Insight Sourcing
Part of Accenture

EXECUTIVE ADVISORY

Sourcing Market Report Q1 2024

FOREWORD

We are pleased to share our quarterly sourcing market update with you. Our team at Insight Sourcing leads thousands of procurement initiatives each year which provides an unparalleled perspective on supply markets, pricing trends, and innovative strategies to continually optimize costs.

Furthermore, we have 20+ dedicated category centers-of-excellence (COEs) which continuously track the macro market trends, challenges, and cost savings opportunities within their respective spend categories.

The enclosed report outlines our perspective for key categories, including Metals, Resins, Food, Transportation, Packaging, IT and Indirect.

Additionally, you will find our exclusive Sourcing Heat Map which illustrates pricing trends for all direct and indirect spend categories. We hope this report is helpful in identifying and realizing Procurement Value Creation® opportunities within your portfolio.

TABLE OF CONTENTS

SOURCING HEAT MAP

Insight Sourcing tracks procurement and sourcing category trends through our collective experience. Our consultants are organized in Centers of Excellence, by sourcing category, and they track market trends in real-time to bring a unique, real-life view to market research and commodity indices.

This category heatmap reports our findings on a quarterly basis in each sourcing category.

- Categories for sourcing activity in Q1 2024 are characterized by a contraction in goods while also demonstrating marked growth in private services sector, propped up by low unemployment and continued consumption of services such as concerts, events, airfare, and hotels.
- Ocean freight prices and lead times have been turbulent as a result of falling water levels in the Panama Canal and attacks in the Red Sea leading carriers to divert routing around the Cape of Good Hope.
- Real estate and facilities categories have remained relatively neutral, with competitive pressure continuing to mitigate price increases being proposed by incumbent providers.

Categories with rising prices can still provide opportunities for procurement wins through creative sourcing levers.

Raw Materials	Energy	Transportation & Logistics	Food & Beverage	Clinical Services	Information Technology	Corporate Services	Marketing	Packaging	Real Estate & Facilities
Steel	Natural Gas	Truckload	Poultry	Medical Supplies	Value Added Resellers	Corporate Insurance	Media Buy	Corrugated	IFM
Aluminum	Electricity	LTL	Pork	Pharmaceuticals	HW Purchase & Maintenance	Employee Health Insurance	Advertising Agencies	Pallets & Crates	Janitorial Services
Polypropylene (PP)	Crude Oil	Ocean Freight	Beef & Veal	Medical Gases	Network Infrastructure	PBM	Digital	Films & Bags	Security Personnel
Polyethylene (PE, HDPE, LDPE)	Diesel	Warehousing	Dairy	Locum Tenens	IT Consulting	Accounting, Audit & Tax	PR	Paper Cores	HVAC / R
Polyethylene Terephthalate (PET)	Heating Oil	Small Parcel	Eggs	Durable Medical Equipment (DME)	Voice & Data	Legal	Direct Mail	Totes, Drums, & IBCs	Waste Disposal
Nylon	Tax Credits	Air Freight	Grains & Oils	Medical Devices & Implants	Wireless	Corporate Travel	Commercial Print	Foam Products	Landscape / Snow Removal
Lumber		Rail	Produce	Lab Supplies	Cloud Services	Temp Labor	Promotional Items	Glass	Pest Control
Paper		Fleet Service & Maintenance	Beverages	Environmental Services (EVS)	Enterprise Apps	Executive Search			

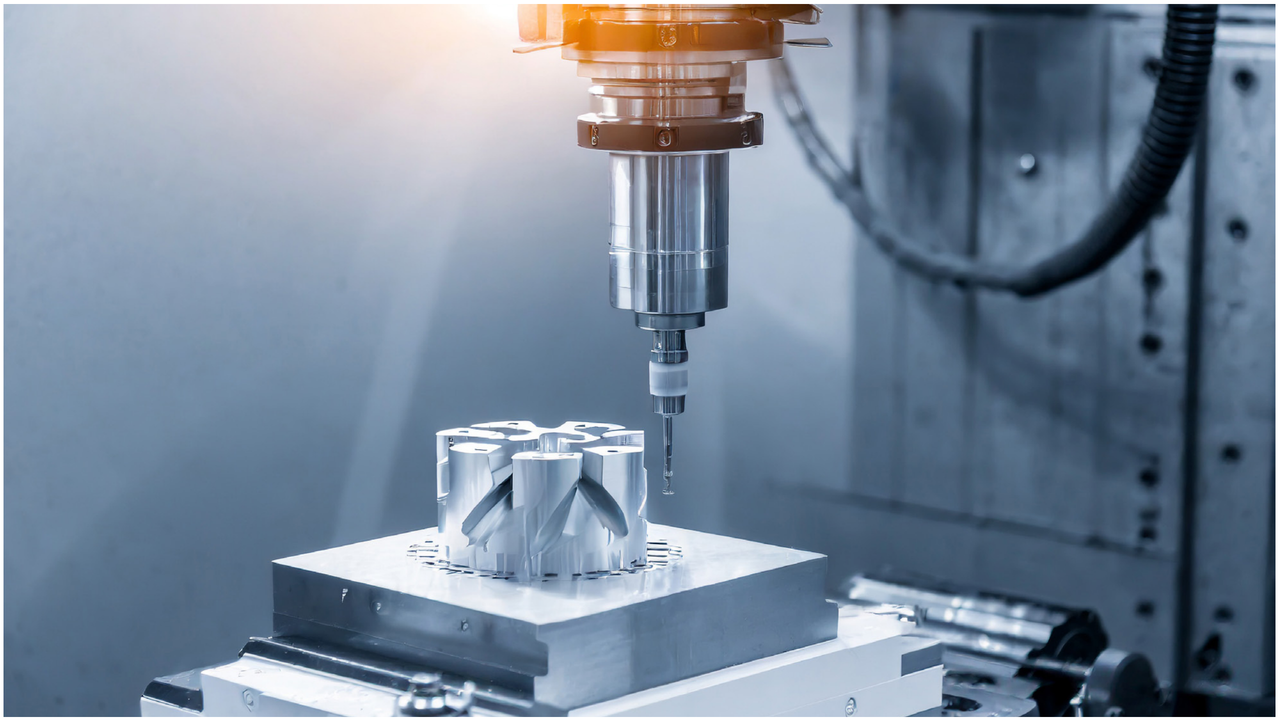
Note: Prices are reviewed over trailing 12 month period to determine market trends
Source: Insight Sourcing Custom Analysis

Legend

- Falling Prices: *Opportunity to drive price savings*
- Rising Prices: *Focus on non-price levers in sourcing activity*
- Insignificant Changes: *Relatively neutral market*

Direct Materials Market
Q1 2024

EXECUTIVE SUMMARY



Metals

- Most ferrous and non-ferrous metals remain at or near 36-month lows; some producers are shorting supply to prop pricing.
- Hot Rolled Coil Steel prices increased 48% in Q4 2023, most commodity analysts and steel buyers expect pricing to peak in Q1 2024 and then decrease moderately through the remainder of the year.

Resins

- Key resin indices are trading in a flat range over the last 15 months, indicating a bottom from pandemic highs.
- In January, the Polypropylene index increased 8% while the Polyethylene index prices remained flat over the previous month.

Food & Beverage

- PPI for food manufacturers has shown decreases over the past quarter, pointing to potential market stabilization and a slowing of inflation for consumers.
- In Q1, poultry, beef, eggs, and cocoa prices are expected to modestly increase. Pork, butter, most grains, and oils prices are expected to decrease.

METALS MARKET UPDATE

METAL	MARKET STATUS
Steel Scrap	Buyer's
Aluminum	Buyer's
Nickel	Buyer's
Zinc	Buyer's
Steel Rebar	Buyer's
Copper	Buyer's
Hot Rolled Steel	Hold
Cold Rolled Steel	Hold

MARKET STATUS[1]	DESCRIPTION
Buyer's	Represents commodities with a clear downward price trend in recent months, and supply / demand dynamics and other market pressures indicate the trend should continue
Hold	Represents commodities with relatively flat or inconsistent trends in recent months, and / or market pressures do not provide a clear indication in either direction
Seller's	Represents commodities with a clear upward price trend in recent months, and supply / demand dynamics and other market pressures indicate the trend should continue

[1] Market status is based on recent price trends and other current market information, but are not a guarantee of future commodity performance. Insight Sourcing is not responsible for any deviations from the communicated market status.

Steel Scrap

Market Status: Buyer's

- Steel Scrap remains unchanged MoM and has decreased 67% YoY.
- Global supply increases and weakening demand have driven the stainless steel scrap prices to their lowest level since 2020.
- Steel scrap prices fell in 2023 largely due to a global pullback in demand, but demand is expected to be strong in the long term as scrap will play a prominent role in sustainability initiatives.
- 75% of market analysts believe that steel scrap will trade at higher prices in H2 2024.
- Procurement should secure pricing and volumes at current rates due to the likelihood of future price increases.

Steel Rebar

Market Status: Buyer's

- Steel Rebar increased 5% MoM and has decreased 5% YoY.
- Steel Rebar remains flat as the construction industry slows due to higher interest rates. Possible future rate decreases may lead to increases in rebar prices.
- Chinese economic stimulus is expected to increase demand for steel rebar as local governments implement infrastructure projects in early 2024.
- Moderate price increases are expected in 2024 due to projected increases in construction activity.
- Procurement should continue to buy as required.

Sources: Fast Markets; London Metal Exchange, International Trade Administration

Aluminum

Market Status: Buyer's

- Aluminum increased 2% MoM and has decreased 15% YoY.
- As of December, Russian aluminum accounted for nearly 90% of LME inventory.
- Some indicators suggest the market may be picking up – monthly LME trading volume and open interest have increased 170%+ in 2023.
- LME Aluminum contracts are trading 2 – 5% higher than current cash prices.
- Procurement should look to consolidate and leverage volumes at current price levels.

