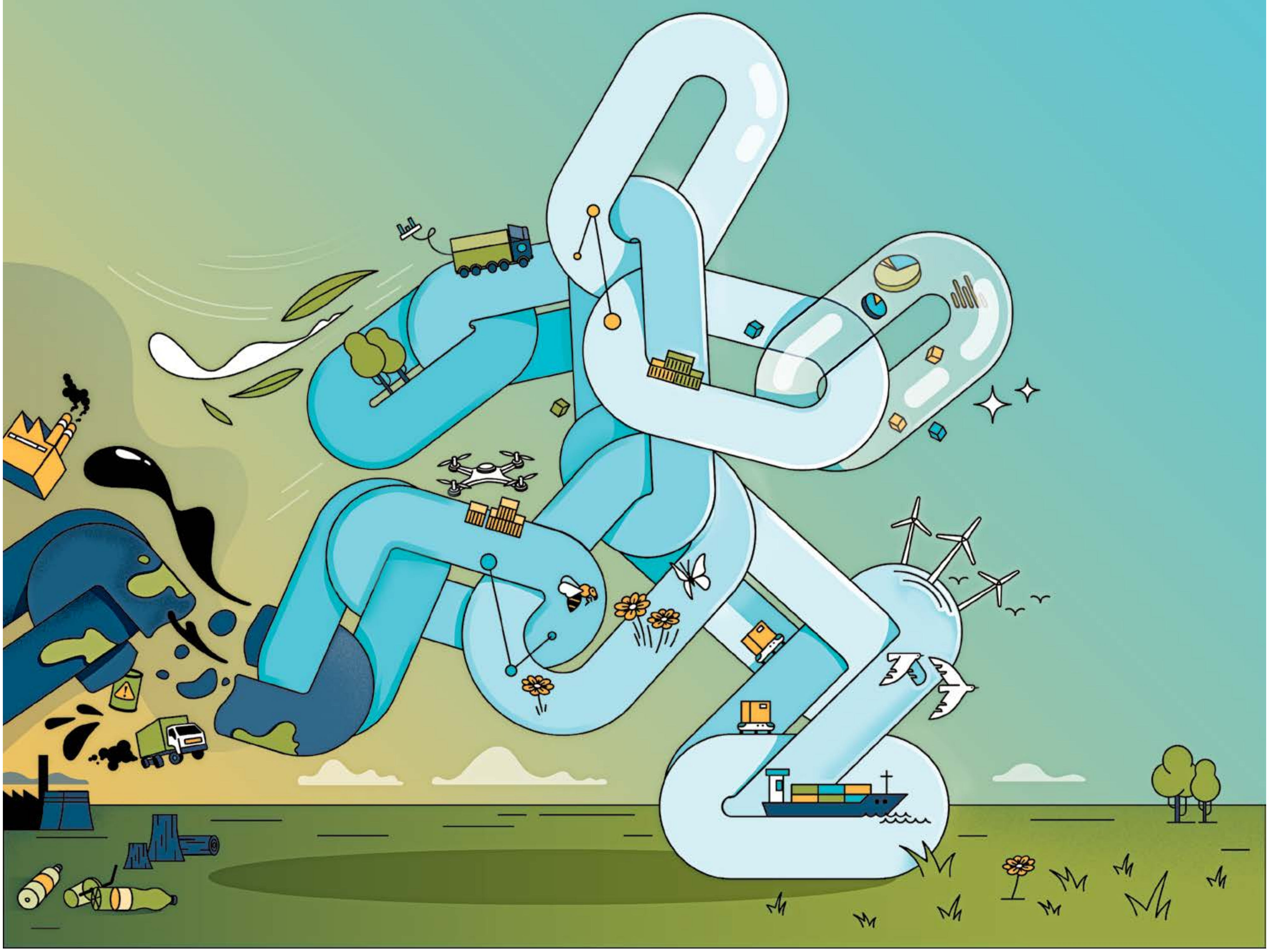
FUTURE OF SUPPLY CHAIN



FUTURE OF SUPPLY CHAIN

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Contributors

Oliver Balch
A journalist with two decades' experience of writing about all aspects of the sustainability agenda.

Rohan Banerjee
A senior staff writer at Raconteur, who primarily covers business strategy, leadership and finance.

Charles Orton-Jones
An award-winning journalist who specialises in writing about fintech and high-growth startups.

Sally Whittle
An experienced business and technology journalist who writes for national newspapers and B2B magazines.

Raconteur

Reports editor
Ian Deering

Deputy reports editor
James Sutton

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Harry Lewis-Irlam
Colm McDermott

Illustration
Sara Gelfgren
Samuele Motta

Design director
Tim Whitlock

COUNTERFEITING

The phoney war: how to keep a supply chain free from fraud

The tough economic climate is helping criminals to flourish, but there are key measures that businesses can – and should – take to safeguard themselves and their customers

Sally Whittle

When the US suffered a serious shortage of baby formula last year, fraudsters treated it as a lucrative business opportunity. In one case, a gang in Florida used a fake company to buy thousands of cartons of formula from several manufacturers, securing big discounts on the basis that these would be sent to Suriname to fulfil a government contract. It then created fake export records and sold the product in the US instead, at grossly inflated prices.

The fraud is estimated to have cheated the affected manufacturers out of at least $100m (£82m). Although three gang members were caught and jailed, supply chain fraudsters are becoming increasingly successful on both sides of the Atlantic. A British company, for instance, seems to be behind an ongoing scandal in the aerospace industry, where the use of bogus documentation has enabled an influx of counterfeit engine parts.

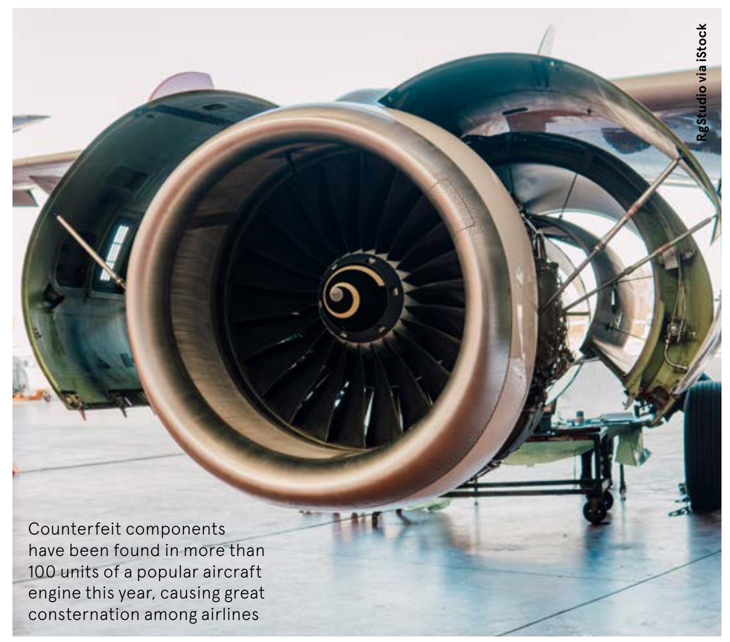
Research by the Accuracy consultancy this August revealed that the number of reported procurement fraud cases in the UK had increased by 13% year on year.

