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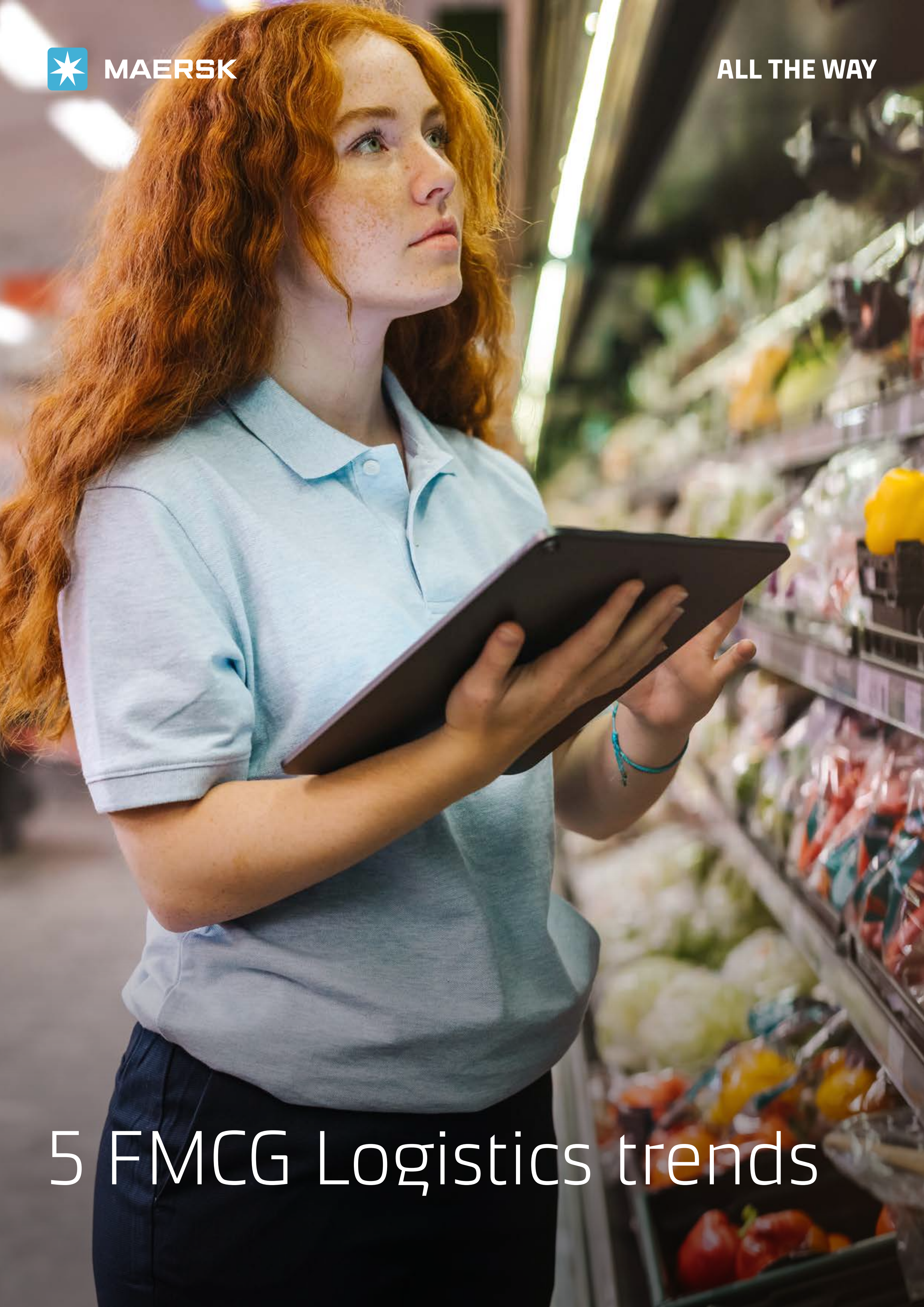
ALL THE WAY



5 FMCG Logistics trends

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“It’s tough to make predictions, especially about the future.”