Copper

Market Status: Buyer's

- Copper decreased 1% MoM and has decreased 10% YoY.
- Renewable energy industry is likely to bolster future copper demand in applications such as electric vehicles, solar panels, and wind turbines.
- Global copper supply increased when BHP, operator of the largest copper mine, announced an 11% increase in copper production.
- Future supply concerns due to estimates for renewable energy growth outpace copper supply capabilities due to lengthy Chilean mine construction periods.
- Prices are expected to remain stable, futures contracts are trading 1% higher for the first half of 2024. Procurement should buy as required.

Sources: Fast Markets; London Metal Exchange, Wood Mackenzie

Hot + Cold Rolled Steel

Market Status: Hold

- Hot Rolled Steel increased 5% MoM and has increased 48% YoY.
- Cold Rolled Steel increased 4% MoM and has increased 41% YoY.
- U.S. steel market prices have continued to increase in recent months due to lower production levels and increases in mill lead times.
- Maintenance-related outages saw utilization rates fall to their lowest levels since January, at 73.8% during the third week of October.
- Demand from the automotive and energy sectors has increased due to the conclusion of the UAW strike and leveling interest rates.
- Prices are expected to remain elevated in Q1 2024, but futures contracts are trading 10 – 20% lower for the remainder of the year.

Sources: Fast Markets; London Metal Exchange, International Trade Administration

Nickel

Market Status: Buyer's

- Nickel decreased 1% MoM and has decreased 45% YoY.
- Nickel prices continue to decrease, reaching a two-year low because of downward pressure due to production surplus.
- Indonesia expected to increase production levels and plans for a new ore pricing mechanism. Their Nickel ore reserves account for 30% of global supply.
- Chinese economic stimulus and extension of value-added tax exemptions for new energy vehicles have increased demand.
- Future contract prices for the first half of 2024 deviate less than 2% from current prices. Procurement should buy as required.

Zinc

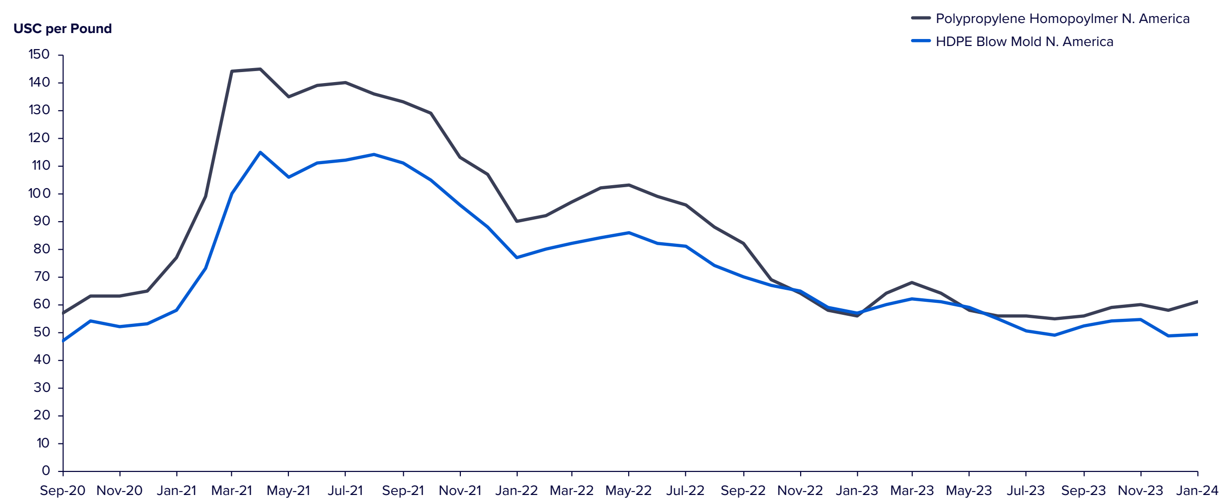
Market Status: Buyer's

- Zinc decreased 1% MoM and has decreased 28% YoY.
- Zinc prices are decreasing due to weak Chinese demand.
- Chinese refined zinc output continued to increase with strong run rates at Chinese smelters. Increased Chinese manufacturing has offset European manufacturing decreases with increasing energy costs caused by the Russia-Ukraine conflict.
- Market analysts expect zinc prices to increase modestly over 2024. Procurement should buy as required.

Sources: Fast Markets; London Metal Exchange, Wood Mackenzie

RESINS MARKET UPDATE

POLYPROPYLENE AND POLYETHYLENE



Polypropylene (PP)

Market Status: Hold

- Polypropylene increased 5% MoM and has increased 8% YoY.
- While Polypropylene prices are still significantly lower than their pandemic highs, the market has remained essentially flat since Q4 2022.
- North American PP production capacity has increased 18% over the last five years, causing a supply overhang as consumption only increased 7%. More capacity is forecasted in 2024, including a new 250,000 T/yr line by Formosa.
- The conflict in the Red Sea continues to impact Europe's supply as 19% of consumption is imported from the Middle East and Asia, driving up the spot market and increasing US exports to the continent.
- Currently experiencing short-term softening, recycled Polypropylene demand is expected to increase in the coming years with growing brand owners' commitments to circularity, albeit slower than other recycled resins more directly tied to regulatory mandates.

Polyethylene (PE)

Market Status: Buyer's

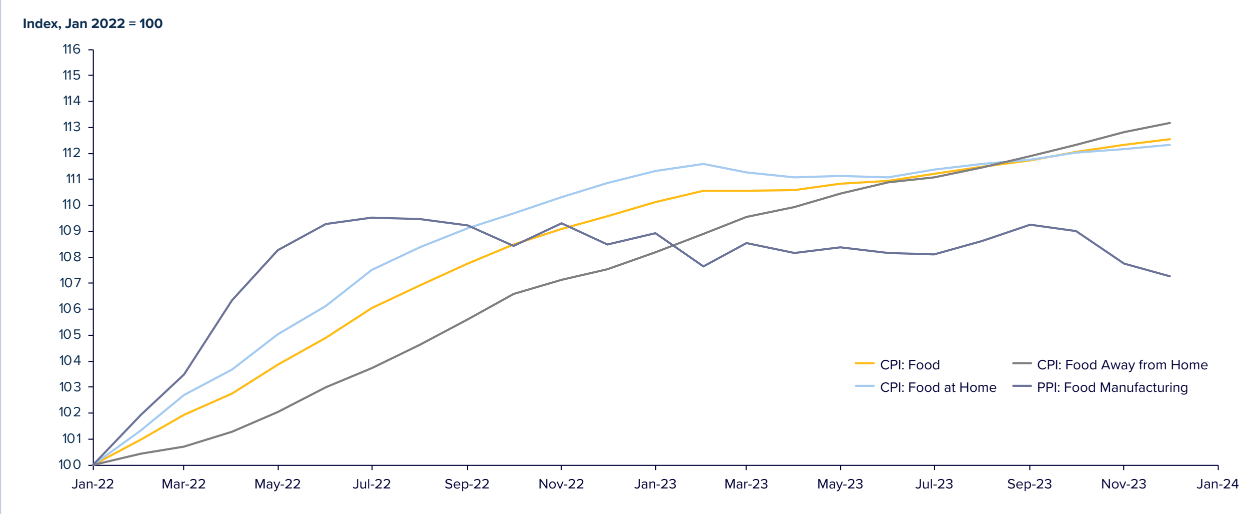
- Polyethylene remained flat MoM and has decreased 12% YoY.
- December contracts for Polyethylene settle flat on sufficient supply balance for almost all grades, flattening out the marked downtrend in price from 2021 highs.
- Feedstock markets such as Ethylene are marked by soft demand and long supply, while a winter weather natural gas rally boots spot prices.
- U.S. spot export prices for Polyethylene are beginning to tick higher as the significant cost advantage of U.S. producers is keeping U.S. product attractive in most major export destinations.
- U.S. recycled Polyethylene are trading in a broad range of prices depending on application, with food-grade R-HDPE topping $1.18/lb and stretch film R-LDPE reaching $0.70/lb, though non-food grade R-HDPE sold for as low as $0.65/lb.

Source: ProPurchaser, RBN Energy, Plastics Technology, Plastics Today; Conversations with Market Participants

FOOD & BEVERAGE MARKET UPDATE

Since January 2022, the various CPI food measures have increased over 10%; however, after a brief summer spike, PPI for food manufacturers has shown relief, indicating input cost stability and the potential for cost stabilization to consumers.

CONSUMER AND PRODUCER PRICE INDICES



Sources: U.S. Bureau of Labor Statistics, retrieved from FRED, Federal Reserve Bank of St. Louis
Notes: CPI reported monthly, seasonally adjusted; PPI reported monthly, not seasonally adjusted

> Within the fresh categories, modest price increases are expected in Q1 for all except Pork; Pantry category pricing is expected to be favorable to buyers in Q1, excluding Cocoa.

Fresh: Proteins, Eggs, Dairy

- **Beef:** Expect modest price increases in near-term. Herd sizes are reduced, impacting overall supply. But higher average weight remains above prior year, offsetting some supply pressures. If herd sizes can be rebuilt, some relief will be seen longer term.
- **Poultry:** Projected near-term price increases. Harvest remains down compared to prior year, but bird weight remains elevated, softening some, but not all, supply constraints. Lower supplies, retail features, and traditional demand cycles all point towards near-term price increases.
- **Pork:** This should be a favorable market for buyers in Q1. Production costs remain historically high and overall herd size is decreasing; however, the capital investments made by pork producers as well as the increased efficiencies will provide stable supply despite a reduction in demand.
- **Eggs:** The market faces a tight supply due to recent avian flu outbreaks, leading to reduced flock sizes. However, most do not expect this outbreak to be to the severity or have the pricing impacts we saw in Q4 ’22 – Q1 ’23. This situation, coupled with consistent consumer demand, is likely to drive egg prices higher in the short term.
- **Dairy:** The near-term futures contracts for milk, cheese, and whey are all up. Butter has shown immediate relief post-holiday baking season, with a projected modest rebound in February – March, but still higher YoY.

