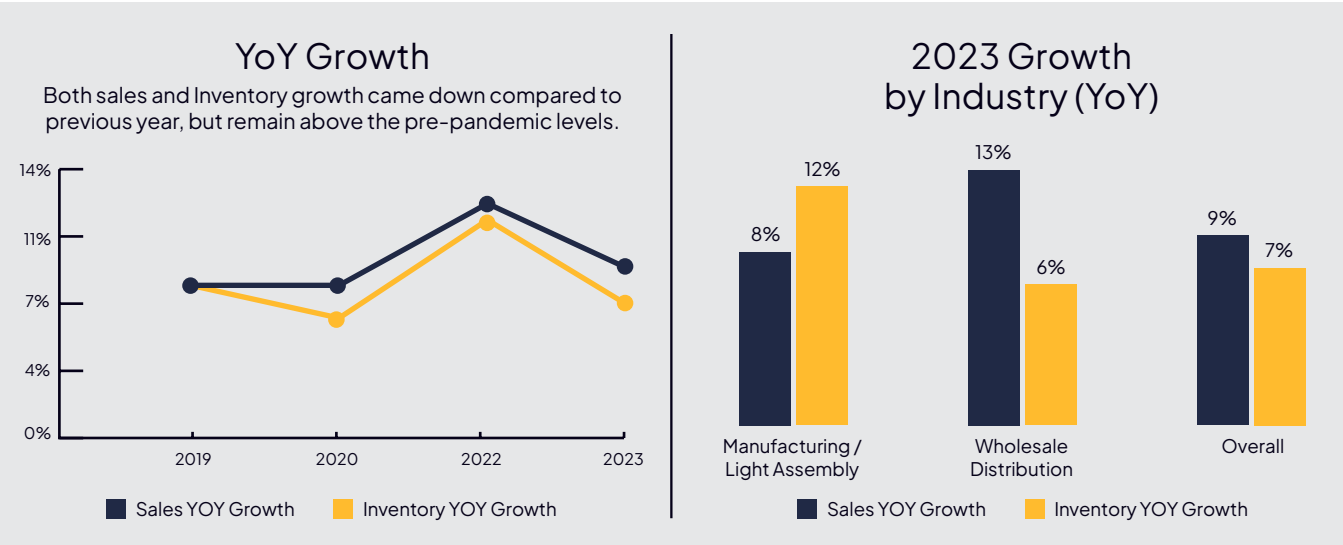
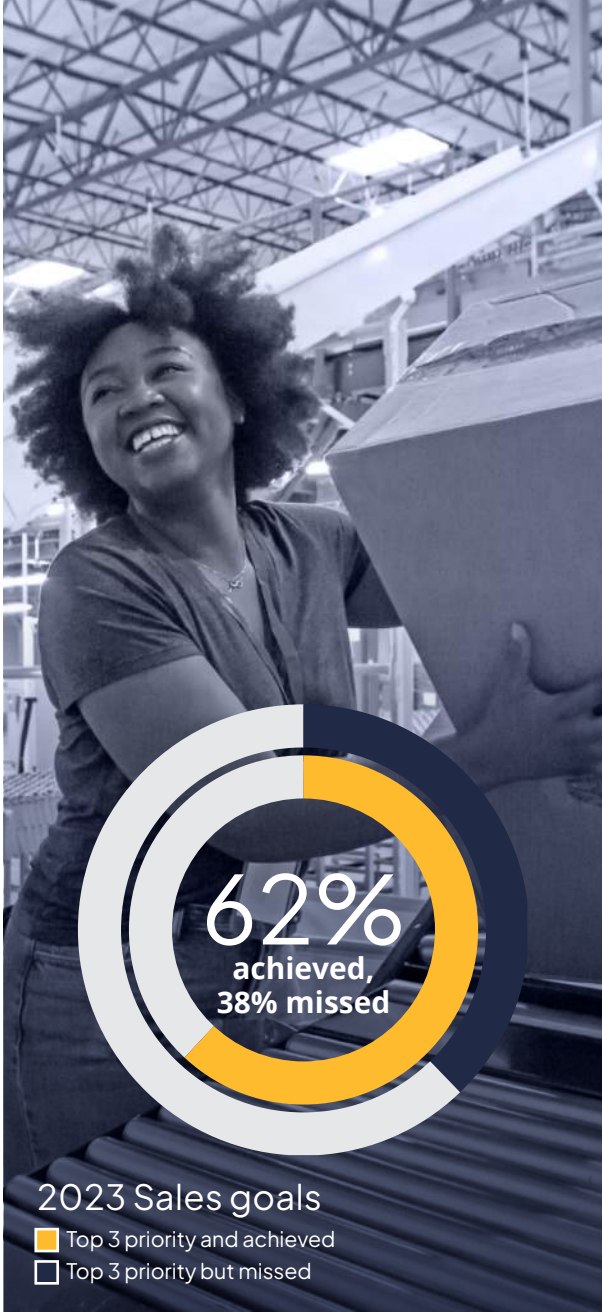
Financial and organizational efficiency-related priorities varied across the board but were always second to revenue growth.

