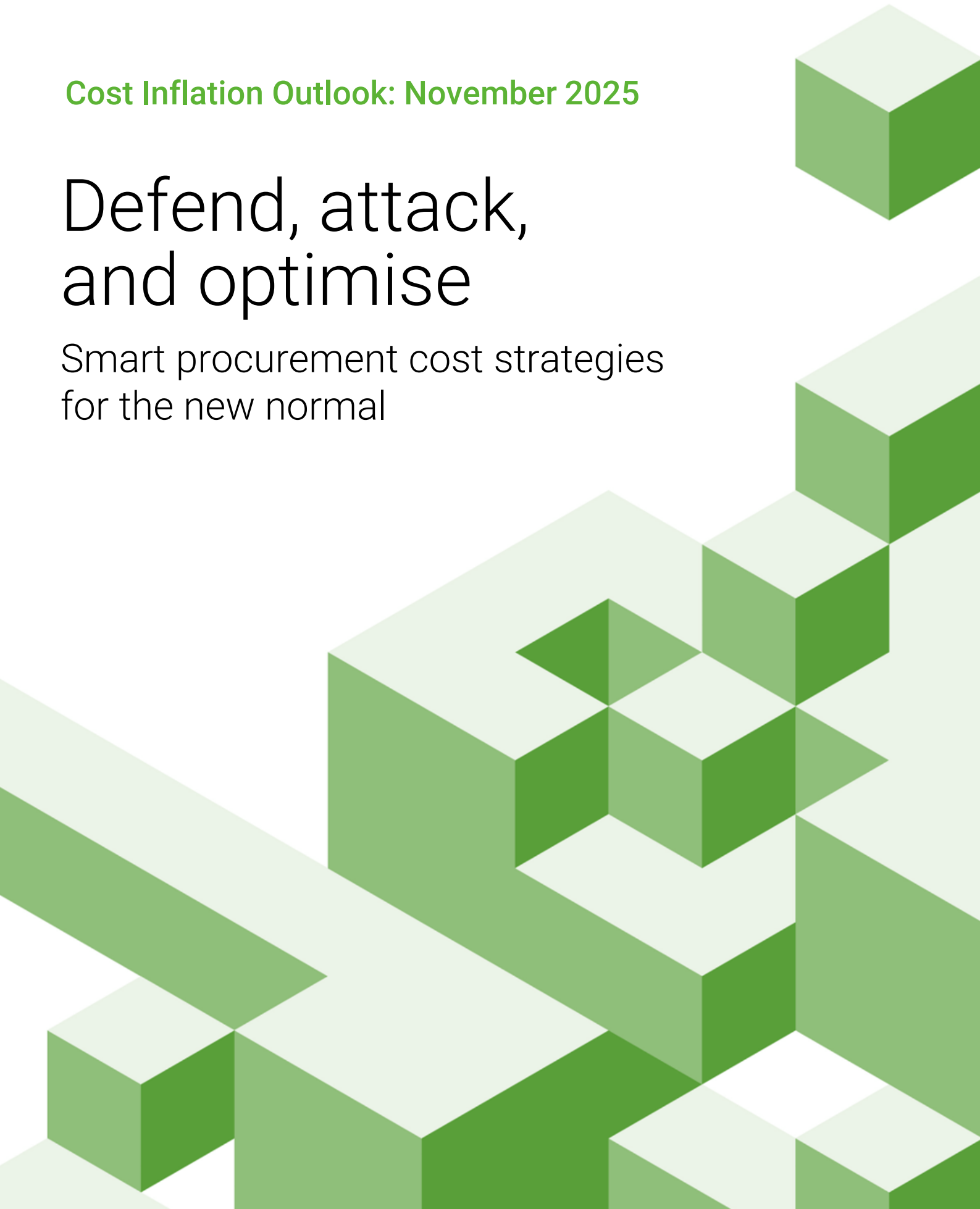


# AlixPartners

Cost Inflation Outlook: November 2025

## Defend, attack, and optimise

Smart procurement cost strategies  
for the new normal



# How should Procurement teams improve and sustain results in today's turbulent supply market?

## 01

### Defend

- Protect against external shocks by anticipating raw material and services shortages.
- Build transparency across the supply chain to strengthen supplier resilience through sub-tier supplier mapping.
- Proactively secure critical materials and components through dual sourcing, diversification and supplier partnerships.