Pantry: Grains, Oils, Others

- **Grains:** Stable to lower prices should be expected in Q1. In the U.S., record corn yields have increased production, offset somewhat by higher feed and ethanol use. Soybeans have seen significant yield increases, leading to higher ending stocks. Additionally, wheat production has risen in key regions like Russia and Ukraine, with export projections also increasing for several countries. This abundance in supply, coupled with a challenging export environment, suggests a favorable market for buyers.
- **Oils:** Soybean pricing remains in a slight decline; recent news about declining export numbers coupled with increased production outlooks in international markets (Brazil) continues to provide downward pressure on domestic pricing.
- **Others:** For coffee, after some turbulence due to a drier season in key growing regions in Brazil, recent rainfall has comfortably moved Arabica back into stable territory; Cocoa continues its record setting climb and shows no signs of slowing down despite many thinking “it can’t keep getting higher.”

Sources: U.S. Bureau of Labor Statistics; U.S. Department of Agriculture; CME; ArrowStream; Conversations with Market Participants

Transportation Market Q1 2024

EXECUTIVE SUMMARY

- **The Small Parcel** market remains a favorable sourcing environment due to intensified competition between FedEx and UPS resulting from reduced shipping volumes, a slower than usual peak season, and the resolution of the UPS and Teamsters negotiation. Shippers should engage their current carrier to seek additional rate reductions in exchange for an extension of their current agreement or other incentive.

- Following the Yellow bankruptcy, the **LTL** market lost capacity which allowed many carriers to pass along higher Gross Rate Increases (GRIs) for 2024. Yellow assets have now been auctioned off, so capacity is expected to rebound in 2024 which, along with suppressed shipping volume, will contribute to a favorable sourcing environment in 2024. We recommend conducting annual sourcing events as usual as carriers will have capacity in new areas and will be able to offer competitive rates.

- The **Dry Van Truckload** market found its bottom in November when rates dropped to $2.08 and have since ticked up to $2.14 with higher tender rejections as well. This is due to slightly higher demand but also reduced capacity due to smaller carriers exiting the market. Rates are still significantly lower on a YoY basis. Shippers should expect to realize significant savings from competitive rate negotiations or sourcing events.

- The Red Sea conflicts continue to severely impact the **Ocean Freight** market, with ship rerouting causing a ripple effect on rates, capacity, and transit times worldwide. Though this is expected to only have a short-term impact, ongoing conditions could create a risk of elevated rates during contracting season in Q2. Shippers should be cautious of carriers using this to justify rate increases during upcoming annual rate negotiations.

SMALL PARCEL

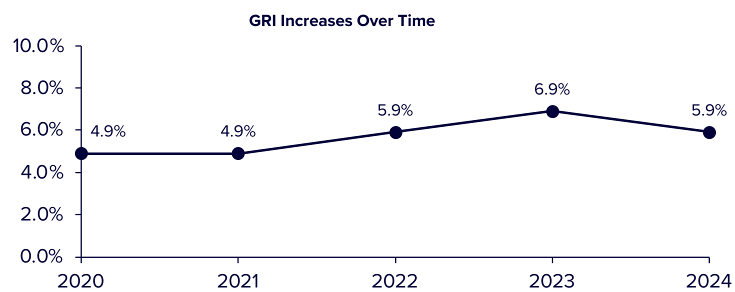
Current Environment

- FedEx announced a 5.9% general freight rate increase for 2024 which UPS immediately matched.
- FedEx claims to have retained the business they captured from UPS during the Teamsters negotiations (400k daily parcels); UPS claims they clawed back some business, but analysts believe it's from USPS or regional shippers.
- UPS is struggling to balance a down market and increased labor costs.
- Volumes remain down; FedEx Express in particular is down as their long-term USPS contract is coming to an end leading to excess capacity, extensive shedding of pilots, and grim revenue forecasts.
- Demand for cheaper service types (e.g. Ground and SmartPost) is up, while demand for expensive express service types is down.

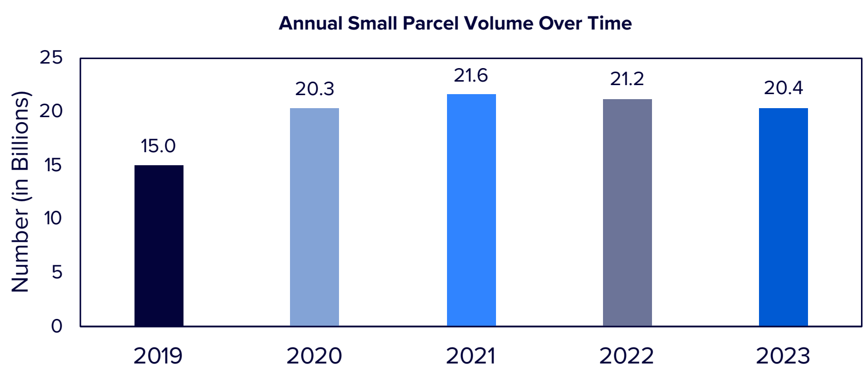
Future Projections

- Shipment volumes peaked in 2021 and have fallen to 2020 levels due to lower demand and shift to purchasing at brick-and-mortar stores.
- Given the down market and stress on the carriers, shippers should continue to renegotiate key terms of their contract, especially if they signed their last contract when FedEx and UPS had all of the leverage.
- To compensate for sliding diesel prices, carriers are increasing fuel surcharges; we've seen recent success negotiating discounts on fuel.
- Insight Sourcing has had a recent run of success saving multiple clients over $1M by renegotiating rates after the UPS Teamsters contract was signed.
- Insight Sourcing continues to recommend looking at regional carriers and DHL to drive savings and reduce the risk of a sole carrier strategy.

FEDEX & UPS RATE INCREASES



PARCEL VOLUME DECREASES



Sources: Freightwaves, Sifted; Parcel Industry; Refund Retriever; Unishippers; Chainalytics; FedEx; Reuters

LESS THAN TRUCKLOAD (LTL)

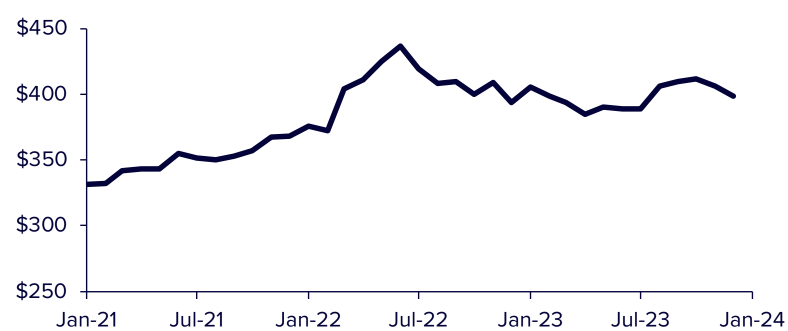
Current Environment

- With tighter capacity heading into the busy season (August – December) and YRC's bankruptcy, there was a slight uptick in the LTL Producer Price Index in August 2023 that has recently come down in the past several months.
- With YRC volume being redistributed, carriers such as ODFL, FedEx, SAIA, TForce, and XPO have published General Rate Increases (GRIs) between 4.9% – 7.5% to counter inflation and fund their future investments.
- Some LTL carriers have been more selective about the freight they ship, and are prioritizing higher volume and easier-to-move freight.
- LTL relies heavily on manufacturing, and the ISM Production Manufacturing Index (PMI) remains below 50%, indicating that there has been a slowing of manufacturing production and thus continued lower volumes in LTL.

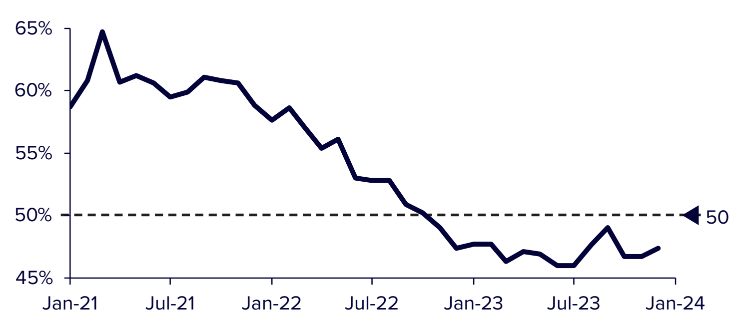
Future Projections

- Capacity is expected to begin to open due to recent auction of YRC assets, stabilizing or applying downward pricing pressure on LTL rates.
- National carriers (namely XPO, Estes, FedEx, and R+L) have used Yellow's bankruptcy as an opportunity to grow their service footprints and have been aggressive in the 2 most recent auctions of Yellow's terminals.
- As the 153 terminals that have been sold and the 12,000 tractors coming up for sale become operational, carriers will price more competitively with their increased capacity as they try to expand their volumes to shippers that historically used Yellow; making Q2 or Q3 of 2024 a good time to source LTL.
- Insight Sourcing recommends running annual sourcing processes and taking advantage of the upcoming capacity due to YRC assets coming online in 2024.

