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Supply Chain Barometer 2023: Cost Pressures Continue

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Introduction

Global supply chains have transformed significantly in recent years, primarily driven by unexpected disruptions, such as the COVID-19 pandemic and geopolitical conflicts, that have resulted in global materials shortages and increased inflationary pressures.

However, these external factors are only part of the picture. Changes in consumer demand patterns have meant that broader choice and faster availability are now required, which is creating further supply chain complexity. For some firms, the adoption of omnichannel strategies is leading to further challenges, as companies often need to cope with an increasing number of stock keeping units while at the same time clients are expecting faster deliveries.

These disruptions have had a profound impact on industries that heavily rely on lengthy supply chains for materials and components, or that have multinational production.

To identify current trends and better understand how firms are navigating these supply chain challenges, FTI Consulting surveyed C-level executives, general managers, and functional leaders at more than 450 companies in sectors including industrial manufacturing, automotive, and consumer goods across the European business landscape.

Overall Highlights

European business leaders have identified the significant supply chain challenges they are facing in their respective industries, which are centered around five critical themes.

Most Companies Cited Cost Increases as Their Biggest Supply Chain Challenge

58% of companies reported **cost increases of up to 10%** over the previous year

20% of companies reported **cost increases of more than 10%** over the previous year

But Challenges Extend Beyond Cost

47% of companies cited **skilled workforce shortages** as the second most important issue after cost inflation

87% of companies consider it **important to rethink their supply chain network**

90% of companies think they need to **improve their working capital** management

1. Increasing Cost-Related Pressures

Inflationary pressures are having a huge impact on organisations' supply chains, which in turn is eroding their business margins, with **78% of respondents acknowledging a significant impact and 20% reporting cost increases exceeding 10% compared to the previous year**. This surge in costs is most pronounced in energy prices, materials, wages, and logistics services. While some of these cost increases can be attributed to contextual factors such as geopolitical conflicts and economic cycles, there is a deeper impact associated with changes and evolution of customers' demand, underscoring the importance of developing strategic cost optimisation programmes to enable companies to thrive in a changing economy.

2. Materials and Skilled Workforce Shortages

47% of companies cited skilled workforce shortages as the second most important issue (after cost inflation). This concern is particularly prominent in northern Europe, with more than 77% of respondents in Germany citing the unavailability of qualified labour as a significant issue.

3. Rethinking Supply Chain Networks

A trend gaining traction among leaders is the re-evaluation of supply chain networks to build resilience and adapt to external conditions. Significantly, 87% of respondents think that tactical modification of their supply chains is necessary in areas such as purchasing, logistics, and production. As they seek to obtain an optimal mix of suppliers, firms are maintaining their current supplier relationships but are favoring regional providers over global sources as they develop and expand their regional production facilities.

4. Working Capital Management Challenges

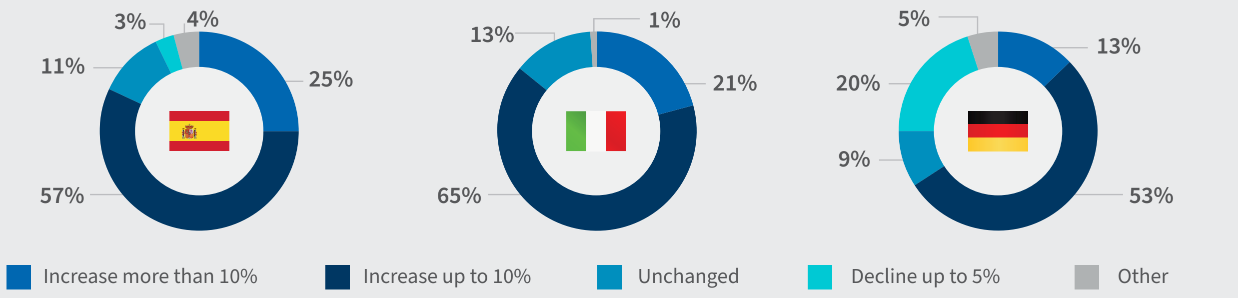
A staggering 90% of respondents of companies think that they need to improve their working capital management in the context of rising interest rates, and companies are implementing measures such as renegotiating payment terms with suppliers and clients, reducing inventory levels, and deferring or halting investment projects.