"Supply chain fraud has been around for a long time, but it is quite rampant and it's moving into new industries," says Atanu Chaudhuri, professor in technology and operations management at Durham University Business School.

What factors could be fuelling this trend? Lots of companies rely on complex and often fragile supply chains, while facing near-constant pressure to reduce their expenditure on procurement as the cost-of-doing-business crisis grinds on. Supply chains, many of which have not recovered fully from the disruption caused by Covid, are increasingly managed by remote workers. This can make it harder for firms to ensure that the crucial processes of due diligence concerning supplier selection and bidding are being completed properly.

Supply chain fraud has long been a problem in industries such as pharma and food, where counterfeiters can easily profit from adulterating high-value products with cheap ingredients, for instance. But fraudsters are increasingly targeting component manufacturers and other industrial manufacturers, according to Chaudhuri.

"It can be very difficult to address that sort of fraud, because most buyers in these sectors don't have much of a view of third- and fourth-tier suppliers," he notes.



RgStudio via iStock

Counterfeit components have been found in more than 100 units of a popular aircraft engine this year, causing great consternation among airlines

When it comes to countering supply chain fraud, the best place for most firms to start is to minimise their exposure, Chaudhuri advises. This means consistently applying best-practice due diligence in procurement. Once a supplier is secured, for instance, its performance should be monitored over the lifetime of the contract, which means engaging with it regularly and asking probing questions.

A company should also map out its supply chain to identify particularly vulnerable links and how such risks can be mitigated.

"Mapping is easier said than done, but you need to know all the things that go into your product," says Chaudhuri, who adds that you must ascertain the answers to questions such as: "What are the raw materials and where do they go next? Who processes what – and where? Most large companies still can't answer those sorts of questions."

This sort of mapping and risk analysis has been a source of comfort to Jason Lowry in his work as director of procurement at Yodel. He reports that it has enabled the logistics giant to "have a comprehensive awareness of the risks and put robust measures in place so that it doesn't fall foul of fraudsters".

That means enforcing company-wide procurement policies to a meticulously high standard and conducting regular audits of the supply chain.

"We have also deployed a risk register that scores the entire supply chain against the ISO 31000 risk management framework," Lowry says. "And we are rolling out an e-procurement platform that will monitor and evaluate our supply chain, providing a single view of it and giving us greater control."

He believes that firms could, in due course, be using technologies such as generative AI and blockchain to monitor buying behaviour and identify anomalies that might indicate fraudulent activity.

But, while such tech could potentially help to stop the fraudsters in their tracks, Chaudhuri points out that it's early days yet.

"It's a long way from being something you buy off the shelf," he says. "In the meantime, it's important to keep making old-school random visits to suppliers, maintaining face-to-face contact with them."

Companies that can't easily map their whole supply chains should stay alert for telltale signs that something might be amiss, advises Akash Bedi, chief strategy and operations manager at H&H Global, a health and nutrition company.

"If a supplier came to us saying that it could lower its price, for instance, we wouldn't just jump on that," he stresses. "Any proposed change to a product specification or a supplier would first have to go through change control, a process involving our operations and commercial teams as well as the procurement department."

While it's tempting to seize any opportunity to reduce your costs, putting suppliers under pressure to lower their prices can be counterproductive, Bedi adds. If you're constantly doing that, "your suppliers will either go out of business or start cutting corners".

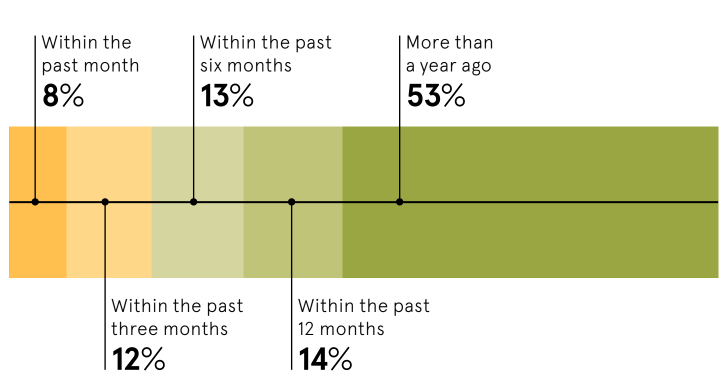
He reports that the most common type of fraud he has observed in H&H Global's sector is the sale of products in markets they weren't made for. For this reason, the firm is investing in technology designed to improve the visibility of second- and third-tier suppliers globally.

"The supply chain for 80% of our raw materials is fully visible to us. In the case of baby nutrition, that figure is 100%," Bedi says. "Any time a new ingredient comes in, we will go through a full validation process that covers the supplier, the specification and the certificate of authenticity."

That level of transparency and due diligence should go a long way towards keeping fraudsters out of any supply chain. It's the kind of formula that might have saved certain US baby-food producers a lot of costly trouble. ●

FAKE GOODS CAN BE HARD TO AVOID

Share of UK consumers, by date of purchase, who report having unintentionally bought a counterfeit product



Intellectual Property Office, 2023

EDITOR'S NOTE

'Now is the time to recommit to supply chain ESG'

Research suggests that inflationary pressures are prompting many firms to stop trying to improve standards. That cannot continue

It's been a tough couple of years for businesses of all stripes. The sharp increase in inflation, right off the back of the disruption caused by Covid, has squeezed their margins in a particularly painful way. And need I say more about 2022's disastrous mini-budget? Or the slow puncture that is Brexit, for that matter?

Business leaders could be forgiven for thinking something along the lines of "give us a break, please". Many have, after all, been obliged to shelve their growth strategies and postpone planned investments indefinitely just to keep their firms afloat. (And spare a thought for all those that didn't make it: the number of insolvencies in England and Wales in the 12 months to May was 40% up on the previous year's total, equating to the demise of 2,500-plus companies each month.)