That’s the infamous paradox attributed to American baseball Hall of Famer, Yogi Berra, who was paraphrasing Nobel Prize-winning Danish physicist, Niels Bohr. It’s true. Predicting the future of fast-moving consumer goods (FMCG) logistics is challenging at the best of times; even more so given the instability of the supply chain world over the past months.

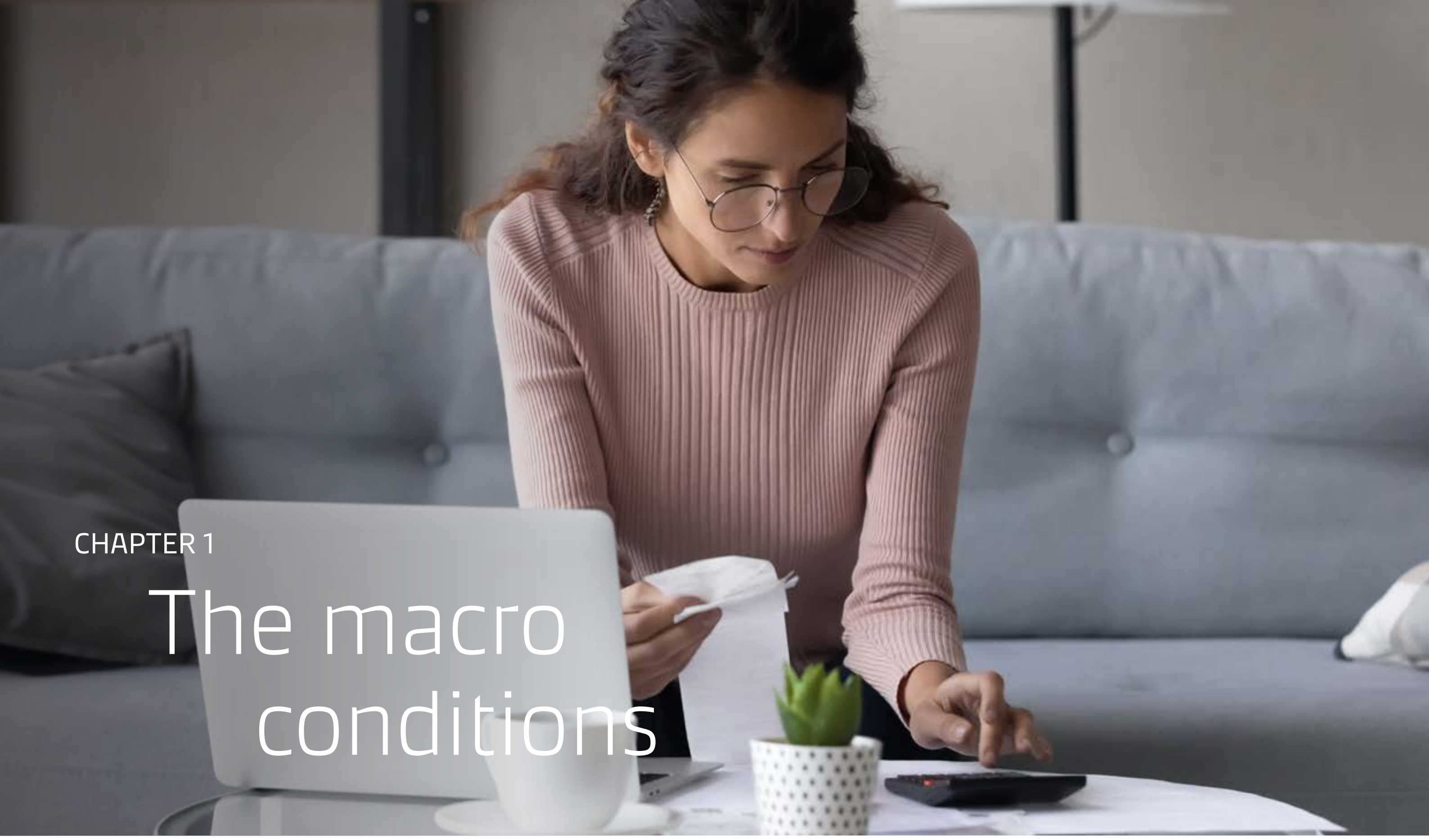
But just because it’s tough doesn’t mean it’s impossible. And in a time when unforeseen events are happening more frequently, supply networks are fragmented and more susceptible to disruption.