5. The Growing Imperative to Invest in ESG Innovations and Digitisation

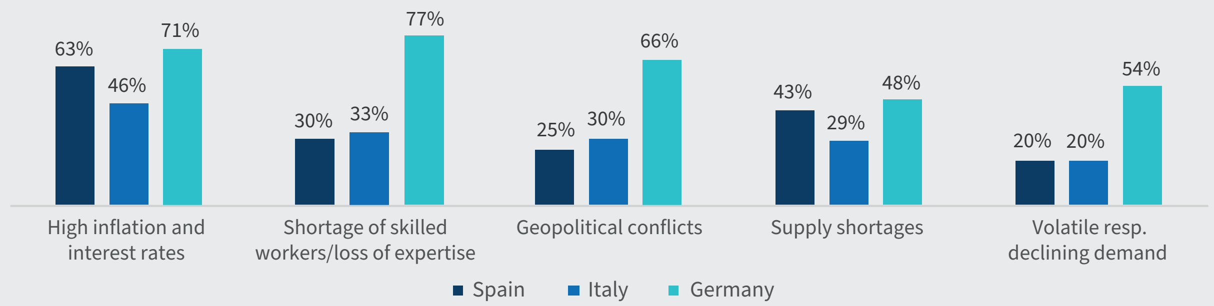
Companies continue to dedicate significant resources to ESG advancements and digitisation. This commitment is particularly noteworthy because although only 19% of surveyed companies have a legal industry requirement with regard to decarbonisation, more than 92% of respondents believe that ESG efforts give them a competitive advantage and are actively investing in tracking and reducing carbon emissions.

Country Overview

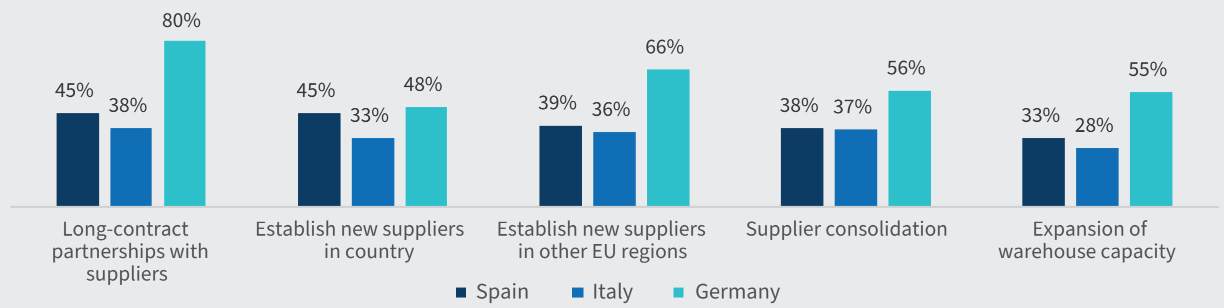
What do you expect the final impact of your costs to be at the end of the year?



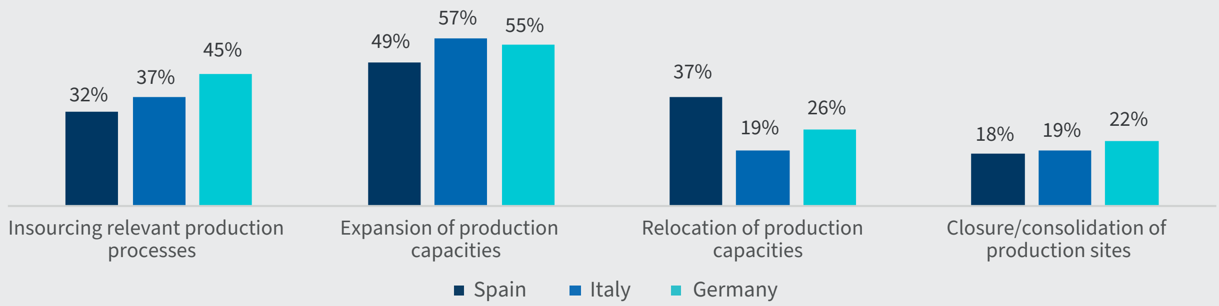
Which factors are having the highest impact on your organisation’s supply chain?