Thankfully, in one regard at least, the lifeline that businesses have been praying for seems to be on its way. The base-rate increases imposed by central banks around the world appear to be working at last and inflation is easing back to more manageable levels. In the UK, for instance, the consumer prices index stands at 6.7%, down from a peak of 11.1% in October 2022.

Although we may not be out of the woods just yet, this is an opportune moment to assess some of the damage sustained and what might need to be done to repair it.

A recent survey of procurement chiefs in the UK, the US and the EU by Ivalua revealed that 90% had been dealing with rising costs in their supply chains over the preceding 12 months. The procurement software specialist found that 86% of respondents deemed their firms' rising energy and fuel bills problematic, while 84% cited increases in the prices of their raw materials.

There's nothing too surprising in these figures, given the economic context, but what's really concerning is how businesses have responded to such challenges. For instance, the same poll revealed that 66% of CPOs in the UK had postponed or cancelled sustainability initiatives because of inflationary pressures. A further 65% admitted that rising prices had also "hampered efforts to improve supply chain labour standards". Globally, 57% said that they had favoured "cheaper rather than greener" suppliers to cut costs.

In short, we're seeing some significant backsliding on all the positive ESG work that businesses had been committing to before 2022, from stamping out labour exploitation in the supply chain to reducing scope-three greenhouse gas emissions.

Yes, cost control is crucial during a period of high inflation, but just look at what we're throwing away in the process. By prioritising cost-cutting over every other consideration, companies could be undermining all they've achieved so far in improving sustainability and labour standards. They're also at risk of sending themselves back to square one in this respect once inflation has eased.

And that's not the only risk here. Lest we forget, businesses have regulatory requirements to meet on ESG matters in the supply chain. For one thing, UK companies with annual turnovers exceeding £36m are required by law to publish an annual statement on modern slavery, also known as a "transparency in supply chains" statement. The EU's corporate sustainability reporting directive is similarly stringent.

These regulations don't mandate year-on-year improvements against ESG metrics, but they do require businesses to have a clear understanding of what's occurring in their supply chains. Firms that choose to switch to cheaper suppliers without regard for their performance on ESG matters risk trading away supply chain transparency too. After all, cheap suppliers with unsustainable methods and/or dodgy employment practices will hardly be keen to show off all their inner workings.

So, as inflation eases further and businesses try to restore some sense of normality, they must recommit to upholding ESG standards in their supply chains. This may come at a price, but that's well worth paying if they're to achieve key sustainability goals, comply with the regulations and, ultimately, protect their reputations as good corporate citizens. ●

James Sutton
Deputy reports editor, Raconteur

INTERVIEW

‘Our AI becomes more skilled with every deal’

Is it possible for a chatbot to outperform skilled procurement professionals at agreeing cost-effective contracts with suppliers? **Kaspar Korjus,** co-founder of software firm Pactum AI, explains why he thinks so

Rohan Banerjee

Can an artificial intelligence negotiate better than a human? Well, AI-based systems can process many pieces of information simultaneously; they don’t forget what they’ve learnt; they don’t care how the person they are dealing with looks or sounds; they don’t get emotional; and, where many people might treat negotiation as a zero-sum game, they can be programmed to prioritise a good outcome for both sides.

If all those factors weren’t enough, using an AI negotiator offers another key benefit, especially for large companies with diverse procurement operations. Such firms often have many long-neglected contracts with suppliers that have been set up to renew automatically every year. These agreements usually continue on unchanged terms and are therefore prone to new inflationary pressures. Such oversights could be the result of poor negotiation at the outset, or it could be that the company lacks the resources to devote to optimising the deals in question.

> **The chatbot will learn a lot more than what we’ve taught it – and much faster too**

This is where software company Pactum AI has seen a lucrative opportunity. Founded in Estonia four years ago but now based in Silicon Valley, the firm has developed a chatbot that businesses can use to negotiate with suppliers on their behalf.

Pactum wants to help companies “cut the cost of doing nothing”, quips its co-founder and chief product officer, Kaspar Korjus. “The idea is to optimise cost saving, generate revenue and expedite the negotiation process.”

Operating across sectors including retail, manufacturing, electronics and finance, his company counts Maersk, Wesco International and Walmart among its blue-chip clients. Its chatbot, which operates on a cloud-based interface that it invites suppliers to engage with via email, is designed to conduct contract talks with the long tail of vendors that most large businesses use.

A company’s long-tail spend refers to the portion of its total outlay comprising infrequent yet functional purchases. It encompasses the costs of facilities management, office equipment and other services and tech a firm might use from day to day. A single long-tail contract might not be that expensive, but the total cost soon becomes significant when all such deals are added up.

Walmart has used Pactum’s chatbot to secure a better deal with one of its suppliers of store equipment such as shopping trolleys. The bot has been programmed and developed by a team featuring negotiation experts and psychologists.

Korjus was previously MD of e-Residency, Estonia’s government-backed digital ID system. Pactum has two other co-founders, who serve as CTO and CEO. The technology chief is his brother Kristjan, who was head of data at Starship Technologies, a developer of autonomous delivery robots. The CEO, Martin Rand, was previously the European commercial lead for The Climate Corporation, a provider of digital tech aimed at making agriculture more sustainable and efficient.

Korjus rejects the suggestion that the chatbot is only as capable as its creators: “That’s not right, because our AI learns from each negotiation it takes on. It gets more skilled with every deal, therefore, and it will use those lessons in the future. It will learn a lot more than what we’ve taught it – and much faster too.”

The chatbot prepares for a negotiation by collecting relevant data from the client and public sources, such as historical agreements and market trends. It engages with the supplier, following a “rule-based framework” set out in advance by the client, which has told Pactum’s human negotiation experts what it hopes to gain from the deal.

Once the chatbot knows what concessions the client is willing to make, as well as any red lines, it will ask the supplier a series of questions, prompting it to reveal its preferences, and then try to find a mutually acceptable arrangement. In the ensuing interactions, the bot uses complex psychological techniques, according to Korjus. It can negotiate thousands of deals simultaneously, while clients can monitor progress using an online dashboard.

How much does all of this cost? Pactum charges a six-figure annual sum that will rise to seven figures if the client rolls out the bot globally, according to Korjus. The company also takes a percentage of the sum gained by the client from each new optimised contract.

Walmart has reported that, since becoming a client in 2021, it has optimised its deals with nearly 70% of the suppliers it has approached, achieving average cost savings of 3% on chatbot-negotiated contracts.