FRED PRODUCER PRICE INDEX – LONG DISTANCE LESS-THAN TRUCKLOAD



ISM PRODUCT MANUFACTURING INDEX



Sources: Institute for Supply Management; FreightWaves SONAR, Uber Freight

DRY VAN TRUCKLOAD

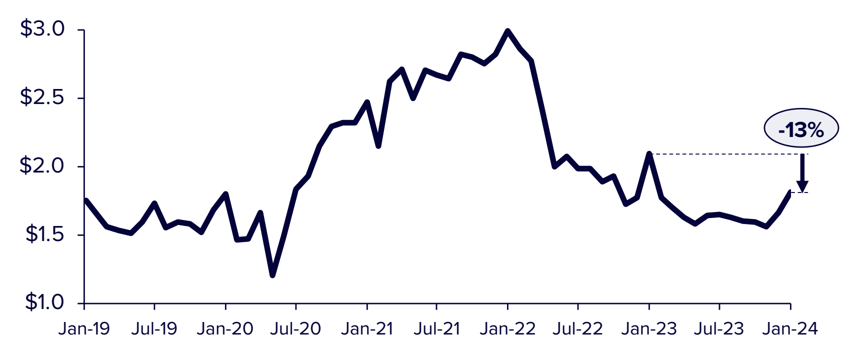
Current Environment

- Dry van linehaul rates have dropped roughly 13% from $2.09 per mile in January 2023 to $1.81 per mile in January 2024 but have slightly ticked up in early January.
- The Outbound Tender Rejection rate (which is the measure of how often a carrier turns down a shipment for which they were awarded) has trended up slightly in recent months, increasing from 3.6% to 5.3% since October 2023, though still lower than the pre-pandemic average of 7%.
- Fuel prices saw a slight increase during the last quarter; however they have trended downward over the last month and are significantly lower than a year ago.
- Insight Sourcing has completed multiple truckload projects in the current shipping environment and have seen savings in excess of 15%.

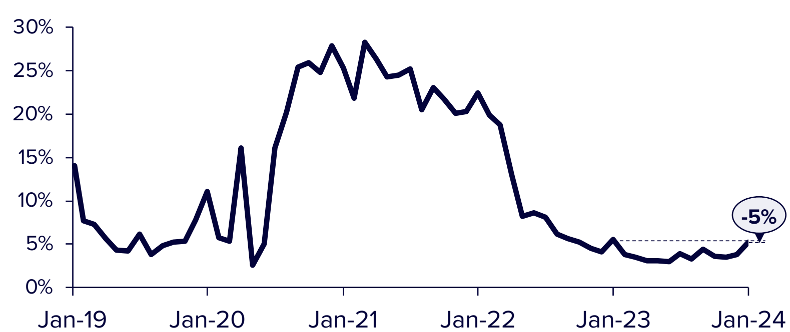
Future Projections

- Truckload capacity is supposed to slightly decrease in 2024 due to smaller carriers exiting the market which will drive rates slightly higher through the back half of 2024.
- Insight Sourcing recommends carriers shift to a 7 MPG escalator to reduce fuel surcharge costs, as trucks have become more fuel efficient.
- In addition to the expected capacity restriction, rising costs associated with fuel, labor, and insurance premiums could result in increased rates in 2024.
- Insight Sourcing recommends all shippers begin sourcing events to ensure rates are truly market competitive and to lock in rates while the market is still down.

LINEHAUL WITHOUT FUEL (2019 – 2023)



OUTBOUND TENDER REJECTIONS (2019 – 2023)



Sources: Freightwaves SONAR

FLATBED TRUCKLOAD

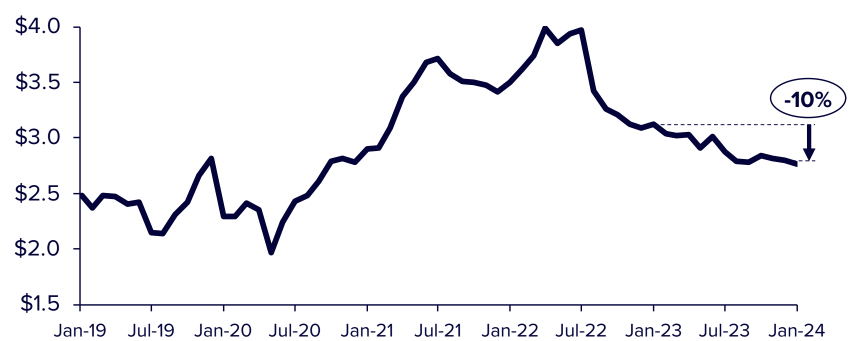
Current Environment

- Flatbed prices' free-fall shifted to a gradual decline during the second half of 2023, with prices down 10% from January of last year; however, prices have remained relatively flat for the past few months.
- The flatbed load to truck ratio (which is the number of loads available to the number of trucks available) has seen an increase from 3.9 to 9.2 in the last two months. Though still well below the 5 year average of 25.1, flatbed volumes are expected to continue to increase through 2024, driving spot-market rates up, and restricting capacity.
- Outbound Tender Rejections rate (which is the measure of how often a carrier turns down a shipment for which they were awarded) has seen a 31% decrease from January 2023.

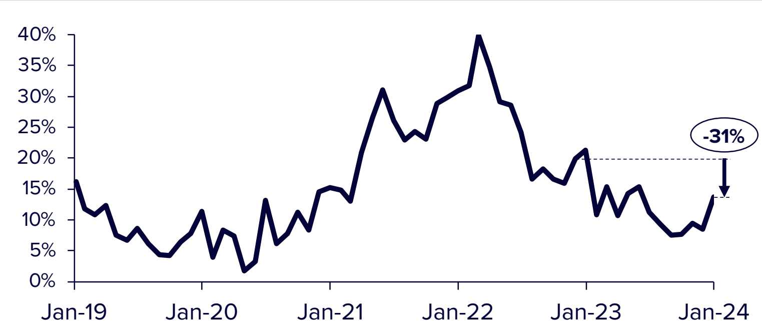
Future Projections

- Insight Sourcing expects flatbed volumes to increase throughout 2024.
- Manufacturing makes up a large portion of flatbed shipments and is expected to trend upwards in 2024 due to an infusion of funds and tax incentives into the manufacturing industry brought on by legislation aimed at rebuilding US Infrastructure.
- With the Fed expected to cut interest rates in Q2 2024, the residential construction industry is expected to see an uptick throughout the remainder of the year, increasing Flatbed Truckload demand.
- The combination of geopolitical factors and projected increase of demand is expected to drive rates up, beginning in Q2 2024.
- Due to increasing rates and expected further increases in demand, shippers should consider a sourcing event in the first half of 2024.

FLATBED RATE ($ PER MILE) YOY (2021 – 2023)



OUTBOUND TENDER REJECTIONS YOY COMPARISON (2021 – 2023)



Sources: Freightwaves SONAR; DAT Freight & Analytics

OCEAN FREIGHT

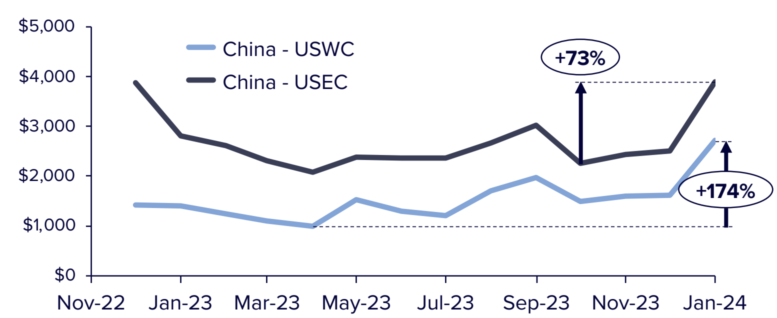
Current Environment

- Spot rates have significantly increased by over 200% in the last month as carriers have responded to the Red Sea diversions and Panama Canal dry season.
- Volumes remained strong throughout the December - January timeframe during the traditional pre-Chinese New Year seasonal rush but are expected to soften going forward.
- Ongoing Houthi terrorist attacks in the Red Sea continue to cause container ship diversions around the Cape of Good Hope, leading to higher rates, reductions in effective capacity, and up to 15 days in additional transit time.
- The Panama Canal continues to limit daily sailings to 24 vessels, better than was expected at this time but an almost 50% reduction from normal levels; carriers have responded to this by implementing canal transit surcharges.
- Flexibility and pre-planning is key to ensure continual flow of products.

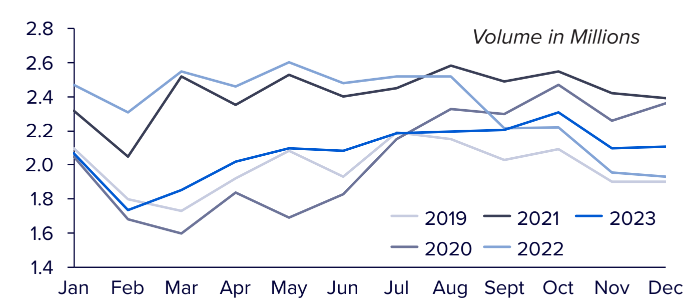
Future Projections

- Low water levels in the Panama Canal and associated surcharges are expected to continue for the near-term future, likely widening the gap between USEC and USWC rates from ~$500 up to potentially $2,000 per container.
- Volumes will continue to shift back to the USWC to avoid additional delays and costs resulting from Panama Canal and Red Sea disruptions, leveraging transload and IPI rail options to move freight further inland.
- Book required capacity early to account for increased transit time and to avoid container availability issues resulting from a reduction in market supply.
- Shippers should begin preparations to negotiate annual contract rates in Q1-Q2 2024; carriers will look to leverage current world events for higher rates in what would otherwise be soft market conditions due to oversupply.