Alongside industry research and analysis, we’ve spoken with a panel of Maersk’s leading FMCG experts who’ve provided first-hand insights from the coalface.

In no particular order, they are:

1. There’ll be fewer SKUs in 2023
2. There’ll be more nearshoring and rightshoring
3. The demand for a holistic, connected analysis of supply chain activities will increase
4. The war for talent will heat up
5. More FMCG companies will develop an end-to-end sustainability focus

In this guide, we’ll explore each trend in detail, drilling down to unearth exactly how supply chains could be impacted. For context, we’ll start by looking at the macro conditions painting a complex and uncertain picture of today’s market landscape – rising inflation, recession biting, sustainable initiatives scrutiny and global supply chain volatility. Then we’ll move on to explore our trends one by one, offering practical advice to help you get ahead of the curve and turn challenges into opportunities.



CHAPTER 1

The macro conditions

Before diving into our five FMCG key trends, it's important to understand the big picture challenges facing the industry. The FMCG market is now being impacted by the four factors listed below.

Recession biting

Directly linked to rising inflation is recession. Increased prices mean real wages are falling, consumers have less spending power and demand for goods is shrinking. As a result, The Grocer has claimed that, from Q3 2022 onwards, analysts have "witnessed the most significant step-change in FMCG spending since the economic crisis in 2009."[1]

In the UK, for instance, the consumer confidence index shows that confidence is at its lowest sustained level in almost 50 years.[2] And this is just a microcosm of the global economy. For example, the fall of global container demand by 2-4%, according to Maersk's estimates, is symptomatic of reduced consumer spending power, with the decline set to continue throughout 2023.[3]

> *"Recession is looming… Every indicator we are looking at is flashing dark red. Clearly, we expect a slowdown."[4]*
>
> **Soren Skou, Logistics and Global Trade Leader/ Former CEO A.P. Moller – Maersk**

This will, no doubt, impact how many FMCG businesses operate. If consumers stop spending, inventory build-ups are likely – and more cash tied up in stock is bad for the balance sheet. However, the real-world situation is more nuanced. Consumers aren't going to stop shopping; they're just going to adjust their shopping habits. FMCG companies will need to be smarter in how they prepare and adapt to these changes in buying behaviour.

Rising inflation

With global inflation forecast at 6.4% in 2023, supply chain leaders are rightly concerned about finances.[5] Prices are soaring and, moving forwards, FMCG businesses will not only be challenged by higher raw material costs, they'll also be challenged by higher labour and energy costs.

It's likely, therefore, that an industry built on tight margins will experience further squeezing. Which will of course have a profound impact on many businesses, leading to store closures or aggressive pricing strategies, for example.

However, any threat is also an opportunity, if viewed through the right lens. And in this regard, the tightening of margins will force FMCG companies to focus on making their supply chains more efficient. While it may be an unforgiving battleground, those who can make the necessary adjustments will reap the rewards of a more streamlined process.

Sustainable initiatives under the microscope

Another macro shadow that's hanging over FMCG businesses is sustainability. Today, greenwashing or 'green hushing' (the practice whereby companies keep quiet about their climate targets and strategies to avoid investigation), will no longer pass scrutiny.