It’s easy to see why the technology would appeal to large corporations with hundreds of vendor contracts to manage. But what about their suppliers, many of which are likely to be small firms operating on wafer-thin margins? Aren’t they getting squeezed enough already?

“Our AI aims to identify Pareto-optimal outcomes. These are situations where one party cannot benefit further without negatively affecting the other side,” Korjus says. “The most straightforward path towards achieving them involves acknowledging and prioritising the value of the other party’s interests.”

Since the “best contracts are those with long-term value”, it makes sense for the larger companies to keep their smaller suppliers happy, he argues, adding that there are more ways to do this than paying them more.

83%

of Walmart’s suppliers found its chatbot easy to deal with

68%

of Walmart’s renegotiations resulted in a revised contract

3%

average cost saving for Walmart across the revised contracts

Pactum, 2023

Korjus describes a scenario in which a multinational corporation uses a small plumbing firm at one of its sites. While that firm might accept a lower fee when doing a deal with the bot to serve that location, perhaps it has expansion plans that its big client can help it achieve.

“This is the sort of question the bot will ask,” he explains. “Maybe the plumbing firm will then also service the corporation in other cities. In the long term, the firm gets more business and can start operating in new locations. It also creates an opportunity for building more long-term trust in a partnership between those parties.”

Korjus makes a strong case for this kind of economics by autopilot, but some people won’t like its impersonal nature, however cost-efficient it may be. Many long-standing and mutually lucrative business partnerships have started over a drink, meal or round of golf. Pactum’s tech might be powerful, but it can’t replicate the feeling of looking someone in the eye and shaking their hand.

Indeed, could a long-standing supplier feel slighted that a large client apparently no longer deems it worthy of human attention? How would that sit with Pactum’s objective of ensuring that both parties are happy in the long term?

Korjus says that the feedback from suppliers has been overwhelmingly positive. They prefer negotiating with AI, he suggests, largely because they can do so at their own pace.

Pactum’s innovation may already be disrupting the business of negotiation, but only the biggest companies can wield a tool with such a hefty price tag at present. Until such tech becomes more widely affordable, anyone who might already be worrying about a future in which chatbots are routinely haggling with other chatbots, having cut out the middleman entirely, can rest easy.

Commercial feature

How shared logistics puts firms in control

For the many firms urgently seeking greater cost-efficiency in their supply chains, shared logistics services could be the ideal solution. Here’s the business case for using them

Countless business leaders will have had sleepless nights this year as they fret about problems such as economic volatility, transport disruption and cost inflation, especially in their firms’ supply chains. There may be more insomnia to come as the crucial pre-Christmas retail period approaches, but they could gift themselves some peace of mind in one key area by tapping the potential of shared logistics.

The advantages of sharing

“We know that there’ll be business leaders lying in bed tonight wondering how to fix their supply chains.”

So says Tony Mannix, strategic adviser for retail logistics at GXO, which offers shared logistics services through GXO Direct. He notes that these leaders “may be wedded to the idea of dedicated logistics, with their own branded warehouses and vehicles. But, with increased fuel costs, the need to cut carbon emissions and unpredictable consumer demand making inventory planning harder, they can learn lessons from the shared economy.”

Mannix has seen a growing appetite in sectors ranging from manufacturing to retail for shared logistics services such as warehousing and returns management.

“You can get shared facilities appropriate for your business type rather than a half-filled warehouse of your own,” he says. “You share resources, workforce management and knowledge with complementary businesses, while incurring fewer overheads.”

These facilities can be scaled up or down as demand fluctuates. Extra services, such as personalisation, can be added if necessary.

Companies needn’t be concerned about sacrificing brand identity for collaborative logistics, according to Mannix. “A business competes on its brand, not the supply chain behind it,” he argues. “Some firms worry that using a shared logistics service could cause a loss of identity, but it can combine the best of both worlds – the packaging and labelling are all brand-focused.”

> **We know that there’ll be business leaders lying in bed tonight wondering how to fix their supply chains**

The last mile

Shared logistics services can offer a core transport network, moving goods to clients’ outlets on the high street and beyond, or a connected service with parcel carriers for home delivery.

Click-and-collect services, such as GXO Clicklink, are another way a brand can set itself apart from its rivals in the age of convenience, Mannix notes.

“There are more click-and-collect volumes going into high street stores. While home delivery isn’t dead, customers want more flexibility and convenience as they return to the office. “Click and collect works for retailers too, because it means that people come into their stores more often.”

Mannix adds that GXO’s Clicklink network is strategically located to enable highly efficient distribution to shoppers seeking both fast and eco-friendly deliveries. The service’s capacity to distribute multiple orders to several outlets in a single vehicle load also offers greater cost-efficiency.

Dealing with returns

Faced with the high financial and environmental costs of handling unwanted purchases, many brands are reconsidering their returns procedures. A logistics partner offering returns management can provide smarter options for brands.

Mannix points out that a customer buying numerous variants of one item to try on at home might pick up their order and then wait several weeks to return the unwanted items from that parcel. This can make reselling returned stock difficult, especially if the season for those garments has passed.

To address this problem, he says, GXO Direct “can deliver items to stores instead of sending out parcels. On delivery, every item could be hung up in a changing room ready for the customer to try. Unwanted items can then quickly be made available to other shoppers or returned quickly via the Clicklink network. This is better for the environment and makes it easier for sales teams to interact with customers in store.”

Retailers are exploring other waste-cutting solutions for handling returns. Repair services might not seem an option for brands setting out on their own, but these can be accessed through a shared logistics provider. GXO ServiceTech runs such services for consumer electronics, with engineers embedded at sites.

“We can soon determine if a piece can be made factory-perfect again or it needs to be graded and sold out to secondary channels,” explains Mannix, who adds that such services can help firms achieve crucial efficiency savings as they enter the most important time of the retail year.

“Businesses really need help in November, December and beyond. We can onboard them to meet that Christmas rush,” Mannix says. “The logic of shared facilities is that the systems are already in place. We just need to make them appropriate for the customer.”