## 02

### Attack

- Reset strategic sourcing and supplier negotiations capitalising on partially deflationary markets and shifting supplier dynamics.
- Turbo-charge negotiations with advanced should-cost modelling, specification complexity reduction, and technical cost reduction analytics.

## 03

### Optimise

- Reset procurement operating model to rigorously and relentlessly deploy data insights, AI decision prompts and end to end workflow efficiency.
- Connect real time supply market triggers with resilience, commercial and operational action prompts
- Adopt AI to automate and fast-track workflow bottlenecks including contract redlining, P2P workflow orchestration and alternative supplier identification and onboarding



# Disruption persists...

Multiple forces are simultaneously challenging traditional procurement approaches, demanding new strategies for cost management, risk mitigation, and competitive advantage



## Tariffs and trade barriers

Trade tariffs and changing policies are disrupting manufacturing and supply chains – sudden cost hikes and unpredictable rules that make compliance more complicated. These changes don't just raise costs – they also cause delays, force companies to rethink supplier relationships, and increase the need for better supply chain oversight. To handle these challenges, companies are using advanced risk management, looking for new suppliers closer to home, reshaping their supply chains, and integrating operations vertically. This helps them reduce risks from future trade policy changes and stay competitive in a world where global trade is becoming fragmented.



## Deflation outlook in Food & Beverage

After a long period of rising food and drink prices in the U.K. (5.1% inflation as of August 2025) some deflationary trends are now emerging. The situation reflects supply chains returning to normal, better crop yields, falling energy costs, and changing consumer habits that favour value over premium products. This creates new opportunities and challenges for procurement leaders who should act to renegotiate supplier deals and re-think cover strategies, while continuing to plan for cost pressures still present in the system.



## China Plus One

Companies are no longer just trying to reduce risks by moving manufacturing away from China – they are fundamentally changing how they operate. While China offers unmatched manufacturing scale, deep supply chains, and huge market access, companies are now investing heavily in alternative locations like Southeast Asia, India, and Mexico. Foreign investments in Southeast Asia jumped to \$236B in 2023 from \$190B in previous years.

This shift requires major investments in facilities, skills, suppliers, and technology, all while keeping quality high and costs competitive. The key to success is balancing continued access to China's large market and supply networks by building a more resilient, geographically spread manufacturing base.



## Persistent labour cost pressure

Labour costs keep rising even in uncertain economic conditions. Minimum wage hikes and fierce competition for skilled workers are driving steady cost inflation that doesn't follow normal economic slowdowns.

Global salaries are expected to rise by an average of 4.5% in 2025, with manufacturing pay staying strong. Across OECD countries, real wages rose 2.5% in the first quarter of 2025.

Companies are responding by using AI to boost automation, improve workforce productivity, and shift work to lower-cost regions. They are also redesigning pay and reward structures to align with new regulations that expand worker protections and pay requirements..



## Strategic shortening of critical raw materials

The global supply of key raw materials – rare earths, semiconductor-grade silicon, germanium, lithium, and high-performance alloys – is tightening sharply. Geopolitical tensions, export controls, environmental rules, and highly concentrated production are creating serious vulnerabilities for industries that depend on advanced technologies.

China dominates the market, controlling about 90% of rare earth processing and nearly 70% of total production. Prices are surging: germanium rose 115% from £945/kg in early 2023 to £2,050/kg in mid-2024, while dysprosium is expected to climb 340% to \$1,100/kg by 2034.

These pressures go beyond short-term supply gaps. Companies must now lock in multi-year supply contracts, invest in substitute materials, build vertically integrated operations, and form partnerships with both suppliers and governments to secure access. The problem is intensified by long lead times for new mines, refineries, and supply chains, even as demand accelerates with electric vehicles, renewable energy, high-tech manufacturing, and defence needs – all stretching existing capacity and logistics to their limits.