That's because ethical consumers are taking a closer look at sustainability initiatives, and they're not liking what they're seeing. For instance, data from Harvard Business Review shows that companies perceived to be greenwashing suffer, on average, a 1.34% drop in their Customer Satisfaction Index score.[6] Another factor that's moving the needle is a shift in investor activity. Increasingly, according to KPMG, "Global banking institutions, private equity and venture capitalists want to see that their portfolio is aligned to sustainable organisations".[7]

Reducing Scope 1 and 2, and in particular, Scope 3 emissions is naturally the main area of focus, with fresh regulations and taxation being applied to businesses. For example, The U.S. Securities and Exchange Commission's proposed mandatory climate-risk disclosure rule will require all filers to disclose Scope 1 and Scope 2 emissions that occur onsite and are controlled by the company, if approved.[8] It's impossible to be a sustainable company without a sustainable supply chain and therefore the targeting of Scope 3 should serve to accelerate sustainability progress. Those that stand still will fall behind.

Global supply chain volatility

Finally, global supply chain volatility is now something that many FMCG businesses have come to expect. After the biggest restrictions on human lives in 100 years, the most shocking conflict in mainland Europe since the Second World War and black swan incidents like the six-day blockage of the Suez Canal, unpredictability is the new normal.

Whether driven by political, economic or environmental forces, black swan events and subsequent disruption are increasing by both frequency and impact. To say that's bad for business is an understatement.

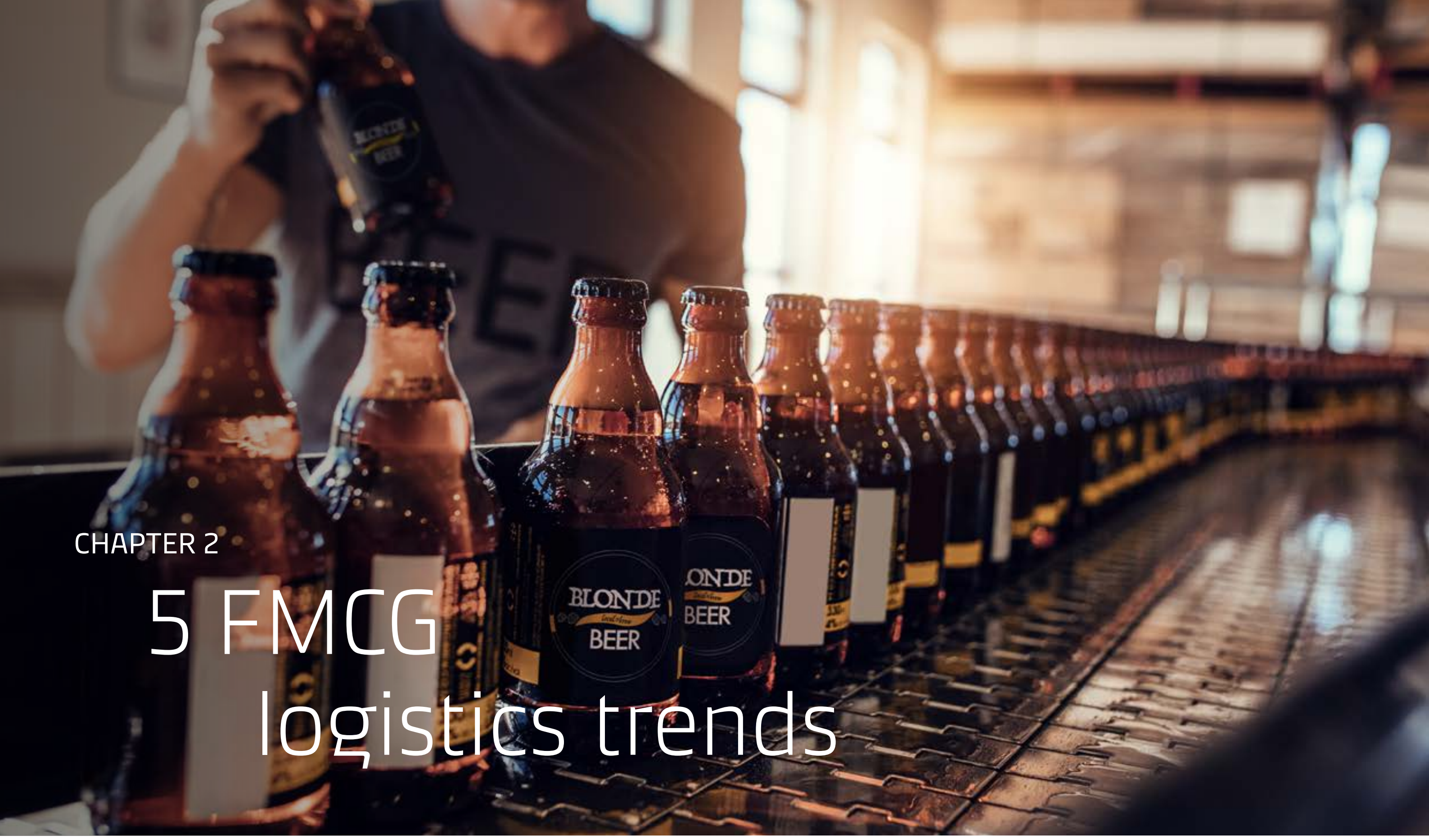
FMCG companies, therefore, are under huge pressure to gain more control over their supply chains from point of origin to final destination, and to have alternative logistics solutions in place in case of an emergency. Those that deliver on both fronts will put themselves in pole position to meet customer needs. Those that don't will lose more than just market share.