FREIGHTOS OCEAN SPOT RATE INDEX



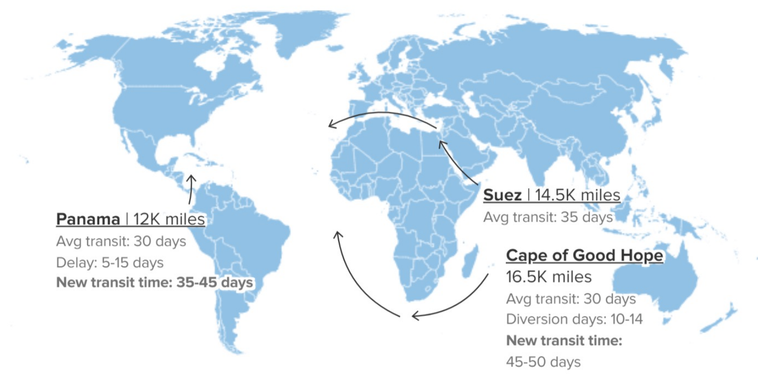
US CONTAINER IMPORT VOLUME (TEUs, 2019 – 2023)



Sources: American Shipper; JOC.com; Freightos Baltic Daily Index China-USWC and China-USEC, WSJ, Descartes

RED SEA CONFLICT IMPLICATIONS

Recent attacks by Houthi Rebels in the Red Sea have caused a majority of steamship lines to divert sailings around the Cape of Good Hope instead of their traditional route via the Suez Canal, creating rippling effects across the globe.



Source: CNBC

Timeline of Red Sea Events	
Date	**Event**
12/15/23	First cargo vessels struck by Houthi Rebel missiles; carriers begin re-routing shipments via the Cape of Good Hope
12/21/23	Announcement of preliminary surcharges associated with re-routing
1/1/24	Effective date of additional carrier Red Sea Diversion Surcharges, Peak Season Surcharges
1/12/24	Beginning of air assaults on Houthi rebels by the U.S. and UK

Implications

- Elevated Freight Rates
  - Freight rates have seen **large spikes in recent weeks** around the globe, particularly in Asia – Europe and Asia – North America
  - Intel suggests that **contract rates continue to be honored**, but often with the application of **peak season surcharges** to more closely match current spot rate conditions
  - **Seasonal pre-Chinese New Year increased demand** and **Panama Canal issues** only exacerbate increases from current conditions
  - Spot rates are expected to remain **elevated for the next several weeks**, eventually declining after Chinese New Year
- Additional Surcharges
  - Select carriers have begun to implement **surcharges related to Red Sea diversions** along with peak season surcharges
  - Some carriers are offering charges of **$400 – $1,500 to guarantee space** on a container ship
- Increased Transit Times
  - Diversions have **increased expected transit times by 6 – 15 days** from Asia to the US and Mediterranean, respectively
- Constrained Container Availability
  - Longer transit time will tie up additional containers, creating a potential risk of **delays in the longer-term availability** as empty containers will take longer to return to Asia

Source: Freightwaves, Journal of Commerce, APEX Logistics, CNBC

Packaging Market
Q1 2024

EXECUTIVE SUMMARY

We expect a strong buyer's market to persist across packaging categories in Q1 2024 despite suppliers attempts to push against recent decreases or establish floors – as a result, there remains meaningful opportunity for organizations to competitively reset pricing.

- **Corrugated:** Sales of boxes down 6-7% and prices down 10-15% YoY as a result of softer demand and new capacity coming online; recent efforts by top producers to establish a price floor are seeing mixed results – 10%+ savings opportunity remains available for organizations willing to test the market via a competitive event.

- **Pallets:** Significant softening continues since late 2022 in both new and recycled pallet markets with most pallet depots still working through excess inventory but expected to approach a bottom in coming months – significant opportunity (10-40%+ depending on timing of most recent re-negotiation) to lock in longer-term pricing at market floor in Q1 2024.

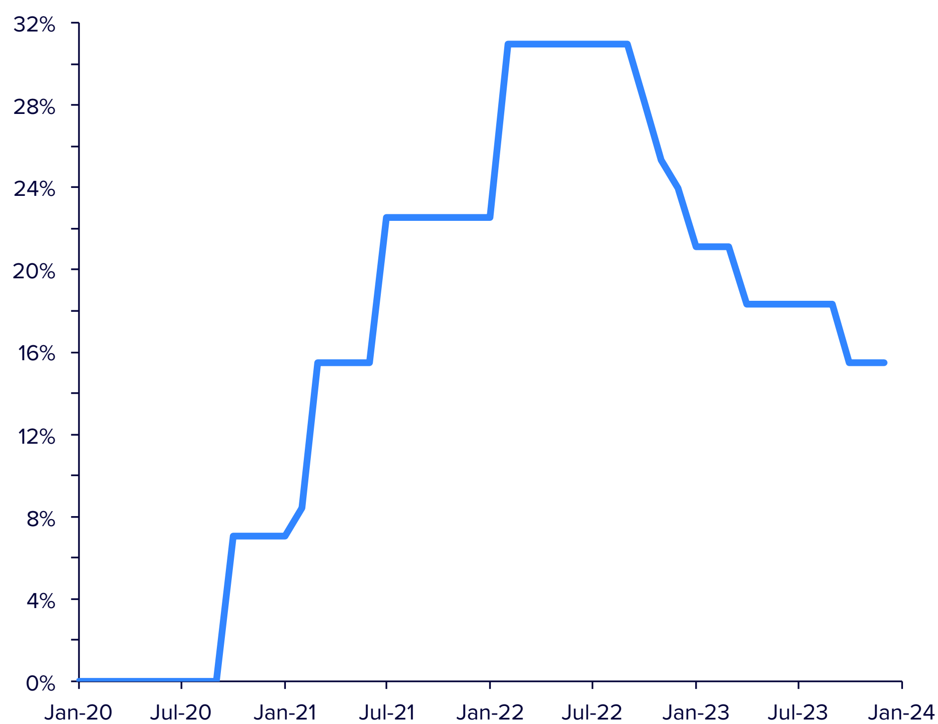
- **Plastic Packaging:** Key inputs HDPE and PP have increased slightly in recent months but remain down 20%+ over the past 18 months, driving down costs to produce bags, films and bottles; continued focus on shift to more sustainable packaging solutions exists.

- **Paper Cores & Tubes:** Paper Cores & Tubes prices have stabilized and continue to soften after a multi-year run of significant YoY increases; key producers continue to be concerned about mismatched supply/demand conditions making Q1 2024 an opportune time to test the market.

CORRUGATED MARKET UPDATE

- Corrugated prices down 10-15% YoY as a result of softer demand and new capacity coming online:
- **Demand** – Corrugate box sales have continued to decline over the past year with shipments down 6-7% over last five quarters; domestic US containerboard mills have operated <90% capacity for the past 12-months.
- **Supply** – New capacity continues to come on-line (e.g., International Paper new facility in Atglen, PA, Pratt new facility in Henderson, KY); in addition, several new sites are planned for 2024 (e.g., PCA Wallula, WA mill coming back online and new Pratt facility in Warner Robins, GA).
- Major producers attempting to establish a price "floor" in Q1 2024 with price increase letters sent to non-contracted clients; however, no impact to key underlying Corrugated indices as of January.
- Despite efforts to avoid further price declines, suppliers continue to be interested in securing contracts and booking business into the future to minimize the risk of underutilization given broader economic concerns; 10%+ savings opportunity remains generally available for organizations willing to test the market via a competitive event.

LINERBOARD, % CHANGE FROM JAN 2020

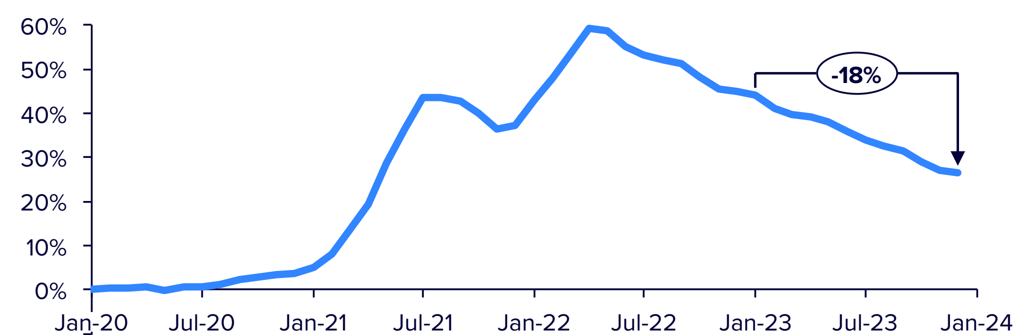


Sources: Conversations with Market Participants, ISG COE Analysis

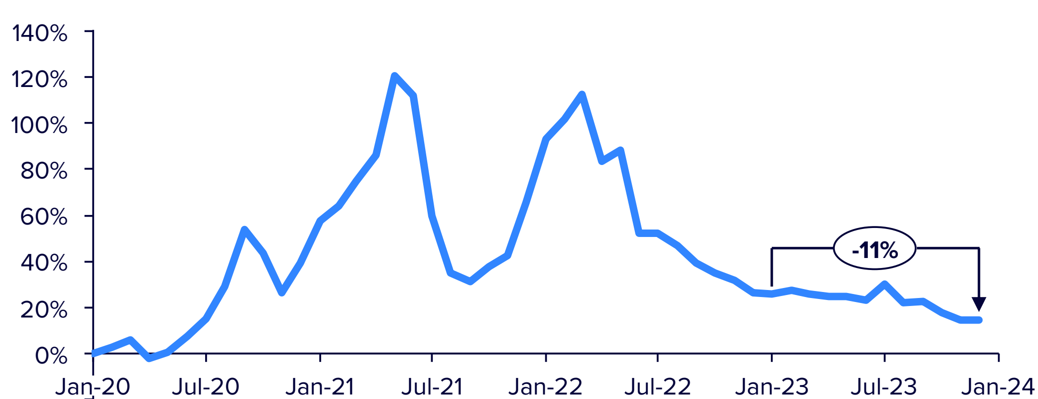
PALLETS & CRATES MARKET UPDATE

- Significant contraction in markets continues for both new and recycled pallets; in certain instances, market pricing for pallets is 50%+ lower YoY.
- New pallet pricing softening in line as lumber prices stabilize to new normal from the pandemic lumber "bubble", driven by slowing new housing market and reduced interest in home remodeling and renovations.
- Severe correction in recycled pallets markets in general, although specific recycled pallets market dynamics will vary by locale – pallet yards still working to offload excess inventory in many markets and downwards pressure continues although is expected to approach a floor.
- Consolidation within the industry continued in 2023, including by national, PE-backed pallet management companies (e.g., 48forty Solutions acquires Taylor Pallets & Recycling, Kamps acquires Pal-King & Twin City Pallet, Olympic Forest acquires Berry Industrial).
- Many organizations had shifted to month-to-month or quarterly RFQ strategy in 2023 to continuously capture market relief; however, expectation is that market is approaching bottom and shift back to annual RFP should be considered to "lock in" at floor.