What are your current strategic priorities to help make your supply chain more robust?



What are your current strategic priorities to help make your production more resilient?



Observations and Perspectives

1. Increasing Cost-Related Pressures

78% of companies have experienced a substantial surge in costs

Energy and materials costs have risen the most for companies in southern Europe

81% of German companies cited personnel as their most significant cost

Among the companies surveyed, 65% expressed a sense of cautious optimism regarding sales, stating that they have adapted well to recent disruptive events and are progressively recovering. This positive sentiment is more pronounced in southern Europe — for example, the majority of respondents in Spain (81%) and Italy (73%) anticipate an increase in revenue this year. Notably, companies in the automotive and food retail sectors appear particularly optimistic, with more than 70% of respondents expecting to improve on last year's results. In contrast, German firms have a less optimistic outlook, with only 35% expecting better sales this year.

Despite generally positive sales expectations, companies are grappling with significant cost pressures, which are eroding their margins. Almost 80% of companies reported experiencing a substantial surge in costs that they cannot fully pass on to their final customers — only 2% of companies reported successfully increasing margins through price hikes.

"Despite generally positive sales expectations, companies are grappling with significant cost pressures, which are eroding their margins."

The trend is expected to persist this year, with 78% of companies anticipating further cost increases.

Costs of energy, materials, and purchased parts have escalated most noticeably, as highlighted by more than 60% of the companies surveyed.

All these concerns about cost increase appear fairly homogeneous across Italy and Spain. Nonetheless, while German companies are also concerned about energy and material prices, they seem particularly worried about labour cost, with a staggering 81% of German respondents considering it as having the greatest impact on the supply chain, with firms in the consumer goods sector being impacted the most.

Areas with particularly noticeable cost increases

Energy	**70%**
Materials and purchased parts	**62%**
Logistics	**55%**
Personnel	**42%**
Investments	**38%**
Services	**35%**

In response to pressures on operating margins, organisations are proactively implementing cost-cutting initiatives, with 65% of respondents reporting a focus on reducing energy expenses. Additionally, 62% of companies have initiated purchasing optimisation programmes to efficiently curtail external spending, and nearly 40% of firms report having integrated technical product modifications to pursue cost-cutting goals.

Cost reduction measures being implemented by companies

Improvement of energy efficiency	**65%**
Reduction of external spend through purchasing optimisation	**62%**
Adjustment of product offering or (technical) modification of the end product	**37%**
Outsourcing or relocation to low-cost countries	**22%**
Staff reduction and/or hiring freeze	**22%**
Reduction of production capacities	**18%**

2. Talent Scarcity: An Impactful Shortage

Nearly **50%** of respondents think skilled worker shortages are impacting their supply chain performance

Skilled labour is particularly scarce in Germany, where **77%** of companies prioritised the issue over inflation

32% of companies cannot recruit enough specialised workers

Despite cost pressures, **22%** of respondents are considering staff reductions and hiring freezes, which demonstrates the value of skilled workers

One striking revelation from the survey responses is the **significance of the shortage in skilled workers**, acknowledged by 47% of respondents as a key disruptor. The scarcity of qualified workers presents a multifaceted challenge, increasing labour costs and risking the loss of critical in-house knowledge, which hinders not only production capacity but also the execution of complex supply chain strategies.

Factors with the highest impact on organisation supply chains

High inflation and interest rates	**60%**
Shortage of skilled workers/loss of expertise	**47%**
Geopolitical conflicts	**40%**
Supply shortages	**40%**
Decline in demand or fluctuations	**31%**
Increasing legal requirements (e.g., ESG)	**27%**
Changed site conditions	**20%**
Low degree of digitisation	**18%**

Notably, 77% of German firms cited a shortage of skilled workers and the loss of internal expertise as the primary factors impacting their supply chain, surpassing concerns such as high inflation, increasing interest rates, and geopolitical conflicts. These concerns are particularly widespread in the German consumer goods and automotive sectors (80%).