3 Reasons for global supply chain volatility

1. Geopolitical tensions have seen nations turn inwards and given rise to protectionism regulations, with 32% of executives citing geopolitical conflict as a top threat to growth.[9]

2. Material access is in turmoil, with 71% of global companies highlighting raw material costs as their number one supply chain threat for 2023.[10]

3. Many businesses don't have a contingency for extreme weather challenges, with just 11% of suppliers fully prepared for weather-related disruption.[11]



CHAPTER 2

5 FMCG logistics trends

Considering the overall conditions, it is evident that the current market presents a challenge for many FMCG companies. To rise to the challenge, companies must prepare for the worst and hope for the best.

At Maersk, we believe that this forecast can set you up for success, providing you with deep market expertise and practical insights to inform your logistics strategy for the year ahead. So, without further ado, let's get started.

1. Fewer SKUs

With consumers having reduced spending power, many will look to change their buying habits and get more value from their purchases. Take toothpaste as an example. Consumers need to use the product daily, so even with less disposable income, they're unlikely to buy less toothpaste during a recession. But they might buy cheaper brands instead. Brand loyalty vanishes.

So FMCG companies will have to respond by playing a smarter game. For example, it might be wise to invest in SKUs that 'defend the shelf' given the change in consumer buying behaviour. That might mean fewer choices for the consumer, but it can help weather the storm. The salient point for the FMCG companies, however, is that they make their supply chains flexible enough to adjust in real time to capture changes in demand.

2. There will be more nearshoring and rightshoring

With the pressure on to improve sustainability and avoid disruption, the shortening of supply chains can increase agility and cost-effectiveness while reducing emissions. It's also aligned with the move from 'just-in-time' to 'just-in-case' and is perhaps emblematic of a greater paradigm shift in the tackling of today's logistics challenges

3 Benefits of nearshoring

1. More agility with shorter supply chains
2. Mitigate risk with a diversified supplier base
3. Improve cost-effectiveness with lower fuel costs

However, the smartest FMCG companies will not only focus on nearshoring, they'll also focus on rightshoring. To maximise resilience, for instance, they might source stable lines of products from distant, low-cost suppliers in Asia-Pacific, while also sourcing closer to market during peak seasons, even at higher costs. In so doing, they can strike the balance between strategy and tactics, costs and efficiencies, to ensure continuity of supply.

3. The demand for a holistic, connected analysis of supply chain activities will increase

Against the backdrop of the economic downturn, few companies will want their cash tied up in inventory. But to meet customer demand, they need products on shelves. That means there's going to be a big focus on the flow of goods, rather than inventory. And that isn't realistically achievable without digitalisation.

That's because, end-to-end visibility is the crucial enabler in helping FMCG companies to identify problems to maintain the flow and movement of goods through the supply chain. It can help them predict customer behaviour, invest in the product lines that matter most and adapt their logistics solutions to the unexpected.