Despite the many challenges besetting the industry, companies could still achieve most of their business goals. Of the respondents surveyed, 34% achieved or exceeded all last year's business goals, and 26% met or exceeded their sales goals, most likely attributed to price inflation. The most significant areas of concern were related to financial efficiency, with inventory goals reported at a meager 12%.

Return on investment (ROI) remained a challenge across the board, with only 11% of those surveyed achieving their goals, a mirror of the 11% in 2022 but still lower than 12% in 2020. Aggressive goals from the previous year, the inability to pass the cost to consumers, and the mismanagement of unwanted inventory are factors in this failed ROI.

Overall, sales and inventory grew at a much slower pace in 2023, with 9% and 7%, respectively, down from 13% and 12% in 2022 but remained above 8% and 6% in 2020. Inventory grew slower than sales, which may indicate risk aversion resulting from recession expectations and the higher cost of holding capital. Wholesale distributors noted an astounding 13% sales growth year-over-year, and manufacturers reported an 8% sales growth year-over-year.

Sales (revenue) were achieved at double the rate compared to inventory goals, signifying that while companies seek to grow their markets, staying





efficient remains challenging. For 2023, 62% of respondents noted achieving their sales goals, much lower than 95% in 2022. Companies failing to meet these targets is likely due to increased expectations from post-pandemic headwinds and adjustments to higher interest rates and other risk factors in the global economies.