"The scarcity of qualified workers presents a multifaceted challenge, increasing labour costs and risking the loss of critical in-house knowledge."

Despite the challenging conditions and the significant cost of labour, respondents from all industries and geographies aligned in their exploration of alternative cost reduction strategies, with 22% reporting that their business is considering staff reductions and hiring freezes. This statistic highlights the ongoing value of skilled workers.

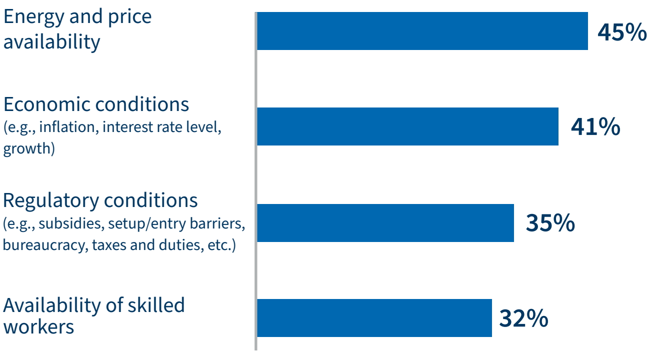
In an environment where skilled personnel are in high demand, the survey results stress the importance of talent acquisition and development to both maintain and improve business operations and supply chain models.

3. Rethinking Supply Chain Network Strategies

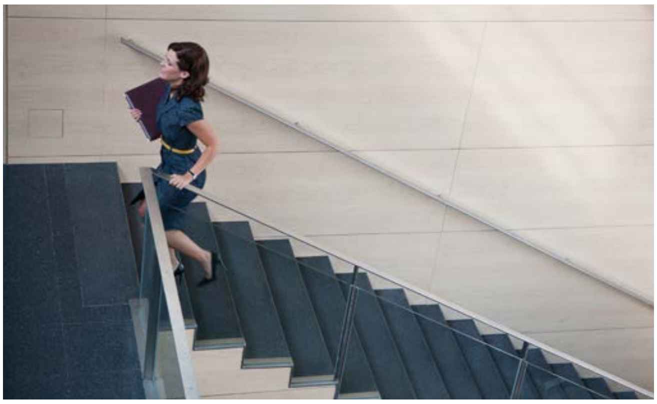
89% of respondents consider European supply chain networks attractive, but 39% of respondents think that conditions for industrial locations are deteriorating

Only **28%** of companies would consider relocating their production capabilities, and Europe ranks as the top region for relocation or expanded production

Which location factors do you currently consider particularly problematic?



In response to supply chain vulnerabilities exposed in recent years, 87% of companies have recognised the need to adapt their supply chains for increased resilience and adaptability, with 15% of respondents considering a complete redefinition of their supply chain structures and strategies.



When asked about their current strategic priorities, more than half of the respondents reported that their organisations are focused on building strategic partnerships and forging long-term agreements while developing domestic supplier networks both locally and within the EU more widely. German companies emerged as particularly active, with 80% of respondent companies currently developing strategic partnerships and establishing new suppliers in various European regions.

> *"87% of companies have recognised the need to adapt their supply chains for increased resilience and adaptability."*

Although 39% of respondents think business conditions have deteriorated over the past two years, the vast majority still regard Europe as an attractive market and industrial location.

The *Supply Chain Barometer 2023* also revealed a significant trend reversal in outsourcing and insourcing strategies, with the consumer goods sector showing a more pronounced shift. Notably, 41% of respondents in this sector are currently focused on insourcing relevant production processes.

These trends highlight companies' efforts to strengthen their supply chains by maintaining internal control over key processes and nearshoring key suppliers. Of the companies surveyed, 62% still consider China an attractive production and sourcing location, but 68% are leaning toward maintaining or reducing their business relationships with the Asian giant rather than expanding them.

By prioritising regionalisation over the previous model of outsourcing to distant offshore suppliers, businesses aim to create more robust and sustainable supply chains capable of meeting the evolving demands of today's clients.