> *"The key for every supply chain leader is scenario planning. You need to model scenarios based on different inflation rates and use them to determine which products are going to sell the most when inflation is really high. Then you need to make your supply chain capable of making those jumps."*
>
> **Juan Manuel Cajiao Arce, Global Head of Market Activation for Lead Logistics, Maersk.**

A huge, and growing, part of this is through facilitating omnichannel eCommerce, with many FMCG companies aiming to make up to 35-40% of total sales, according to Maersk's experts. The trouble is consumers have increasingly higher expectations when it comes to online shopping. In fact, a recent Statista survey shows that 41% of online shoppers worldwide hope to receive their orders within 24 hours.[12]

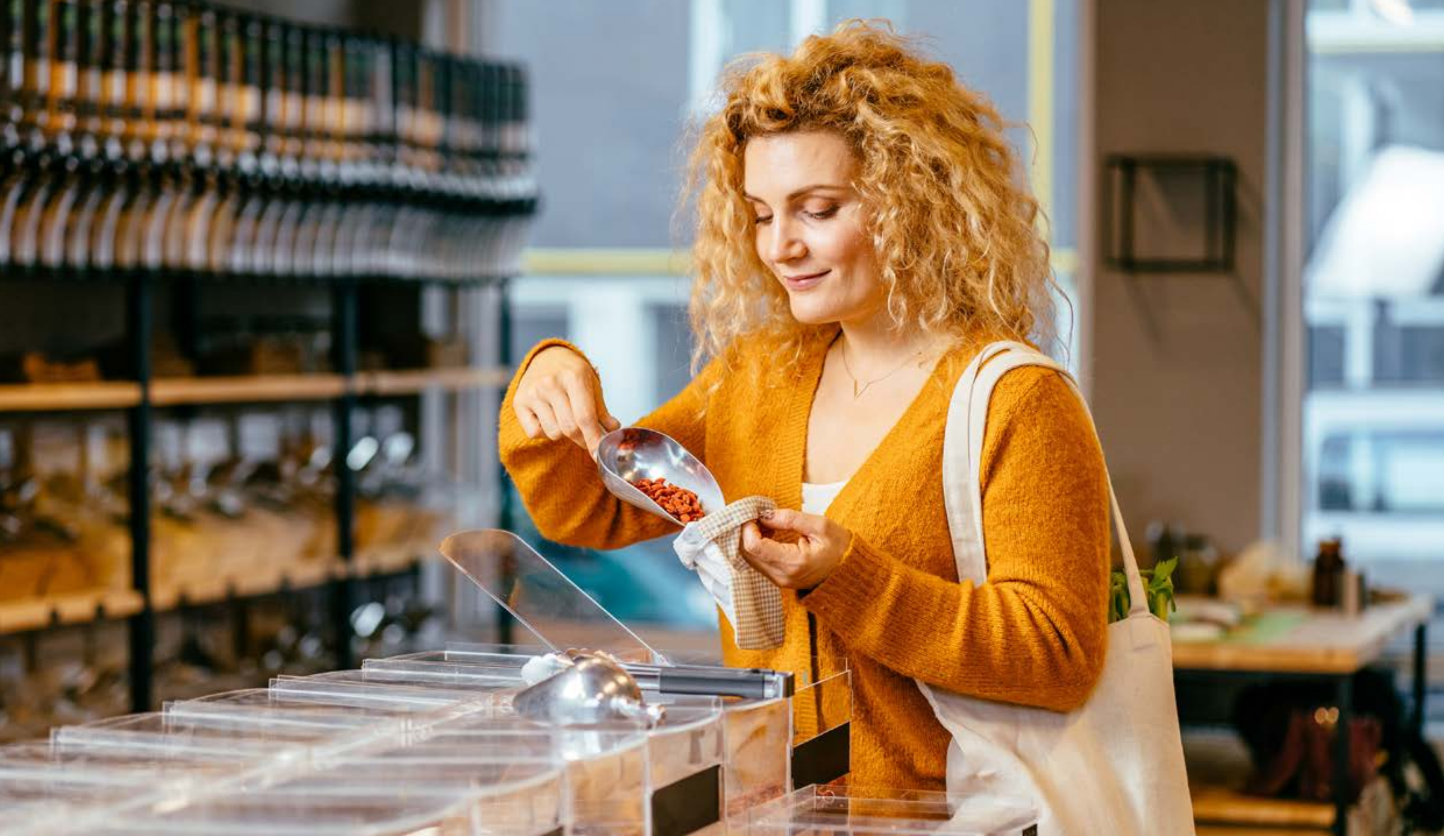
The winners of 2023, those who can satisfy this demand, will be those who make coordinated decisions about their supply chain, based on data and a holistic, connected view of operations. And it all starts with integrating their logistics systems.