For more information, visit GXO.com/GXO-Direct or email sales.logisticsuk@gxo.com

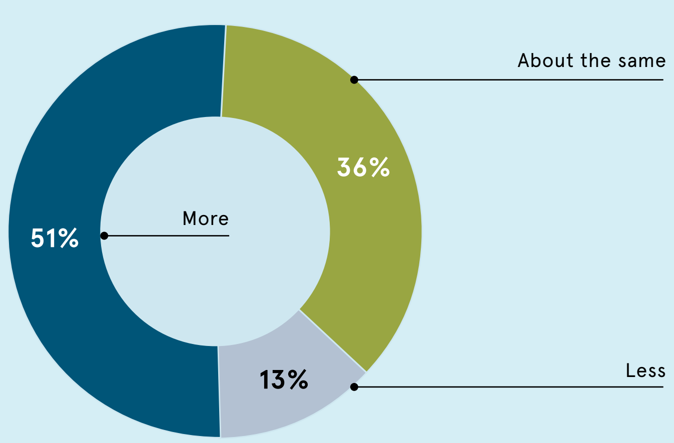
GXO Direct

THE C-SUITE'S SUPPLY CONCERNS

Although many of the strains imposed on global supply chains by the Covid crisis have eased, three years of disruption have shaken the confidence of many business leaders. According to a recent survey of CEOs in the UK and the US, more than half are expecting to spend more time thinking about their companies' supply chains in 2024. What in particular has got them worried – and where will they be focusing their attention over the coming months?

MOST BUSINESS LEADERS HAVE BEEN DEVOTING MORE OF THEIR TIME TO SUPPLY CHAIN CONCERNS THIS YEAR

Share of CEOs giving the following responses when asked how much time they are spending on supply chain-related issues compared with last year



TO SECURE THEIR SUPPLY CHAINS, BUSINESS LEADERS ARE ROWING BACK ON GLOBAL TRADE LINKS

Share of CEOs actively exploring nearshoring, friendshoring or onshoring in 2022 and 2023

2022

26%

of CEOs explored nearshoring, friendshoring and/or onshoring

2023

43%

are exploring onshoring

40%

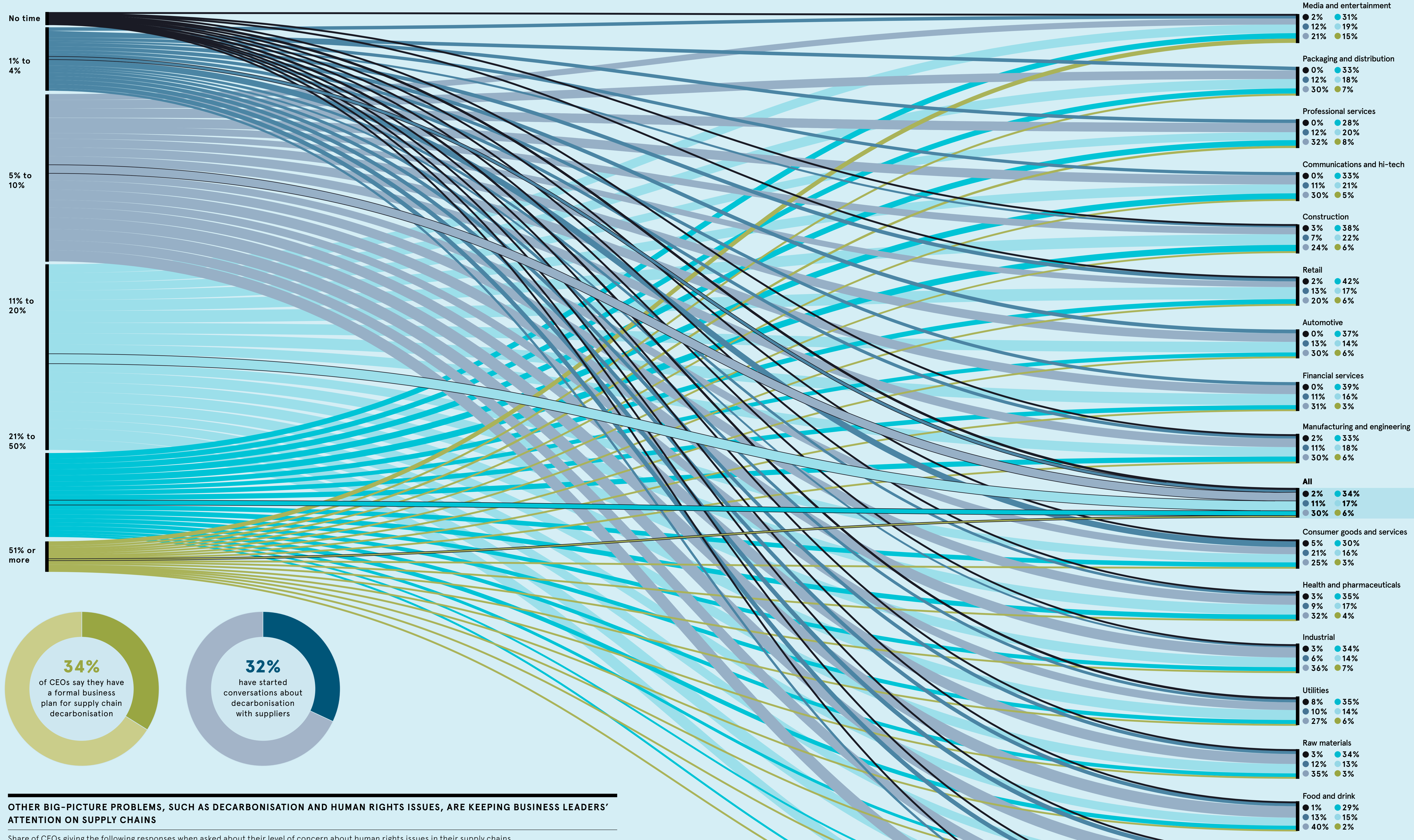
are exploring friendshoring

39%

are exploring nearshoring

IN CERTAIN INDUSTRIES, SUPPLY CHAIN CONCERNS ARE A SIGNIFICANT C-SUITE PREOCCUPATION

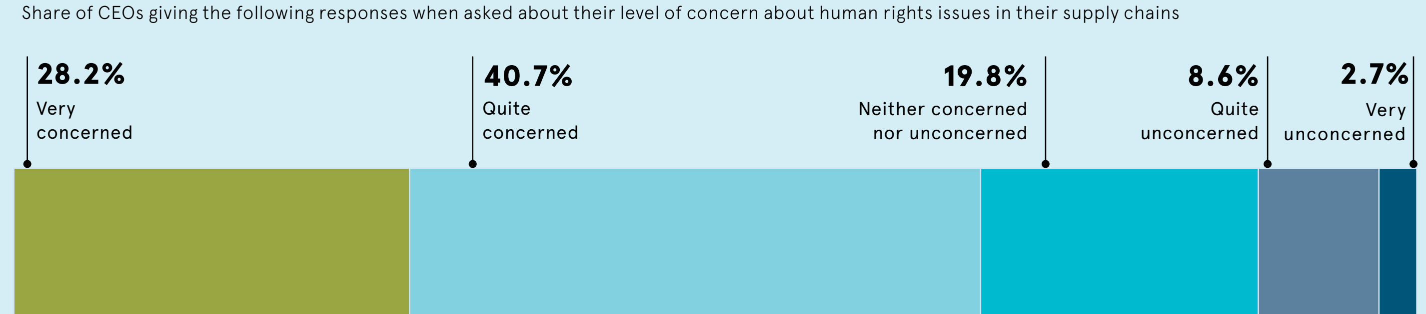
Share of working time that CEOs expect they will spend on matters relating to supply chains over the next 12 months, by sector