This strategic shift seems to be not merely a response to more immediate challenges but rather a long-term transformation in the way European companies view their supply chains. It reflects a commitment to resilience, sustainability, and adaptability in the face of an increasingly complex and uncertain global business environment.

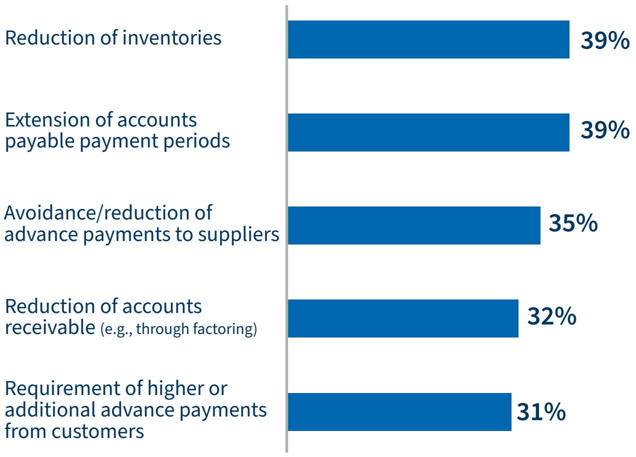
4. Working Capital Management

90% of respondents consider working capital management important or very important

Inventory reduction and accounts payable extensions are the two top measures being implemented, with both being stated by circa **40%** of companies

The **food industry** is less concerned about working capital challenges, with only **27%** of companies considering inventory reduction and **25%** increasing accounts payable payment timelines

What measures are being implemented to improve working capital management?



In the wake of recent significant rate hikes and current economic challenges, effective management of working capital is emerging as a vital practice to sustain operational efficiency and financial stability — 90% of the surveyed companies rated working capital management as important or very important. To enhance cash flow and free up liquidity, organisations are focusing on optimising their current assets and liabilities to support ongoing operations.

"Firms commence this process with inventory optimisation, which aims to maintain an optimal inventory balance."

Notably, 39% of those surveyed have commenced this process with **inventory optimisation**, which aims to maintain an optimal inventory balance and avoid overstocking or understocking. Achieving equilibrium requires the development of two crucial elements — collaborative relationships with suppliers and accurate demand forecasting.

Inventory optimisation varies in significance by sector and location, with 45% of companies in the automotive sector across all countries surveyed and 70% of German automotive firms in particular adopting this approach. In contrast, only 34% of consumer goods organisations and 27% of food retailers reported implementing similar initiatives.

Companies are also taking action to **balance accounts payable**. Notably, 39% of respondents — predominantly in the automotive and manufacturing sectors — are working to develop more favourable payment terms. This increased focus on accounts payable is more prevalent in Germany (42%) and Spain (41%) than in Italy (22%).

By contrast, 32% of companies are developing efforts to shorten **accounts receivable**. This approach is particularly prominent in the consumer goods industry, where factoring is commonly implemented, especially among Spanish (52%) and Italian (55%) firms.

5. The Growing Imperative to Invest in ESG and Digitisation

Environmental, social, and corporate governance (ESG) considerations

Only **8%** of respondents are not actively investing in ESG

For **19%** of respondents, decarbonisation is a legal requirement

42% of respondents consider ESG a competitive advantage and are actively pursuing initiatives in this field

A further **31%** are making investments to track and reduce carbon emissions

Companies increasingly recognise the importance of ESG considerations in shaping their operations, especially with regard to decarbonisation. Only 8% of respondents reported that ESG has limited relevance within their company or that their company is not actively investing in this domain. Conversely, reflecting the evolving regulatory landscape, 19% of companies stated that decarbonisation is a legal requirement in their industry or region, while 42% view decarbonisation as a strategic competitive advantage and are actively pursuing initiatives in this field.

One prevailing trend among surveyed companies is the alignment of decarbonisation activities with efforts aimed at enhancing energy efficiency and reducing costs, showcasing how ESG initiatives can be executed in synergy with, and to have a meaningful impact on, operating margins. This relationship is particularly pronounced among Spanish (52%) and Italian (53%) companies, emphasising the tangible benefits of integrating ESG practices into core business strategies.