PPI: WOOD PALLETS; % CHANGE FROM JAN 2020



PPI: LUMBER, % CHANGE FROM JAN 2020

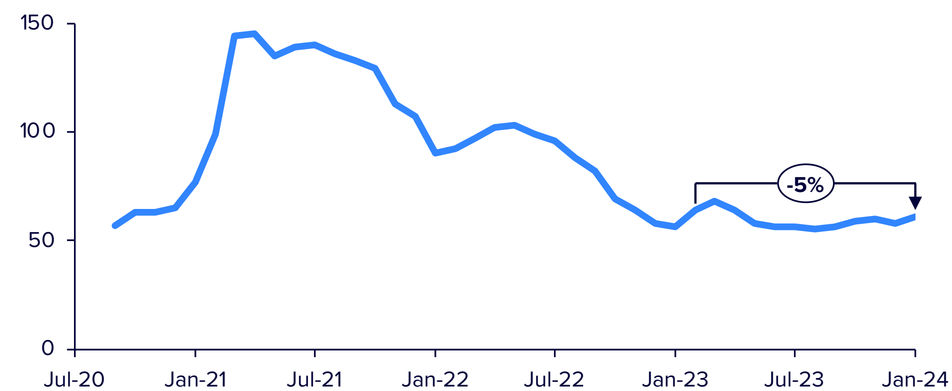


Sources: FRED, Conversations with Market Participants, Insight Sourcing Custom Analysis

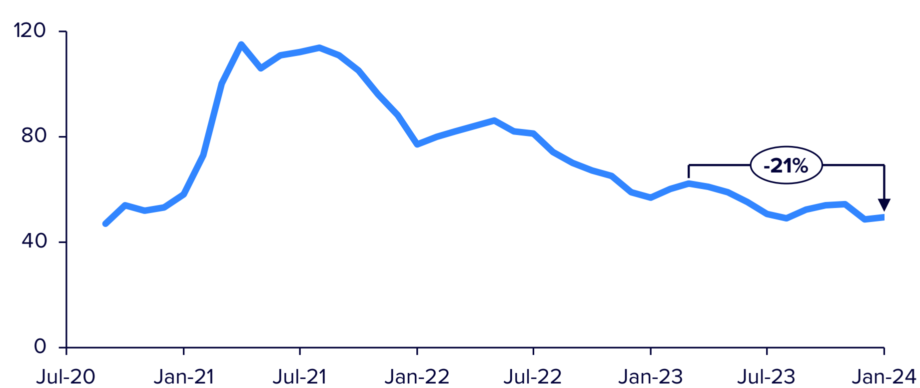
PLASTIC PACKAGING MARKET UPDATE

- While Polypropylene prices increased 2% MoM and were relatively stable throughout 2023, they are still down ~36% since July 2022.
- Heavy December Polypropylene demand came from processors that had de-stocked in anticipation of stellar December pricing that never materialized, keeping prices elevated relative to prior months.
- Polypropylene supply remains steady even with industry operating rates remaining below 80% for the last 18 months; Although some producers have idled lines in recent months, the market is now bracing for further capacity additions as Formosa's new 250,000 tons/year PP line is anticipated to start up in the first quarter of 2024.
- US December Polyethylene contract prices decreased by $0.05/lb.
- Disruptions in Ethylene production and decreases in Polyethylene production capacity are expected to keep prices steady in the near term.
- Despite stabilization in underlying commodity markets, conditions remain favorable for sourcing across plastic packaging categories are participants continue to aggressively defend existing business and jockey for share in competitive events.

POLYPROPYLENE HOMOPOLYMER N. AMERICA



HDPE BLOW MOLD N. AMERICA

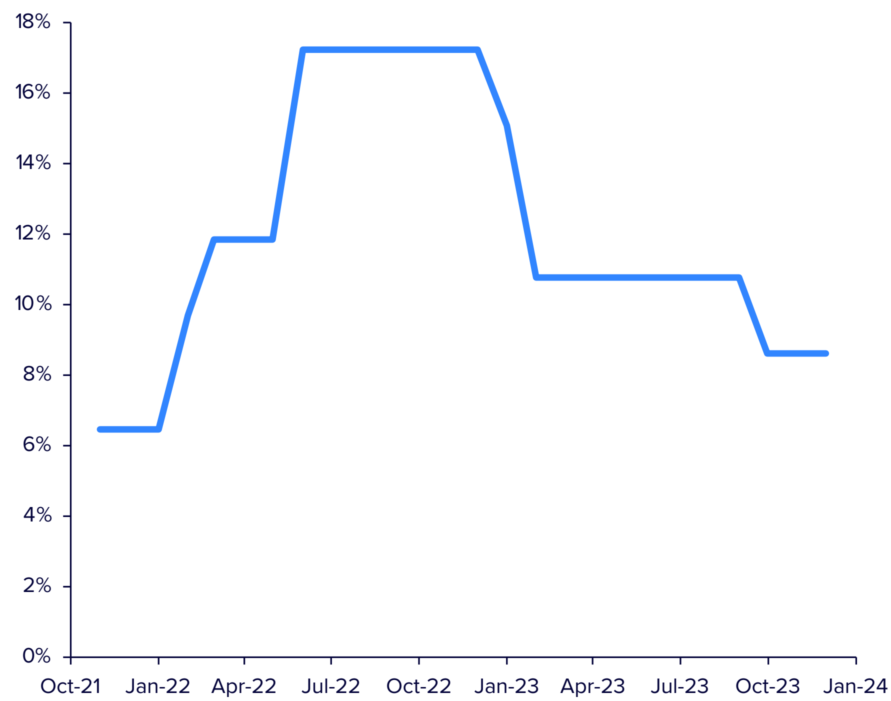


Sources: FRED, Plastics Today, Conversations with Market Participants, Insight Sourcing Custom Analysis; Prices shown are in cents

PAPER CORES & TUBES MARKET UPDATE

- Paper Cores & Tubes prices have stabilized and have continued to soften after a multi-year run of significant YoY increases.
- ~70% of core costs are driven by key input fiber; .020" Bending Chip index, which tracks fiber pricing and frequently drives ongoing contract price adjustments for large cores buyers, is down 7% YTD with further relief planned.
- Market share dominated by two large global players – Sonoco and Greif – although subset of regional or national players have been aggressively pushing for market share; in addition, Abzac (French-based cores producer) materially entered the U.S. market via consolidation of U.S. operations with Nagel Paper in 2022.
- As prices have inflated over past 3-years, business case for insourcing of cutting of cores to size has strengthened; relevant lever to consider for buyers of various length cores.

BENDING CHIP INDEX, % CHANGE FROM Q4 2021



Sources: FRED, Conversations with Market Participants, Insight Sourcing Custom Analysis

Information Technology Market Q1 2024

EXECUTIVE SUMMARY

Q1 2024 outlook for technology goods and services is mixed; buyer power remains strong in commodity hardware and labor areas, offset by inflationary price increases in software as a service.

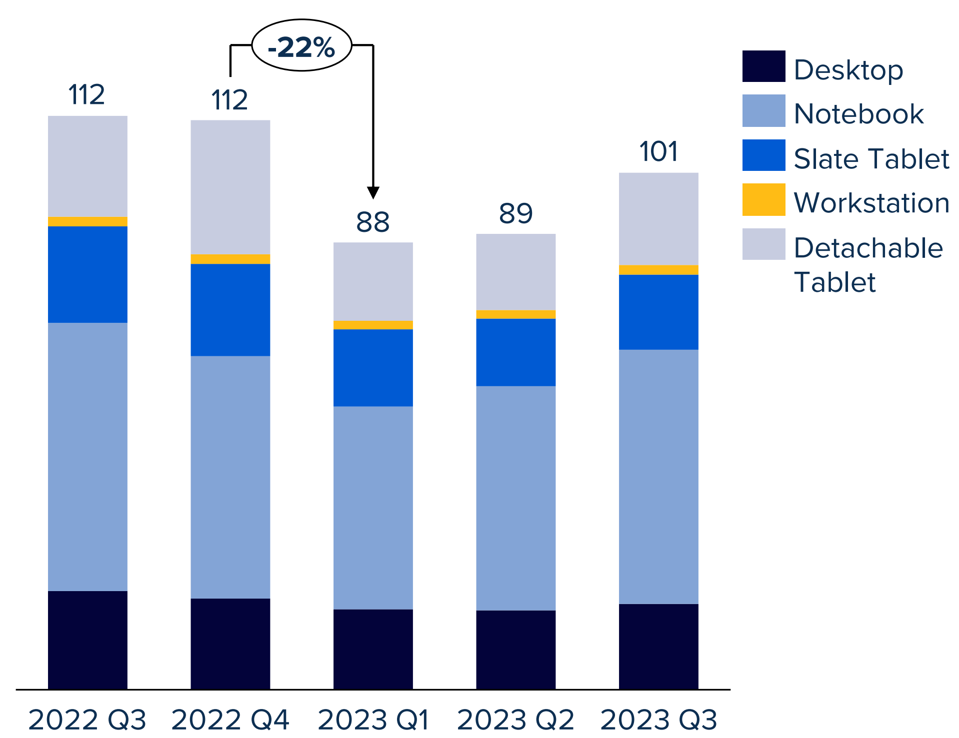
- **Personal Computing:** Market is expected to rebound modestly following 10%+ contraction in YoY demand; buyers should negotiate and buy now before potential price increases driven by component inputs and OEM-driven spec upgrades.
- **IT Consulting:** Leading service providers averaged 5% headcount reduction and negative revenue growth; inflationary rate increases remain a threat but can be combatted by negotiations and effective competition, particularly as suppliers remain eager for new business.
- **Cloud Services:** Overall market is expected to continue to grow at 15%+, though buyers are scrutinizing overall costs of cloud and are intensifying discipline around cloud optimization and cost containment.
- **Software as a Service:** 70%+ of SaaS providers hiked pricing in 2023; sellers market projected to continue to dominate as SaaS providers force customers to absorb increases guised as inflation.