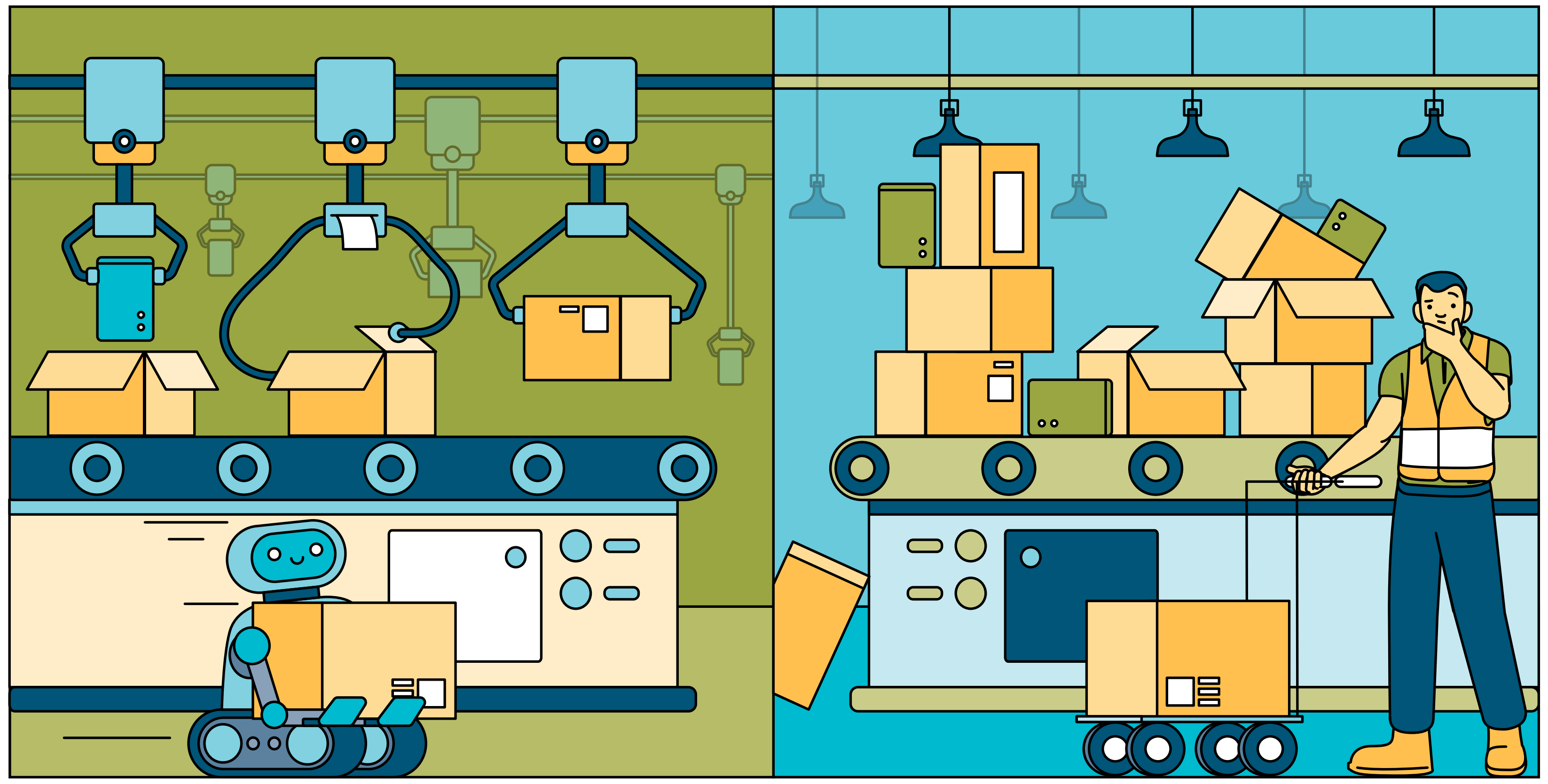


Proxima, 2023

OTHER BIG-PICTURE PROBLEMS, SUCH AS DECARBONISATION AND HUMAN RIGHTS ISSUES, ARE KEEPING BUSINESS LEADERS' ATTENTION ON SUPPLY CHAINS

Share of CEOs giving the following responses when asked about their level of concern about human rights issues in their supply chains





TECHNOLOGY

Where are all the automated warehouses?

Total mechanisation remains a rarity, with some attempts resulting in costly debacles. As firms find ever more applications for AI, it's time to ask why robotic repositories haven't caught on

Charles Orton-Jones

Oops. Fashion retailer End Clothing recently had to announce a £12m stock write-off after a warehouse upgrade went disastrously awry. A failure in its shiny new automated fulfilment system had had "adverse effects on both our operations and our customers' ordering experience", the firm admitted in a statement.

That's not the first expensive foul-up to happen in an automated warehouse. In 2019, for instance, Ocado lost an entire facility in a fire caused by an electrical fault affecting one of its robots. It has been estimated that the destruction of its distribution centre in Andover, Hampshire, cost the business more than £100m.

We have been told for years that warehouses are ripe for total automation – robots will fetch and carry everything; radio-frequency identification tags will log goods' movements; humans won't be needed. Yet that still hasn't happened to any significant extent. What's stopping the march of technology in this part of the business world?

"Despite the clear need for automation and its repeatedly proven benefits, the opportunity remains largely untapped," reports Maggie Slowik, global industry director at IFS, a logistics consultancy.

She says that Ocado is actually one of the few success stories so far. At its state-of-the-art warehouse in Erith, south-east London, 2,000 robots handle 2 million items a day. Yet this level of automation is "difficult to accomplish. We're still years away from achieving wider and deeper adoption. And, although the robot army has replaced hundreds of jobs, humans are still involved."

Part of the problem is that robots are more temperamental than people, in that they're prone to malfunctioning in anything less than a perfect working environment.