# Perspective on 2026 cost outlook

According to insights from our data partner Expana, key crops are predicted to decline heavily over the course of 2026, while other categories remain volatile with no clear trend at a cost area level.\*

Cost area	Sep '25 Price change	2026 Cost outlook	Price movement drivers
Food and beverage			<ul style="list-style-type: none"> <li>After extreme 2024 spikes (chocolate +134%, coffee +57%), improved harvest forecasts from Brazil and Asia are creating oversupply conditions, with sugar inventories building and cocoa facing potential surplus</li> <li>Industrial buyers reduced consumption following record commodity costs, with cocoa grindings down 7-16% across regions as manufacturers struggled with margin pressure</li> <li>Weather remains a wild card as, while current outlooks favor production, climate risks persist for key growing regions. However, improved crop management and diversification are reducing volatility</li> </ul>
Flour*			
Sugar			
Chocolate			
Coffee			
Chicken*			
Sunflower Oil			
Industrials			<ul style="list-style-type: none"> <li>A post-pandemic correction is underway. Steel and aluminum markets are normalising after artificial supply-demand imbalances, with China's overcapacity particularly impacting global steel pricing</li> <li>New aluminium smelters are coming online in Indonesia by mid-2026, while demand growth from renewables and EVs provides underlying support</li> <li>Steel is expected to rebound on infrastructure demand, while aluminium faces potential surplus driving prices down</li> </ul>
Aluminum			
Steel			
Tin			
PP*			
HDPE*			
Packaging			<ul style="list-style-type: none"> <li>Pulp price volatility is decreasing after 2021-2022 cycle, though wood costs maintaining some upward pressure on paper grades</li> <li>Major industry M&amp;A activity (Mondi, International Paper sales) is reducing overcapacity but maintaining competitive pressure</li> </ul>
PET*			
Pulp and paper*			
Transportation			<ul style="list-style-type: none"> <li>Asia-US routes are down 58% from June peaks, as shipping capacity exceeds demand, with carriers implementing blank sailings to stabilise pricing</li> <li>Asia-Europe is showing resilience with 6% growth forecast vs. transpacific softening, supported by improved European economic conditions</li> </ul>
Shipping US-EU			
Shipping China-EU			
Shipping China-US			
Energy			<ul style="list-style-type: none"> <li>UK electricity is down 13%, gas is down 16% year-over-year, with crude oil 13% below February levels as global supply conditions improve</li> <li>US oil production increases and China demand peaking create well-supplied markets, while European gas remains constrained but stable</li> <li>Government price caps are providing structural downward pressure</li> </ul>
Oil			
Gas*			
Electricity*			
Labour			<ul style="list-style-type: none"> <li>US wage growth at 5.35% significantly exceeds European levels (3.3%), driven by tight labour markets and legislated minimum wage increases</li> </ul>
Labour*			

**Magnitude of arrows:** <-10% -10% to -2% -2% to 2% 2% to 10% >10%

Based on current supply trends, which categories should companies address and how should they navigate the market?

Notes: This outlook (accurate as of September 2025) is built using data-driven insights and projections based on commodity market trends and supply chain insights from our partner Expana. 2025 forecast ranges are based on price increases using December 2024 as a price base. Considers global prices; cost areas with an asterisk (\*) are based on regional prices. This perspective does not include the additional impact on imports for U.S. companies.

Source: Expana, AlixPartners' analysis, AlixPartners' Supply Chain Market Update

# How have we helped our clients?

**AlixPartners helps procurement leaders address these challenges** with rapid and relentless focus on enduring results. We bring advanced analytics, alignment and deep operator experience to drive tangible P&L impact.



## Tariffs and trade barriers

For a \$4-5B North American bakery, two structured sourcing waves across direct ingredients were executed, combining internal price/performance reviews, external and prior-client benchmarks, and use of AlixPartners' Global Trade Optimiser (GTO) – see page 7 for further details – to surface internal supply options and tariff-improvement opportunities while upskilling Procurement with training, RFP templates, and joint events.