Digitisation considerations

58% of Spanish companies in the consumer goods sector demonstrated a high level of digitisation

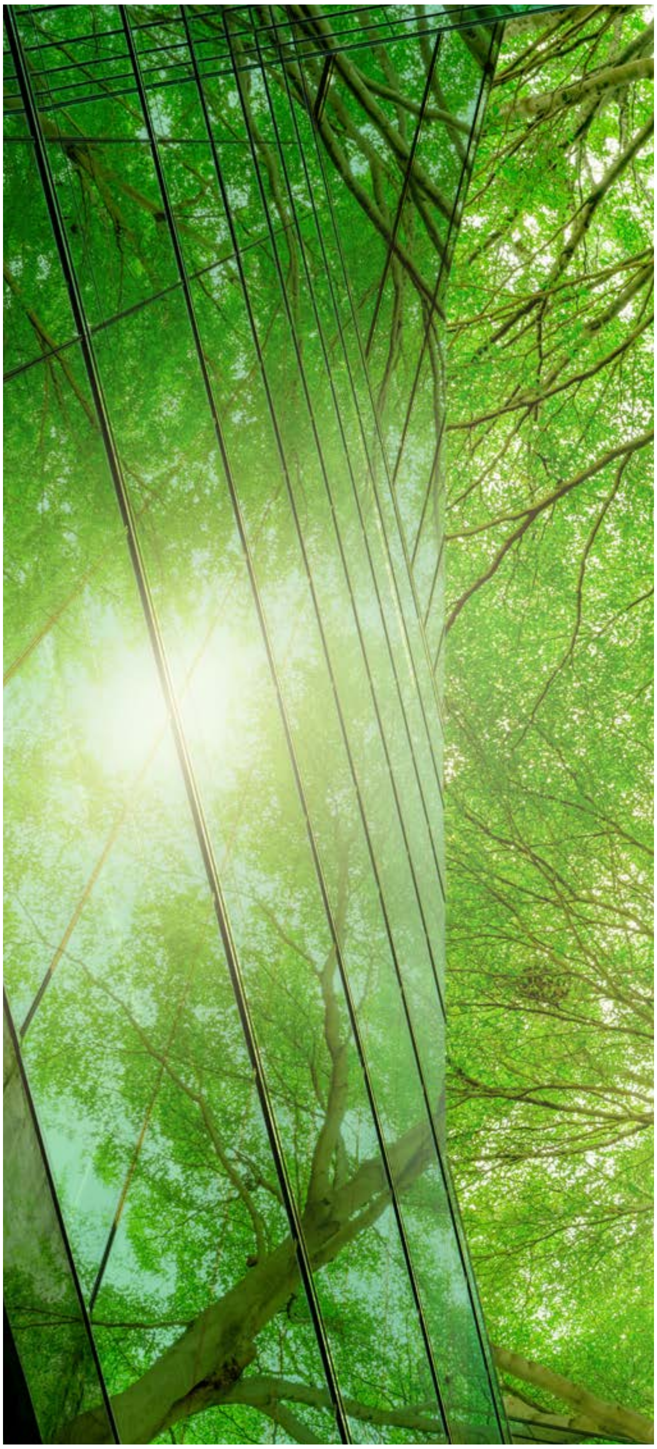
52% of surveyed companies reported that they continue to rely on several legacy systems and isolated manual processes

Regarding digitisation, 52% of surveyed companies reported that they continue to rely on several legacy systems and isolated manual processes. The variations among countries are more notable in the consumer goods sector, with nearly 60% of Spanish companies in the industry claiming a high level of digitisation, compared with only 20% of their Italian counterparts.

In summary, the survey underscores the fact that ESG is a growing imperative in the contemporary business environment and that digital transformation is being used across Europe to support operational efficiency. However, the degree of digitisation varies by sector and location, and businesses must develop a comprehensive operational transformation strategy in order to realise the full potential of their digital transformation efforts.

How relevant is ESG for your company, and to what extent is your company working to reduce its carbon footprint?