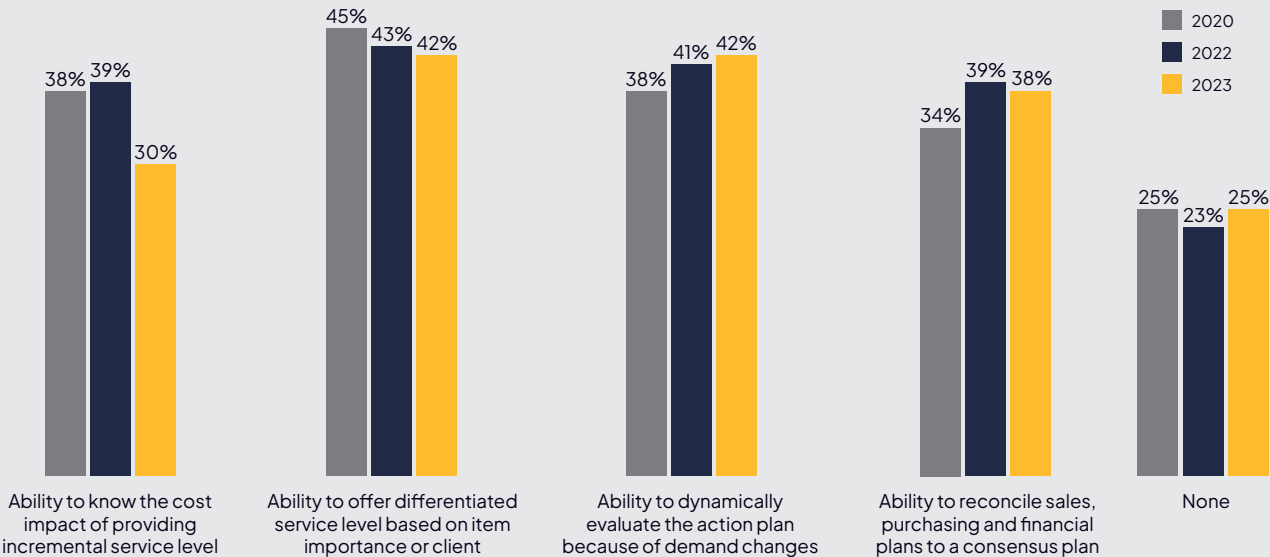
Implementing technology

Precisely 45% of survey participants identified revenue growth as their primary objective for 2023. This underscores the critical role of efficient inventory management and increased productivity in achieving this goal. To avoid falling short of their targets, businesses must evaluate their existing technological strategies and pinpoint any weaknesses in their infrastructure that require improvement.

Although the supply chain has changed, businesses still measure themselves similarly. The only change noted is that companies can now focus on long-term goals and reduce manual intervention as pressure on service levels and lead times has decreased.

When it comes to inventory, 42% of companies have the ability to offer differentiated service levels based on the importance of items or clients. Others use tools that evaluate action plans based on demand changes (42%) and determine cost

Evaluating the Supply Chain – Cost & Service Tradeoffs





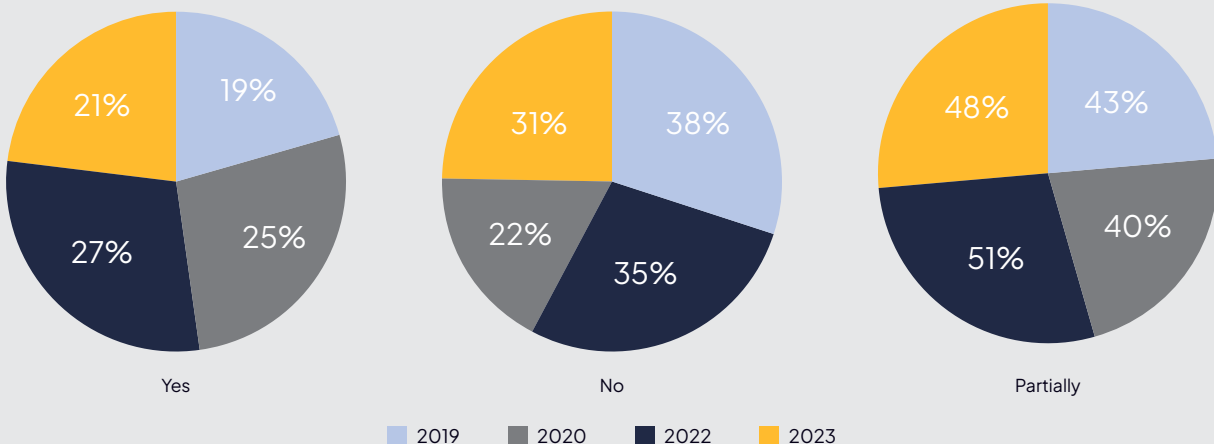
impacts in incremental service levels (30%). Evaluating action plans based on demand increased over the years, with 41% in 2022, 38% in 2020, and 31% in 2019. However, knowing the cost impact of incremental service levels increased yearly until 2023, 39% in 2022, 38% in 2020, and 34% in 2019. For 2023, just 30% said they had the ability to know the cost impact of incremental service levels, while 25% of respondents said “none,” meaning one-quarter have no access to or visibility to these critical tools. which can assist them in managing their business.

When it comes to forecasting software among 2023 respondents, 31% said their current supply chain planning (SCP) and inventory optimization processes do not allow them to take advantage of macroeconomic trends. This points to a growing number of companies finding value in the metrics and strategies provided by such tools.