**Addressed theme:** GTO highlighted tariff-exposed ingredients and supplier alternatives, enabling targeted bids and negotiations to mitigate duty impact and macro risk while institutionalising a repeatable, data-driven tariff-management playbook in Procurement.

**Outcome:** More than \$20M in cost reduction was delivered – equating to roughly 5-7% across direct ingredient categories – while transforming the team's sourcing cadence and toolset for ongoing tariff resilience.



## F&B deflation via should-costing

For a £2B U.K. pub and restaurant operator, detailed logistics footprint modelling and should-cost tariff development were used to guide a competitive selection of logistics providers, support bidder negotiations, and rationalise product flows across multiple supply chains.

**Addressed theme:** The should-cost models set objective, defensible targets that created immediate deflationary pressure on logistics rates and informed channel shifts to lower total landed cost in a challenging F&B cost environment.

**Outcome:** Approximately 25% logistics savings were identified versus current levels, alongside ~£4M in product margin improvements by moving stock through the most efficient channels and embedding the should-cost tariff in negotiations.



## China Plus One (automotive)

For a Japanese Tier-2 automotive supplier, a turnaround and footprint re-optimisation plan relocated labor-intensive cutting and inspection to Southeast Asia while establishing local production and JV partnerships in China to avoid customs duties and secure volume, backed by detailed OEE and profitability improvement tracking.

**Addressed theme:** The program operationalised a China-Plus-One posture – adding low-cost capacity outside China while retaining in-China local-for-local production – reducing concentration risk, labour exposure, and duty leakage.

**Outcome:** The business strategy, action plans, and implementation system were completed and agreed by shareholders and management, with OEE and profitability improvements initiated under an agreed governance and milestone plan.



## Sticky labour cost inflation

For a >\$9B North American brand portfolio company, a region-wide QuickStrike assessed all functions, then designed and sequenced an organisational restructure, process changes, and a change management plan to rebalance spans/layers and refocus teams on value-driving work.

**Addressed theme:** Headcount reductions and operating model simplification directly countered labour-cost inflation, while supplier negotiations and efficiency levers addressed non-headcount spend to protect margin in a high-inflation environment.

**Outcome:** ~\$300M annual EBIT benefit was identified, including ~\$140M in headcount savings and ~\$160M in non-headcount savings, with a 12-month path to a 10% EBIT target in the region.



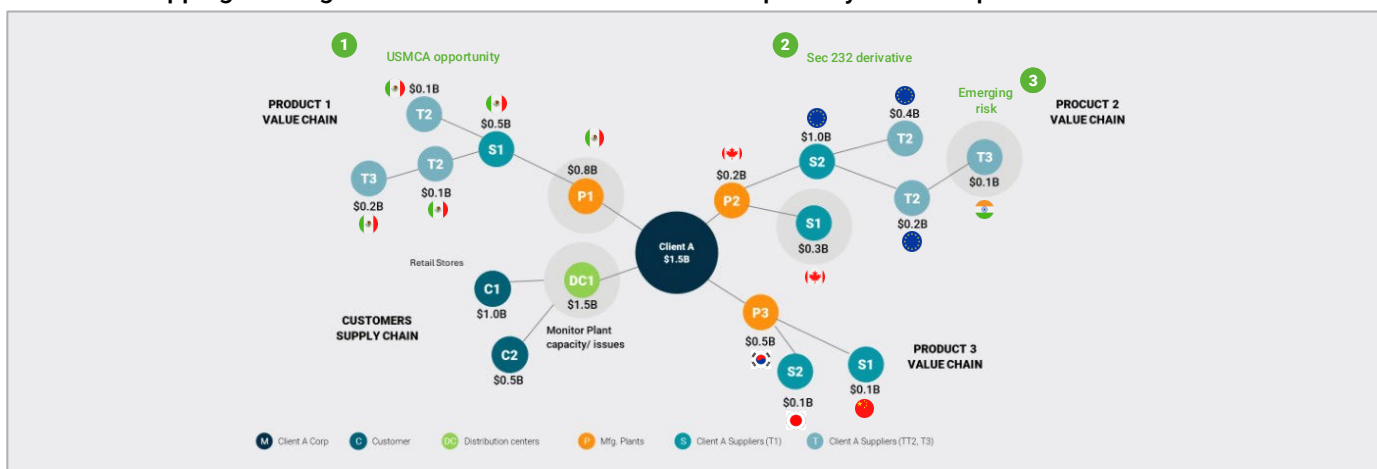
## Shortening critical raw materials (N-Tier)

