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Supply chain at a crossroads: capital, capacity and the next growth imperative

Chief Supply Chain Officer Exchange debrief

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Introduction

In a recent Chief Supply Chain Officer Exchange, Ernst & Young LLP (EY US) and the Consumer Brands Association (CBA) brought together industry leaders to discuss the issues reshaping supply chain strategy in a more complex and cost-conscious business environment.

The conversation centered on portfolio simplification, manufacturing strategy, co-manufacturing partnerships, capital allocation, capacity management and rising external cost pressures. Across these topics, a common theme emerged: leading organizations are taking a more deliberate approach to where they invest, whom they partner with and how they build flexibility into their operating models.

As growth slows in some markets and competition for capital intensifies, supply chain leaders are re-examining long-held assumptions about manufacturing, capacity and network design. The discussion offered practical insights into how organizations are balancing efficiency, resilience and growth while positioning themselves for future opportunities.

Within these shifts, consumer expectations, regulatory demands and agricultural uncertainties continue to challenge supply chain leaders. Clear communication and faster decision-making are critical as CSCOs strive to balance service levels with economic realities. This debrief captures the key insights and strategies from the peer-to-peer exchange, offering a practical guide for navigating today's complex supply chain landscape.

Portfolio complexity and SKU rationalization

Portfolio complexity remains a significant challenge across the consumer products industry. Over time, organizations often accumulate SKUs designed to serve specific customers, channels or market opportunities. While many of these products may appear strategically important on their own, their collective impact can increase complexity across manufacturing, procurement, inventory and distribution.

Successful SKU rationalization requires an enterprise-wide perspective. Evaluating products solely on individual profitability can fail to capture the broader operational costs they create throughout the network. Products that appear attractive in isolation may drive inventory inefficiencies, increase production changeovers, and add sourcing and logistics complexity. However, removing individual SKUs often has unintended consequences across the enterprise.

Leading organizations are shifting their focus from individual SKU decisions to network decisions: the goal being to build a portfolio that supports strategic growth, improves efficiency and allows resources to be deployed where they create the greatest value.

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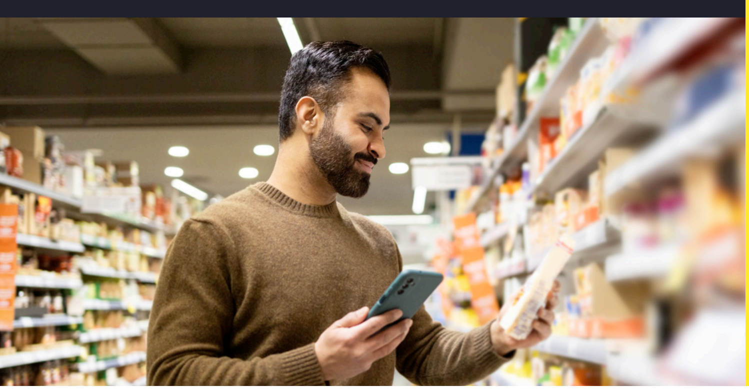

Manufacturing strategy and the expanding role of co-manufacturing

Co-manufacturing continues to evolve from a capacity solution into a strategic tool that supports growth, innovation and flexibility.

The most common application is new product development. Organizations increasingly use co-manufacturing partners to test products, validate demand and refine production processes before committing internal resources. This approach allows companies to move faster while reducing risk. Once a product demonstrates sustainable demand, leaders can evaluate whether production should remain external or transition in-house.

Co-manufacturing also provides an effective way to manage seasonal demand fluctuations and unexpected volume increases without expanding fixed assets. By leveraging external capacity, organizations can maintain service levels while preserving capital and improving operational flexibility.

Another common use case involves specialized capabilities that are not central to a company's competitive advantage. In these situations, external partners offer the knowledge and experience, scale, and established infrastructure that can be difficult or costly to replicate internally.

Capital allocation and the evolving make vs. buy decision

Capital allocation emerged as another major theme. Across industries, growth investments face greater scrutiny as organizations seek stronger returns and clearer business outcomes.

Participants noted that manufacturing expansion projects are now competing directly with investments in AI, automation and digital capabilities. As a result, supply chain leaders are expected to provide more rigorous business cases and stronger evidence of value creation. This shift is reshaping make vs. buy decisions.

Organizations are increasingly turning to co-manufacturing when external partners can provide greater scale, efficiency or flexibility than internal operations. At the same time, capabilities tied to proprietary processes, intellectual property or competitive differentiation continue to be viewed as strategic assets that should remain under direct control.

The discussion highlighted a broader shift in thinking. Decisions are becoming less about ownership and more about where capital can generate the greatest return while preserving strategic advantage.

Capacity utilization and monetization in a softer demand environment

As demand moderates across many categories, manufacturers are confronting lower utilization rates across production networks.

Participants described a common sequence of actions used to improve asset productivity and protect profitability. Organizations often begin by bringing outsourced production back into internal facilities to better utilize existing capacity and absorb fixed costs. When additional optimization is required, companies frequently consolidate production lines or facilities to simplify operations and better align capacity with demand. Many are also expanding private label manufacturing to generate incremental revenue from underutilized assets.

Should softer demand persist, leaders may pursue broader structural changes, including network redesigns, facility footprint adjustments and targeted investment decisions aimed at improving long-term asset efficiency.

External pressures: navigating cost and macroeconomic uncertainty

External cost pressures remain a significant concern for supply chain leaders. Transportation and logistics expenses continue to fluctuate, driven by variables such as diesel prices, freight rates and commodity inputs, including aluminum. At the same time, tariff uncertainty and ongoing geopolitical disruption continue to create volatility across global supply chains.

Organizations are responding through a combination of procurement optimization, transportation efficiency programs, manufacturing improvements and broader cost management initiatives.

A recurring theme was that cost management has become a continuous discipline rather than a periodic exercise. Organizations that can quickly adapt sourcing strategies, improve operational efficiency and respond to changing market conditions are better positioned to protect margins and maintain resilience.

Closing remarks

The discussion underscored a broader reality facing supply chain leaders today. Traditional assumptions about manufacturing, capacity, capital allocation and supplier relationships are being re-evaluated as organizations navigate a more dynamic operating environment. The companies making the greatest progress are simplifying unnecessary complexity, investing with greater discipline and building more flexible operating models. In an environment defined by uncertainty and constant change, the ability to adapt quickly while maintaining a focus on long-term value creation is becoming a defining characteristic of supply chain leadership.

Looking ahead

- **The growth model is broken — and the network is where it shows.**
  A demand reset (GLP-1s, private label up to three times vs. national brands, occasion fragmentation) is running a low-volume, high-mix portfolio through a network built for the opposite.
- **Capital is going to the wrong place.**
  With near-zero sector growth since 2023, companies keep sustaining aging assets while starving the capabilities they need most — automation, AI-enabled planning and brand building.
- **A portfolio-backed lens shows where to act.**
  The cost and SKU work is largely done; defining where to protect, accelerate, reshape or rationalize points to the real unlock — monetizing underused plants and restructuring external partnerships to convert fixed-cost drag into growth capital.
- **The boldest move reimagines ownership itself.**
  Leaders are beginning to decouple control from ownership — treating the manufacturing network as an infrastructure-grade asset that unlocks trapped capital at scale while retaining operational control. Move first and you fund your own advantage; wait and you fund your competitors’.

Click to learn more about EY supply chain services or contact us to discuss further.

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