4. The war for talent will heat up

According to Raconteur, the lack of supply chain talent "can be felt throughout the supply chain and it's one of the biggest risks for 2023."[13] From trucking to warehousing to aviation, labour shortages are leaving gaping holes to be filled.

At its core, logistics jobs need to be better paid and more attractive propositions, especially for young people. So companies that target this employee experience by focusing on diversity, equity and inclusion (DEI) initiatives, for example, or creating better terms and conditions for truckers waiting at ports, will attract more talent. And this is crucial because there simply aren't enough people to do the work.

It's incredibly difficult to predict how inflation and recession will impact the job market. That said, it's clear that a significant part of the solution lies in automation and robotics. The faster these efficiency-driven technologies can be applied to ports, gateways and warehouses, the more companies can lighten the load on already stretched workforces, to increase job satisfaction.



5. More FMCG companies will develop an end-to-end sustainability focus

The direction of travel for Scope 3 emissions reporting means that businesses will need to develop a more sophisticated, end-to-end, sustainability focus. Critical to this is horizontal and vertical collaboration. By partnering with suppliers, customers, peers, government and the industry at large, FMCG companies give themselves a better chance of creating the change that's required, at the pace that's required, delivering mutually beneficial outcomes for all actors in the supply chain.

"One of the things we learnt during the pandemic was the importance of collaborating in the supply chain with different partners, and how that can build resilience, accelerate innovation, cut costs, avoid inventory shortages, and create opportunities to decarbonise the supply chain. Now the emphasis is about maintaining that momentum."