For a global Petcare manufacturer, AI-assisted N-Tier mapping covered ~\$1.2B of raw material spend across 600 critical materials, identifying ~70,000 potential tier-2-to-5 supplier nodes and ~5,000 validated connections using multi-level evidence scoring and an interactive visualisation.

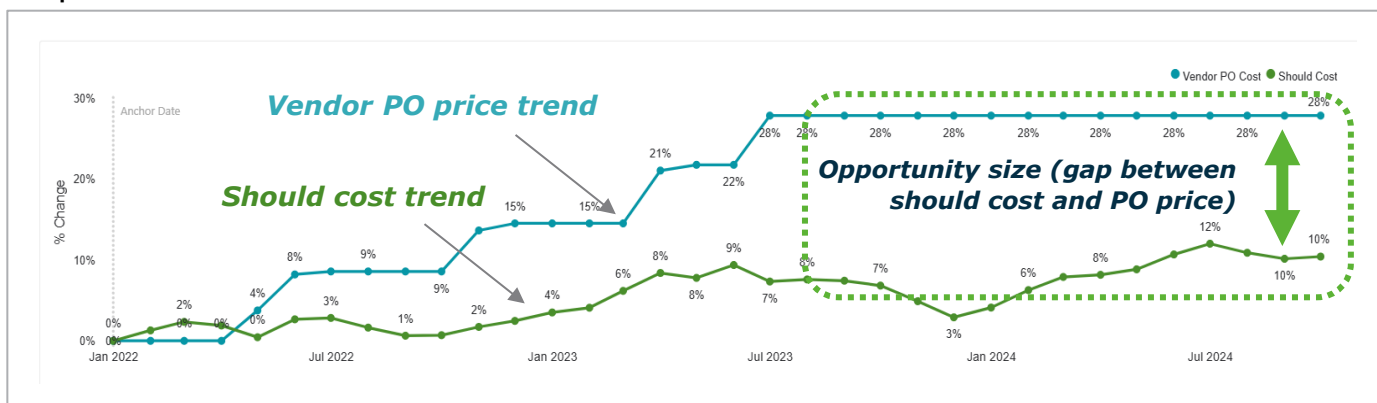
**Addressed theme:** The maps exposed upstream concentration and tariff exposures and surfaced USMCA and Section 232 opportunities, enabling targeted actions to shorten supply paths, diversify nodes near tier-1s, and strengthen negotiating leverage.

**Outcome:** The organisation gained end-to-end visibility across critical value chains with prioritised next steps to improve resiliency, quality, and cost – anchored by a repeatable playbook to maintain and enhance the maps over time.

### Our N-tier mapping offering enables our clients to achieve transparency on their upstream value chain



### Our should-cost models offer data-driven insights to drive value in supplier negotiations based on underlying cost components movement



# AlixPartners' deep category procurement expertise is supported by the Global Trade Optimiser platform (GTO)

AlixPartners' proprietary GTO platform helps companies drive supplier cost-efficiency and build resilient and agile supply chains, through advanced AI-driven analytics.



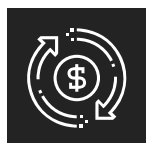
**Supplier research and intelligence:** To build resilience and agility including alternative suppliers and sub-tier mapping.



**Bespoke supply chain solutions:** Including footprint simulation, TCO, and price arbitrage.



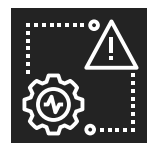
**Source-to-procure workflow:** Demand management, specification and technical cost optimisation scenario modelling.