PCs

PC Current Environment[1]

- 2023 marked by missed sales and continued "softness" in demand whereby PC shipments declined 10%+ YoY.
- Following COVID supply shortages and work from home transition, buyers have elongated PC refresh cycles, curtailed office refresh efforts, and reduced asset footprint.
- Market headwinds yielded softness in PC pricing throughout 2023.
- Market expected to rebound after sales bottomed out; market growth of 3 – 6% forecasted for 2024, though full recovery to pre-pandemic shipment levels will likely not occur until 2026-2027.
- Companies are seeking to procure higher-specced equipment and upgrade technology to acquire new AI functionality.
- With PC demand expected to rebound and subcomponent costs for solid state drives ("SSDs") expected to rise as much 20% in the next year, market softness may start to subside over 2024.
- As market is still recovering, Procurement should continue sourcing and competing OEMs to secure pricing before potential future increases.

PC UNITS SOLD, 2022 Q3 – 2023 Q3 (M)



Sources: Canalys, IDC, PCWorld

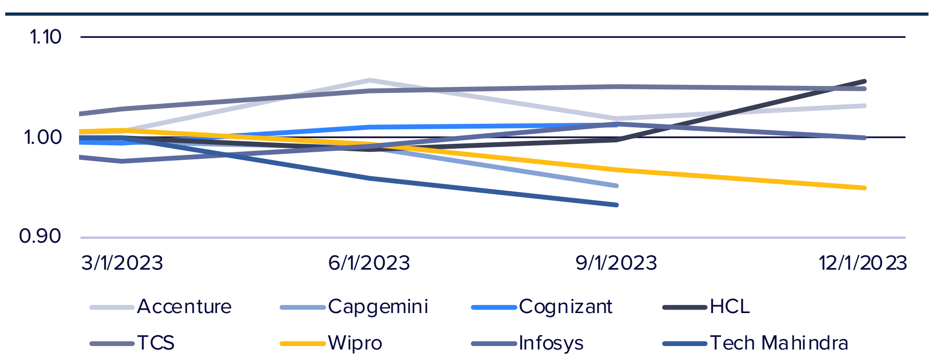
[1] PCs entails personal computing devices inclusive of tablets, notebooks, desktops, and workstations. Mobile phones are not included.

IT CONSULTING

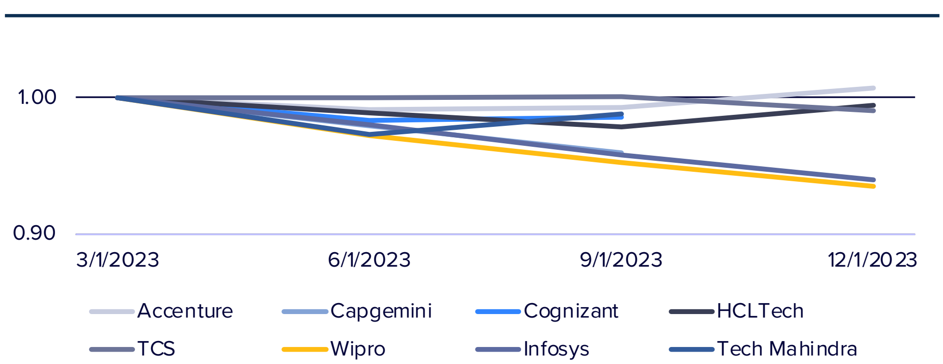
IT Labor Current Environment

- Revenue growth is slowing across top IT Consulting firms; many market leaders have been postingnegative revenue growth and predominantly flat operating margin.
- The hiring market has slowed significantly with almost all firms cutting 2 - 6% headcount causingvoluntary attrition to decrease significantly as well (6% decrease).
- Consulting slowdown has correlated with general economic climate and cautionary position towardsdiscretionary IT projects.
- While many IT Consulting firms have been attempting to raise rates in correlation with inflationary wagepressures, Procurement can successfully combat through competitive tension and optimization/ demandlevers (rightsizing roes, seniority, shoring).
- Companies should be particularly cautious of any increases from companies with heavy offshoreleverage; because US customers pay Indian suppliers in USD and those suppliers pay employees in INR,the weakening of the INR provides significant bottom-line benefit to the suppliers.
- INR is down 10% in the last 2 years, and 15% in the last 5 years.[1]

TOP IT CONSULTING REVENUE GROWTH TRENDS



TOP IT CONSULTING HEADCOUNT TRENDS



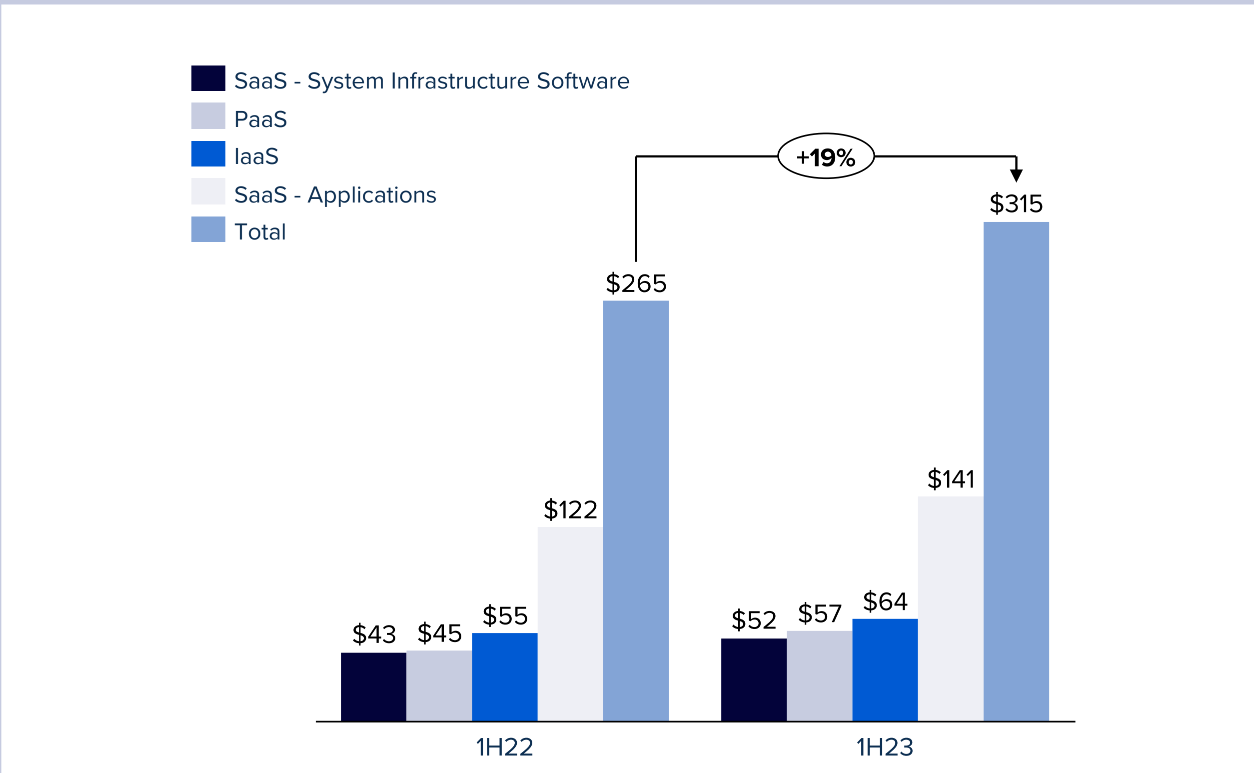
Sources: Top Professional Services firm's Investor Relations resources
[1] Investing.com 'USD/INR - US Dollar Indian Rupee' (2024)

CLOUD

Cloud Current Environment

- Global cloud market continues to grow at a rate of 15%+ across segments, outpacing traditional infrastructure services.
- The overall cloud market remains highly fragmented, given the rise of platform as a service (PaaS) and infrastructure as a service (IaaS), though AWS, Azure, and Google Cloud continue to dominate the market for medium and large enterprises.
- Amidst slowing revenue growth, AWS, Azure and Google Cloud are competing to steal market share.
- Cloud service providers have enjoyed wide-spread adoption and are now shifting focus heavily to growth, diluting some of the value of broad-based Enterprise Discount Agreements.
- Pricing programs are skewing towards incentivizing multi-year growth commitments; for companies outpacing their contracted cloud growth, there is opportunity to re-open agreements and drive deeper discounts in exchange for larger commitments.
- CIOs are scrutinizing ROI of cloud investments and seeking to optimize spend in cloud through tighter spend management.