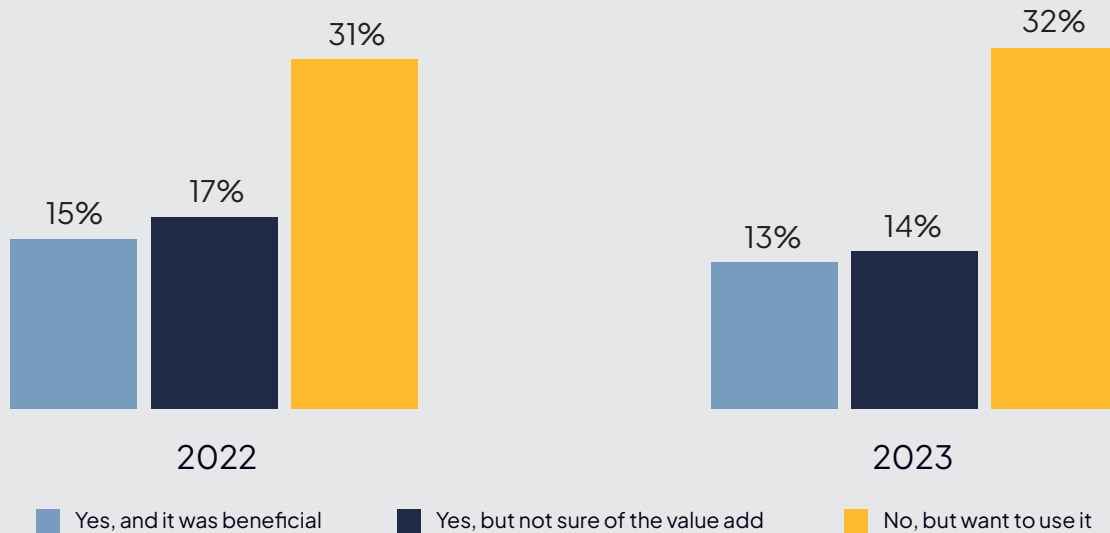
A growing number of companies are becoming increasingly aware that they may struggle to achieve their desired objectives without utilizing cutting-edge technologies, such as those powered by ML.

It is, therefore, imperative to devise effective strategies that can optimize business models and enable you to outperform the competition.

Do Your Current SCP & Inventory Optimization Processes Position You to Take Advantage of the Macro Economic Trends?



Have you tried using machine learning techniques within forecasting and supply chain planning processes?



Conclusion

Industry leaders use advanced technology and blend best practices like forecast reconciliation and cost trade-offs with inventory management tools to achieve their goals. Blue Ridge's solutions can help customers improve forecast accuracy, which has been proven to reduce costs and increase profitability by reducing inventory, transportation costs, and obsolescence.

Having the ability to accurately predict future trends gives a competitive advantage to businesses in their respective industries. This allows them to focus on growing their company without being overly dependent on macroeconomic shifts and reactive tactics. With customer needs constantly evolving across all sectors, ML-driven technologies offer valuable shopping habits and preference data.

Although some participants in the Blue Ridge survey have yet to invest in these beneficial systems, it does not diminish the value such programs can offer in the wholesale supply trade. Companies looking to increase revenue in the upcoming year can benefit from managing inventory levels with greater visibility.

Implementing advanced technologies can significantly increase a company's profitability and productivity, providing a competitive edge.

ABOUT



BLUE RIDGE

Blue Ridge Supply Chain Planning solutions empower distributors, retailers, and manufacturers to tap into undiscovered margins through enterprise-wide inventory intelligence, automation, and synchronization. Blue Ridge uniquely combines Demand Forecasting, Replenishment, Multi-Echelon Inventory Optimization, and Integrated Business Planning so that businesses can proactively understand the unpredictable and allocate the right inventory – to accelerate top and bottom-line results. In a world where the only constant is change, Blue Ridge provides more certainty, more speed, and more assurance – so companies can see the why behind the buy and respond faster to the unexpected. That's why major retailers, distributors, and manufacturers rely on Blue Ridge for a more foreseeable future. For more information, go to www.blueridgeglobal.com.

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