"The current level of automation requires bespoke buildings with precise finishes, such as completely level floors," says Sarah Bolton, senior associate specialising in commercial real estate at law firm Taylor Wessing. "Just a few millimetres of deviation can cause problems for robots using laser triangulation to navigate, so it can be difficult to retrofit existing warehouses."

The energy requirements of complete mechanisation are potentially problematic too, as Bolton explains: "Occupiers looking to automate their warehouses need to be particularly mindful of issues concerning the supply of electricity, since fully automated warehouses can be very energy-intensive. The National Grid's apparatus is unable to provide sufficient capacity. Upgrades are taking years and millions of pounds to complete."

The increased cybersecurity risk posed by automation is another factor dissuading companies from filling their warehouses with robots. It's no secret that so-called smart devices connected to the internet are particularly vulnerable to ransomware attacks. It's almost impossible to assess a robot vendor's capacity for issuing security patches, which could render any automated warehouse a tempting soft target for hackers.

Mechanisation presents a significant legal concern in cases where a facility is leased. If a tenant is planning to automate a warehouse, the landlord may justifiably worry about the building's energy rating, the increased fire risk and the potential difficulty of reletting it if that lessee leaves. With such risks in mind, it may not consent to the plans.

"It's going to be a while," Bolton says, "before everyone breathes a deep sigh of relief because the robots have arrived."

Obtaining funding for the appropriate upgrades can be easier said than done too, according to Rhyce Dawson, associate director at supply chain consultancy TMX Transform.

"Capital availability is a massive barrier for firms seeking fully automated warehousing," he says. "Companies need substantial finance for this. That's challenging to find, given the rise in interest rates and other economic challenges."

Any firm that does incorporate robots into its warehouse will have a capacity-related risk to manage. Robots have a maximum output. If the demand on the facility exceeds this, human input will be required to make up the shortfall. But asking people to work alongside machines is not ideal, particularly from a health and safety perspective. The prospect of metal colliding with flesh is unappealing, to say the least.

Dawson notes that "a fully automated warehouse thrives on predictability and a consistent flow of tasks – a scenario that isn't always aligned with the dynamic nature of most businesses. Peaks in demand, such as those witnessed during Black Friday, often call for human intervention, which renders full automation less practical."

> The current level of automation requires bespoke buildings with precise finishes, such as completely level floors

Suppose that a firm can surpass all these obstacles. It has enough capital; a suitably specified building with an adequate energy supply and an understanding landlord; stable demand for its wares; and world-class cybersecurity provision. Even at this point, it's likely to face further technical challenges.

One of these, Slowik warns, is that it's quite possible that even the fanciest of robots won't gel with the rest of your tech stack.

"Firms often choose best-of-breed applications that don't integrate seamlessly with their enterprise resource planning systems," she says. "The risk is that the two solutions run on separate databases and you therefore end up with data duplication, which creates complexity and, eventually, more cost."

Choosing which warehouse robots to invest in is no simple matter. The latest models are equipped with machine vision, which gives them a near-human ability to identify products. Bosch recently installed them at its plant in Curitiba, Brazil. They identify 7,000 items a day and have reduced the proportion of false rejects to 5%.

The key consideration for other warehouse managers is whether the robots they're thinking of buying are as good as this. If not, will the benefits they promise really outweigh the costs? Automation is brutally expensive. Few firms can afford to purchase the wrong kit.

Lastly, there's the issue of risk. A successful investment in warehouse robots could radically enhance your operations and provide a good return over the long term through improved cost-efficiency. Or, as End Clothing found, a glitch-plagued implementation could cost your business dearly and generate embarrassing headlines in the national media.

So the big question is this: are you feeling lucky?

SEVERAL FACTORS ARE HOLDING BACK FULL WAREHOUSE AUTOMATION

Share of supply chain professionals citing the following as barriers to total mechanisation

Vecna Robotics, 2023

INSIGHT

'Expect a gradual rebalancing in the UK economy in 2024'

Inflation and geopolitical conflict have caused much uncertainty for procurement teams this year. And they're not out of the woods yet, warns **Dr John Glen**, economist at the Chartered Institute of Procurement & Supply

Q What's the outlook for inflation in Q4 2023?

A As any procurement specialist knows, inflation has been a mainstay of the economic landscape all year. This quarter is progressing along largely similar lines.

At the start of the summer, UK inflation was at its highest for 20 years. The blunt instrument of higher interest rates – wielded to dampen the rising costs of living and doing business – has been working, but it's also stifling GDP growth.

Using interest rates to curb inflation this way is always a fine balancing act. Too lax and inflation persists; too tight and we dip into a recession. The importance of a 'Goldilocks' base-rate policy cannot be overstated, as the rate has to be just right to enable some growth.

Q Do you expect to see an improvement in 2024?

A Inflation will continue to fall, moving closer and closer to the target rate set by advanced economies of about 2%. That's bound to be welcome news for businesses.

But don't expect interest rates to follow. While these may have peaked already, with no further increases expected, central banks are unlikely to cut base rates significantly before the end of next year. And I suspect that they'll never return to their pre-pandemic lows.

There's a good chance that interest rates may push us into a technical recession in Q1 2024, but it should be nothing like that of 2008-09. For one thing, according to the Office for National Statistics, producer price inflation is moderating. This is a measure of wholesale inflation before goods reach the shelves, which means it incorporates the cost of wages too (unlike the consumer prices index). A lower level of producer price inflation indicates that we can expect a gradual rebalancing in the UK economy in 2024.

Q How are businesses handling the disruption caused by the ongoing conflicts around the world?

A Unsurprisingly, they're looking to build more resilience into their supply chains. After all, ramped-up geopolitical tensions have been causing disruption for quite a while – something that many supply chain managers have been grappling with daily this year.

Food supply chains in particular will face more problems over the coming months. While the impact of the war in Ukraine on supplies of grain and cooking oil will continue to be felt, further outbreaks of armed conflict across the Middle East could easily cause similar disruption.

Q What else might cause supply chain disruption over the coming months?

A We have the El Niño effect to contend with at the moment. This weather pattern in the southern hemisphere is causing floods in South America and droughts in South East Asia and Australia.

One of the biggest effects is likely to be on the wheat that Australia produces. This will compound the wheat and grain shortages already being experienced in Europe.

Q How has China's role in global supply chains been developing?

A China has moved on from being the workshop of the world. It's fast becoming one of the planet's biggest consumers. Its burgeoning middle class is of huge importance to the rest of the global economy.