PC UNITS SOLD, 2022 Q3 – 2023 Q3 (M)



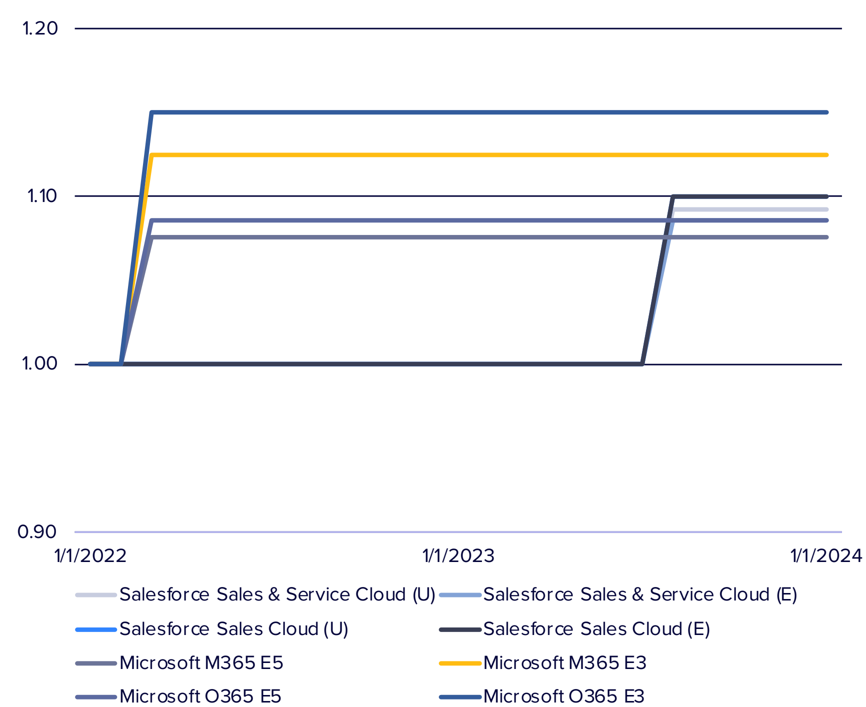
Sources: IDC, TechTarget

SOFTWARE

Software Current Environment

- SaaS continues to dominate as a top area of IT investment.
- Global SaaS market grew ~20% in 2023 and is projected to continue growing at similar rate through 2024.
- Software renewal costs are spiking, as almost 75% of SaaS vendors increased pricing in 2023.
- Customers experienced average contract renewal increases ranging from 5 to 50%+; renewals containing price escalators tied to “CPI plus adders” proved consistently problematic, often resulting in 10%+ cost inflation at renewal.
- New pricing strategies continue to emerge e.g., selectively bundling products to inflate pricing, eliminating free value-adds to create new revenue, mandating expensive service add-ons.
- Software publishers are embedding AI into existing offerings, enhancing initial adoption draw and perceived “value”.
- In light of continued price increases and burgeoning IT SaaS budgets, market may begin showing signs of SaaS fatigue; proliferation of SaaS offerings and punitive behavior of dominant software providers may drive increased customer churn.

SaaS PRICING REPRESENTATIVE LIST PRICE INCREASES



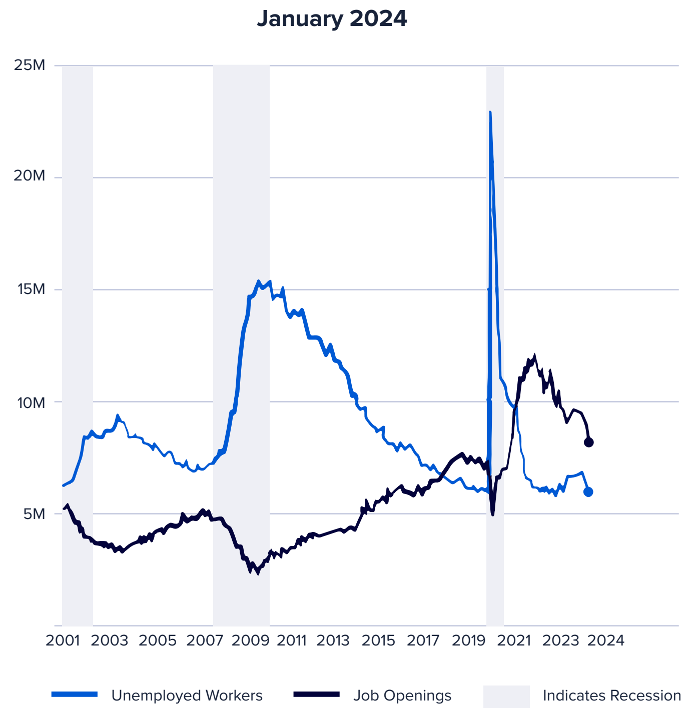
Sources: Veno, Statista, Technavio, Salesforce Published List Pricing, Microsoft Order Forms

Corporate Services Market Q1 2024

EXECUTIVE SUMMARY

The narrative of the labor market going into 2024 continues to be a story of labor shortage. While the Bureau of Labor Statistics still forecasts a growth in the labor market over the next decade, the rate of growth is significantly slower than the previous decade (0.3% increase[1] compared to 1.2%). This difference is largely attributed to a decrease in the participation rate of the labor workforce: 62.5% of employment-eligible Americans are working or actively looking for work in January 2024, compared to 63.3% in February 2020, leaving 2.5 million jobs in the labor market unfilled.[2]

NATIONAL JOB OPENINGS VS. NUMBER OF UNEMPLOYED WORKERS



Source: U.S. Chamber of Commerce Analysis, BLS Data

Across the professional services landscape, labor shortages will still be counterbalanced by tertiary market trends, including a lower increase in wage rate and the increased adoption of Generative AI tools.[3] While third-party corporate services vendors may try to pass annual rate increases predicated on inflation and labor shortage, those claims can be refuted based on the ability to leverage more non-labor resources (e.g., new technology in the space) and the return to pre-pandemic wage levels.

[1] *https://www.bls.gov/news.release/ecopro.nr0.htm*
[2] *https://www.uschamber.com/workforce/understanding-americas-labor-shortage*
[3] *https://fortune.com/2023/11/15/2024-labor-trends-hr-predictions/*

CATEGORY SPOTLIGHT: PHARMACY BENEFITS MANAGEMENT

Overall market conditions point to significant opportunity to drive cost improvement in Pharmacy Benefits, despite increases in drug list prices. Companies seeking to improve Pharmacy Benefits Management (PBM) should continue to monitor more competitive cost models and prospective legislation to ensure they are maximizing the benefits of the shifting market.

- List prices increased in January for over 900 drugs, with an average increase of 5.6% (slightly higher than 2023's increase of 4.96%). Increases can be partially attributed to the Inflation Reduction Act, which allows Medicare negotiation authority with drugmakers (negotiated prices will take effect in 2026). Increases are expected to continue over the next few years as drug makers attempt to recoup margins lost in Medicare negotiations.
- Rebates paid back to clients are starting to outpace the growth of list prices. This market trend is driven by growth in competition outside of the primary three Pharmacy Benefit Managers, CVS Caremark, OptumRx, Express Scripts. The CAGR of the PBM market is expected to be 8.77% between 2023 and 2030 (~$519B to ~$934B revenue increase).
- Cost plus models are rising in popularity. Express Scripts announced its new transparency-oriented "Clear Network" cost-plus option in November, and CVS has followed suit with their CostVantage program (which will only be commercially available in 2025).
- Legislation introduced in April in the Senate proposed restrictions to Pharmacy Benefits Managers and their pricing structures. If passed, legislation would implement transparency requirements regarding net price of drugs dispensed and would prohibit spread pricing. Proposed legislation will likely drive more competitive rebates and alternative pricing models with lower list prices in the coming years. Companies should continue to track legal reform in the PBM space to ensure they are benefiting from market shifts.

Source: 46Brooklyn (https://www.46brooklyn.com/research/3/9/2023/brand-launch-prices-revisited), Wall Street Journal (https://www.wsj.com/articles/drugmakers-raise-prices-on-nearly-1-000-medicines-but-show-restraint-11675313960)

CATEGORY SPOTLIGHT: EXTERNAL AUDIT

The cost of labor and overhead are on the rise, but companies should not let their External Audit firms try to pass on annual increases. With increased adoption of technology in this industry, efficiency gains and creative resource models should be leveraged to drive bottom-line savings.

- Due to decreased client demand, Big 4 firms have been forced to act aggressively to secure revenue, despite rising labor wages and overhead costs.
- Capability expansion, including the use of artificial intelligence, virtualization techniques, and increased proficiency in data analytics1, is leading to larger process efficiencies; companies should ensure they are receiving the margin from these efficiencies.
- Expanding offshore practices have also opened the door for discussions around shifting resource models and decreasing the total cost of services.
- Cost transparency in this industry continues to be a challenge. Companies should push for underlying detail on actual hours, rates and full resource roster associated for a holistic view on historical work.
- If your company has interest in switching auditors, it is critical to start the conversation late in Q1 of your Fiscal Year, in order to strategically approach sourcing activity and align the necessary stakeholders.

[1] https://www.forbes.com/sites/insights-kpmg/2022/10/26/three-key-areas-where-technology-is-modernizing-the-audit/?sh=4d80bfec2d70

ABOUT
INSIGHT SOURCING

Insight Sourcing is home to the largest team of dedicated sourcing experts in North America exclusively focused on procurement optimization and Procurement Value Creation™.

Our unique blend of procurement specialization, market leading Category Centers of Excellence, and proprietary digital accelerator, Insight TechAssist, has helped countless corporations and Private Equity firms develop tailored strategies to drive results.

In 2024, Insight Sourcing became part of Accenture. To learn more, visit **www.insightsourcing.com**

To learn more, visit **www.insightsourcing.com**
or call (877) 545-5182 for a consultation.
info@insightsourcing.com