**Should-cost/Should-pay models:** To assess and improve product cost and margin.

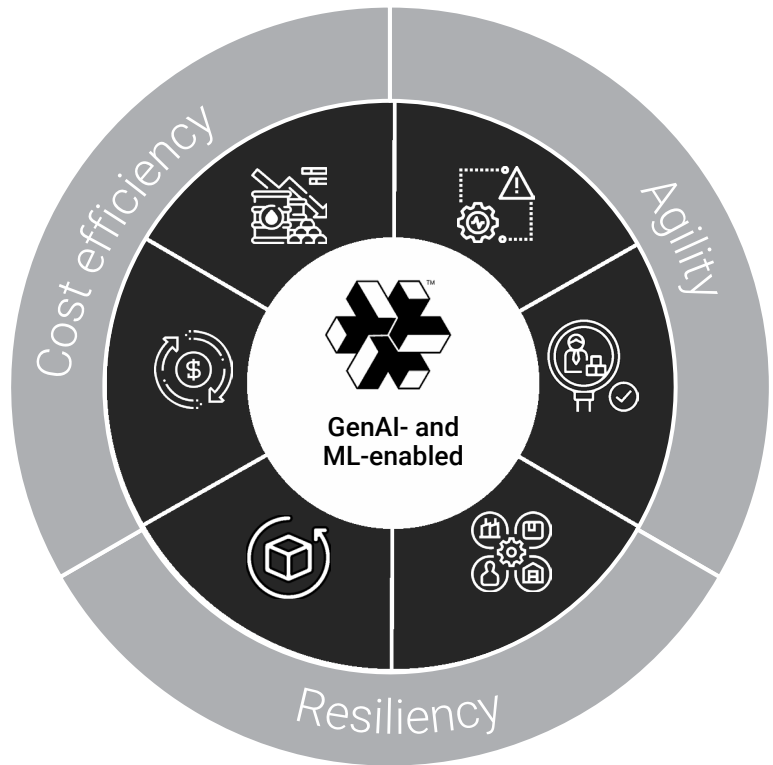


**Trade and commodity intelligence:** To assess impact due to global shifts/trends.



**Supplier risk management:** To assess, monitor and mitigate risks.

## AlixPartners' GTO platform



### Platform database

14K

Live global commodities

2M+

Global suppliers and manufacturers

20K+

Cost models

\$15T

of imported goods (U.S. and EU)

8B

Electronic components

1,000+

AI models, libraries, and templates

and more...



# How AlixPartners drives transformative procurement results in difficult markets

Inflationary and highly disrupted supplier markets require new procurement muscle, data insight, and agility. AlixPartners’ experienced procurement teams and suite of tools help our clients predict and mitigate inflationary impacts.

## We act as an execution partner for “when it really matters” situations, offering:

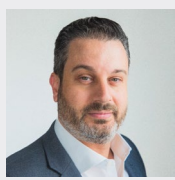
	<p><b>High-impact sourcing</b> Rapid diagnostic and execution supported by AI-driven should-cost modeling and global supply market intelligence</p>		<p><b>Supplier network optimisation</b> Supplier footprint optimisation, nearshoring, and alternative supplier development</p>
	<p><b>Global tariff and trade optimisation</b> Current tariff impact assessment and available mitigation options: duty engineering, customer pass-through, and alternative sourcing</p>		<p><b>Margin management</b> A source-to-price approach delivers cost pass-through and over-recovery through targeted customer pricing linked to COGS impact</p>
	<p><b>Technical cost reduction</b> Design- and source-to-value approaches deliver actionable specification changes, substitutions, product redesign, and operational efficiencies</p>		<p><b>Supply market resilience</b> Transformation is realised through predictive early warning analytics, supply chain transparency, and new procurement operating models</p>

## Contact our EMEA cost transformation leaders to navigate and address market complexity, including how to:

- Overcome market trends to secure savings even in rising markets—and capitalise on deflationary opportunities
- Leverage advanced sourcing tools to secure the best market prices
- Implement should-cost and design-to-value initiatives to optimise demand and specification
- Implement robust dual/multi-sourcing strategies to mitigate procurement risks



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# AlixPartners

## ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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