	Automotive	Consumer Goods	Food	Manufacturing
Very relevant — it is a legal requirement in our industry	26%	14%	19%	19%
Very relevant — we consider it a strategic or commercial advantage	45%	41%	38%	49%
Fairly relevant — we are actively investing in carbon emissions tracking and reduction	23%	39%	27%	28%
Fairly irrelevant — we are not investing in this area and have no specific budget dedicated to it	6%	5%	16%	2%
Completely irrelevant — not part of our focus for the next 2-3 years	0%	3%	0%	2%



Conclusion

The insights gleaned from *FTI Consulting's Supply Chain Barometer 2023* demonstrate that business leaders are making concerted efforts to minimise supply chain challenges. However, in many cases, achieving success in this rapidly evolving landscape requires an end-to-end supply chain transformation with a well-defined strategy and effective execution that can address prevalent challenges, including inflationary pressures, supply shortages, geopolitical complexities, and highly competitive regional markets.

Businesses must take proactive measures to ensure ongoing success. The following recommendations offer essential guidelines for addressing supply chain challenges and capitalising on the opportunities that lie ahead.

1. **Manage costs:** With inflation and supply shortages looming large, a strong emphasis on cost management is crucial. Companies should review their cost structures, optimise processes, and explore innovative solutions to mitigate rising expenses.
2. **Enhance resilience:** Lessons learned from past crises highlight the importance of building resilience into the supply chain through lean processes and internal know-how retention. Business leaders should continue to invest in risk anticipation, diversification, and contingency planning in order to effectively navigate future disruptions.
3. **Develop a regional focus:** Firms should optimise their supplier base by maintaining existing global supplier relationships while developing long-term relationships with regional players and expanding their local network to increase resilience.
4. **Working capital is very relevant:** In today's business landscape, working capital is of paramount importance, driving companies to closely examine their supply chain operational levers in order to enhance cash flow and liquidity. Effective management of inventories, accounts payables, and receivables are key for optimal utilisation of company financial resources.
5. **Leverage ESG, the "new" digitisation:** Digitising processes is no longer a differentiating approach but rather a standard practice for enhancing operational efficiency in today's business landscape. To gain a competitive edge, companies are now redirecting their efforts towards ESG initiatives tapping into both decarbonisation and energy efficiency savings.

About the Survey

During the spring and summer of 2023, FTI Consulting conducted a market research survey with support from external agencies. The survey received more than 450 responses from leaders with responsibility for supply chain management, including functional directors, general managers, CEOs, COOs, and other C-level executives.

The survey focused on four sectors: the automotive industry (17% of respondents), manufacturing (33%), consumer goods (33%), and food retail (17%).

The companies surveyed reported annual revenues of more than €100 million in 2022: 52% had annual revenues between €100 million and €500 million; 36% had annual revenues between €501 million and €1 billion; and the remaining 12% had annual revenues of more than €1 billion.

The research primarily focused on Germany, Italy, and Spain, with 150 survey respondents in each nation. The report features insights from leaders within FTI Consulting's Business Transformation teams in United Kingdom, Netherlands, Italy, Spain, and Germany.

Spain

ENRIQUE BARANDA
enrique.baranda@fticonsulting.com

EDUARDO DIAZ
eduardo.diaz@fticonsulting.com

DAVID VILLAR
david.villar@fticonsulting.com

Germany

PHILIPP OEMLER
philipp.oemler@fticonsulting.com

FLORIAN WARRING
florian.warring@fticonsulting.com

Italy

FRANCESCO LEONE
francesco.leone@fticonsulting.com

CLAUDIA LOTTI
claudia.lotti@fticonsulting.com

Our EMEA Business Transformation Contacts

UK

MICHAEL WEYRICH
michael.weyrich@fticonsulting.com

PAUL BROWN
paul.brown@fticonsulting.com

DAVE PHILIPS
dave.philips@fticonsulting.com

Benelux

JASPER SCRIJVER
jasper.scrijver@fticonsulting.com

JEAN-MICHEL MOLLO
jean-michel.mollo@fticonsulting.com

Middle East

RAMI SEMAAN
rami.semaan@fticonsulting.com

South Africa

CHRISTO ROUX
christo.roux@fticonsulting.com