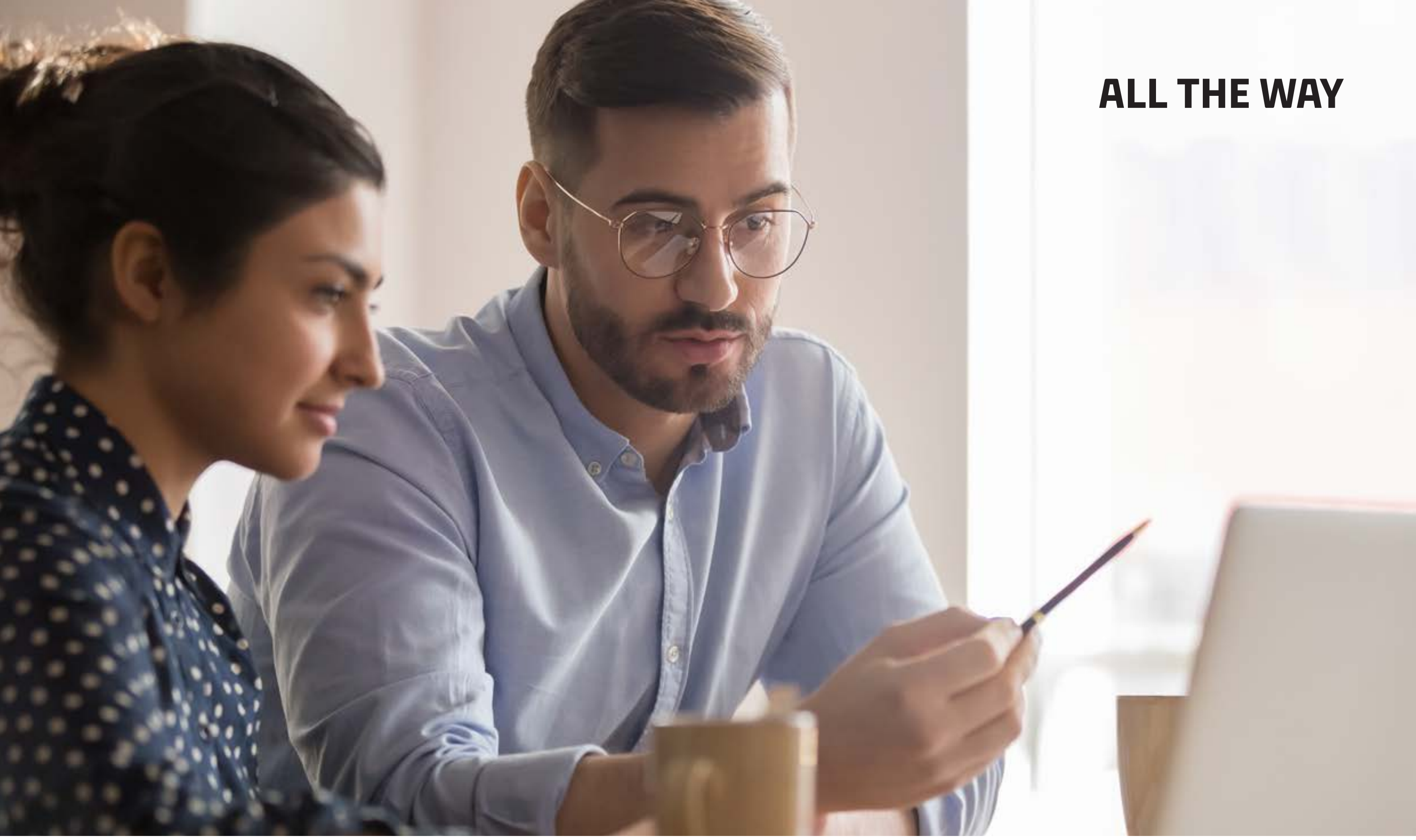
Mattias Praetorius, Global Head of FMCG, Maersk

So, what could this look like? Well, with the right data and integrated supply chain, FMCG companies can identify the opportunity for a distribution centre bypass to speed up timelines and reduce costs. Or they could spot the opportunity to source products closer to market as part of a nearshoring strategy. Or they could get a better understanding of the advantages of using biofuels for air freight. All of which can be leveraged to reduce Scope 3 emissions.

There's clearly a whole raft of opportunities to make FMCG supply chains more sustainable. The challenge is getting the visibility to identify, and the assets to open up, these opportunities. Those that can get this right will add value to their organisations and give themselves a robust sustainability foundation to build on.

Asset-strong vs. asset-weak

To unlock the full potential of sustainable solutions, FMCG companies require access to a range of assets, from warehouses to vessels to aircraft to trucks. Can your business access these assets, or do you need the support of an asset-strong logistics service provider like Maersk?



CONCLUSION

The whole is greater than the sum of its parts

With FMCG supply chains, there are many moving parts that are indelibly linked together. When one lever is pulled, many others move too. Add to that a turbulent mix of macro conditions, which are upping the stakes and leaving little room for error, and it's becoming increasingly difficult to make the right logistics decisions.

Our five FMCG logistics trends show that, while 2023 will be a challenging year for the industry, there are still plenty of opportunities for savvy companies to sharpen their competitive edge, provided they adopt a suitable supply chain strategy.

To make this possible, FMCG companies are advised to unify and integrate their supply chains, giving them the visibility to see the chain as a whole and make coordinated strategic decisions. Every choice will naturally have trade-offs that need to be weighed up, and supply chain leaders need to be in a position to make those big calls with confidence.

But crucially, this can't be achieved alone. To overcome adversity, build resilience and emerge from 2023 stronger, FMCG companies and stakeholders will need to build partnerships across the supply chain. The year is 2023. It's time for more collaboration.

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