That said, there are some significant concerns about the Chinese property market. A financial crisis based on falling property values would be another blow to the global economic recovery.

What's more, simmering geopolitical tensions between Beijing and the West have the potential to disrupt supply chains even further and hit global trade. That would not be welcome, especially as many firms have yet to recover fully from all the other upheavals they've had to deal with in recent years.

Dr John Glen
Economist, Chartered Institute of Procurement & Supply

INTERVIEW

'If you do trade differently, you can make a positive impact'

Tea and coffee drinkers may be particularly familiar with the work of the Fairtrade Foundation, but its ethical principles offer lessons for any supply chain, says its CEO, **Michael Gidney**

Oliver Balch

The days of invisible supply chains are over. Consumers want to know where the leaves that went into their tea and the beans that went into their coffee were picked. More than that, they want to know *how*.

Concern about abuses such as child labour, debt bondage and human trafficking is on the rise. That raises a tricky question for companies, especially those with supply chains extending into the Global South: can they guarantee that their products aren't tainted by such practices?

The Fairtrade Foundation has been concerned with ensuring that firms can give an affirmative answer ever since it was established in 1992. In pursuit of this goal, it has formed preferential supplier relationships with nearly 2 million farmers and workers in 71 countries.

As pressure mounts on them to demonstrate the social and environmental credentials of their supply chains, more and more businesses are looking to the Fairtrade movement for inspiration and guidance. The Fairtrade Foundation's CEO, Michael Gidney, is happy to oblige. In fact, showing how its approach works to the benefit of all partners is a core feature of his organisation's theory of change.

The movement, he says, is "founded on the belief that, if you do trade differently, you can make a positive impact on people and the planet. Its underpinning principles can be applied right across global trade."

These principles are all straightforward, he stresses: companies must simply act responsibly, pay fair prices and deliver better treatment for workers. Actually achieving such outcomes is more complex, of course – especially beyond sectors such as tea and coffee.

The foundation's basic approach to the challenge is twofold. First, it helps grass-roots producers, many of which are cooperatives, to meet a stringent certification standard that is subject to independent verification. Second, it finds markets for their goods by building relationships with buyers and retailers. As part of the deal, producers receive a minimum price as a buffer against international price pressures, plus a premium to be reinvested in social infrastructure and community programmes.

Several studies have concluded that this model works, according to Gidney. The research has shown that, in most cases, participants will end up better off than comparable non-participants – albeit with many still living close to the breadline.

Although he is clearly proud of his organisation's achievements to date, Gidney is acutely aware of the scale of the mountain left to climb.

Take Fairtrade-labelled goods, for instance. Even in markets such as tea, coffee and bananas, where the foundation has made big inroads, the vast bulk of global procurement still operates beyond its reach.

One obvious way for the movement to grow is for more buyers to sign up. Gidney is quick with the arguments for doing so, chief among which are consumer recognition (93% of UK shoppers recognise the Fairtrade mark and 81% trust that any item carrying it has been sourced ethically) and supplier quality.

"Fairtrade producers are more likely to be competent, well organised and resilient at the community level," he explains. "Overall, they're more likely to be better supply chain partners."

Yet even if the foundation's 400-strong partner brands and retailers were to double or even triple in size, decent livelihoods would remain a mere pipe dream for the millions of people working upstream.

> **Fairtrade producers are more likely to be resilient... and better supply chain partners**

One solution is for firms to integrate Fairtrade principles into their own supplier relationships. Gidney cites Waitrose, which in 2019 worked with all of its west African cocoa suppliers to convert them to the programme. There are two imperatives for firms seeking to follow Waitrose's lead, he says. First, involve producer groups in the design of any scheme. Second, target the cause of the problem at hand, not the symptom.

The temptation among corporate risk teams is to spot a supply-side risk and "jump on it quite quickly" or try to solve it in "a way they can control", including cutting ties with suppliers altogether. The kind of top-down approach he warns against is evident in the chocolate industry, where almost every large manufacturer has established its own supplier compliance schemes and ethics programmes.

"I'd encourage companies that are interested in de-risking their procurement to be braver about sharing control," Gidney says.

This requires a willingness to work more regularly with trusted local partners that understand small producers' struggles and have their confidence. Such an approach may not appeal to risk managers in London with investors breathing down their necks or journalists asking tough questions. But it's the only practical solution, he argues, adding: "You're simply not going to tackle problems such as child labour without long-term local relationships and patient investment from the bottom up."

Gidney's avowed support for the stronger regulation of supply chains might surprise some people, given that his organisation is built on the concept of voluntary action by business. But he sees moves such as the Modern Slavery Act 2015 and new legislation on human rights due diligence as an effective way of forcing the laggards into action.

Regulatory reform can also remove legal barriers to fairer trade, he adds, pointing out that competition law as it stands in the UK bars retailers from using the ethical integrity of their products as a point of differentiation.

Gidney welcomes the so-called green claims code that the Competition and Markets Authority introduced in 2021. As well as reducing greenwashing, this enables firms to shout more loudly about their "legitimate sustainability efforts", including those seeking to effect positive changes in their supply chains.

He'd obviously relish the sight of all goods on supermarket shelves bearing the Fairtrade stamp. Ultimately, though, having that familiar logo on your goods isn't what counts. What does is trading fairly – something that any firm can do if it so chooses.

77%

of UK consumers care about having an independent third party check that brands are treating their suppliers fairly

81%

trust the Fairtrade certification as a marker of ethical sourcing

Fairtrade Foundation, 2022


Fairtrade Foundation

A gold standard for ethics

In sub-Saharan Africa, mining is the second biggest employer after farming. But it is also one of the region's most dangerous occupations, especially in the poorly regulated artisanal sector.

Under Gidney's leadership, the Fairtrade Foundation is working with its Swiss arm on a Comic Relief-funded project to map out what the fair and responsible production of artisanal gold would look like.

"There has been very little investment over the years," Gidney notes. "But there are interventions that you can make – for instance, centrifuges that eliminate the need to use mercury – that can make a difference really quickly."

The project builds on a growing market for Fairtrade gold over the past decade. Back in 2013, for example, the foundation introduced a gold certification standard that obliges small-scale miners to meet a set of core health and safety, labour protection and environmental criteria. Participating miners are guaranteed a minimum price, as well as a premium. Depending on international prices, that can amount to £1,570 per kg of certified gold.

Three mining cooperatives have signed up to the initiative. The Fairtrade gold standard can also be found on products sold by two dozen UK jewellery designers, as well as on handsets made by Dutch firm Fairphone.