On the 2024 board agenda: Consumer & Retail

January 2024

Consumer and retail (C&R) companies are mostly confident coming into 2024. They built resiliency and transformed their organizations throughout the pandemic years to become far more agile. And overall, the recession many anticipated in 2023 looks less likely to materialize; the hope and chance for a soft landing has become a reasonable expectation.

However, executives and board members are remaining extremely vigilant against macroeconomic and geopolitical headwinds. Already on deck in the coming year—ongoing conflict in the Middle East and Ukraine, rising cybersecurity threats, a wave of new rules and regulations, a sluggish global economy, the US presidential election, and the expansion of generative artificial intelligence (GenAI)—with all of its opportunities and risks.

High labor and input costs are squeezing already thin margins, and customers are limiting discretionary spending and sticking to bargain hunting as they adjust to lingering inflationary pricing. World events, emerging technological innovation, and especially the evolution of consumer behavior will keep directors and management on their toes.

Despite the disruption in the background, C&R executives are returning to a growth mindset. They are ramping up customer acquisition and aiming for more stable profitability, while still finding ways to invest in talent and technology to serve as the foundation for future growth.

Our conversations with C&R leaders and our consumer pulse surveys have helped us identify and provide insights around 10 board agenda themes for directors to consider as they guide management through the coming year.

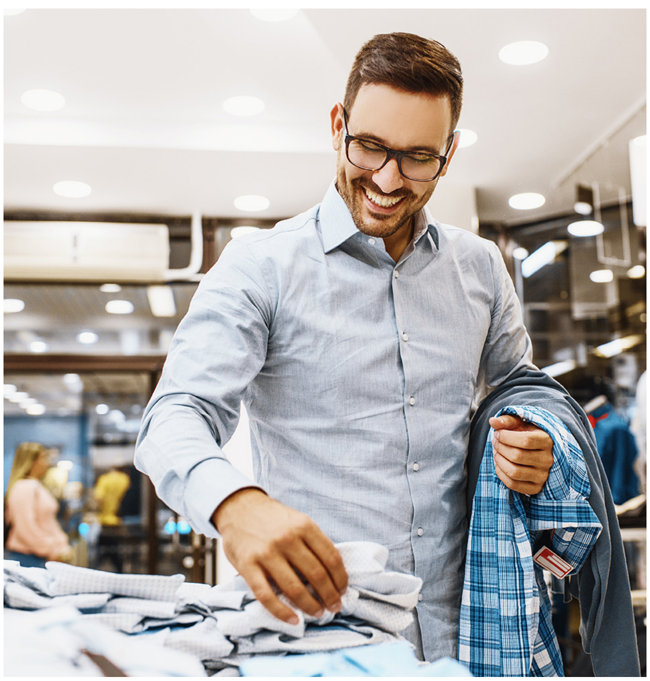
- Establish a foundation for growth through an extended period of economic uncertainty, inflation, and high cost of capital
- Bridge the customer experience gap between online and in-store shopping
- Reshape the brand portfolio for profitable growth through wavering consumer demand
- Understand potential impacts of geopolitical unrest and country concentrations
- Monitor management's design and maintenance of a governance structure to support the strategic long-term benefits of artificial intelligence (AI) and GenAI
- Leverage partnerships and digital technologies for direct customer engagement and an improved omnichannel experience
- Incorporate supply chain efficiencies and other lessons learned from the pandemic
- Prioritize talent management and culture and understand their impact on labor
- Improve cybersecurity resilience against the growing risk of the extended enterprise
- Fine tune board structure and composition for effectiveness in an ever-changing consumer world

Establish a foundation for growth through an extended period of economic uncertainty, inflation, and high cost of capital

US consumers have benefited from job creation and can still draw from savings that are deeper than initially thought. In fact, some student loan borrowers began repaying early, one indication consumer balance sheets are in decent shape.

Overall, the US economy remains resilient, surging at a 5.2 percent annualized pace over the summer with gains in consumer spending alone accounting for more than half the increase despite aggressive credit tightening. However, real GDP growth is expected to slip about one percent in the first half of 2024 as the impact of the Federal Reserve's cumulative rate hikes and further credit tightening by lenders finally hit hardest.

Other headwinds include rising credit defaults due to the effect of high interest rates on compounding debt, restricted lending for larger purchases, and high mortgage rates hampering home building and sales. While KPMG Economics does not anticipate rate decreases until mid-2024,[1] uncertainty around inflation and US Federal Reserve action remains, and these economic impacts on consumer confidence and ultimately consumer demand is a top concern for C&R industry leaders and board members.



The consumer demand uncertainty and the high cost of capital are causing some C&R companies to pull back on large, particularly inorganic, investments and instead prioritize organic growth, product development, and the ability to capture merchandise trends. Labor, a necessary component of that growth, will continue to be in short supply for the foreseeable future, with wages holding or even expanding to attract talent. Importantly, board members will need to challenge management on both short- and long-term growth strategies that can capture consumer demand at a stronger growth rate than the competition.

Organic US population growth has slowed and is expected to reach zero within 20 years,[2] a story already written out in aging developed nations such as Japan and Italy. Unless or until there is a change in US immigration policy to expand the potential labor force, companies need to rely on technology transformation and innovation, including AI, to grow through increased productivity. Board members should be closely monitoring management's cost-cutting proposals that reduce the investment in technological innovation proven to increase productivity.

Overall, the postpandemic world is expected to be more prone to a longer-term inflationary environment.[3] C&R companies should understand the impact this is having on customer cohorts not only in a generational view, but also through studying behavioral patterns of customer groupings over time. With this knowledge, companies can improve how they directly market and personalize offers to customers.

Board member questions to consider:

- What technologies and processes are planned or in place to improve productivity and offset a shrinking labor force?
- What is the plan for managing through inflation (both inputs and pricing) that may last far longer than historical cycles?
- Are product portfolios appropriately balanced to attract customer groups that are very likely changing behaviors, including trading down or delaying purchases?

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[1] KPMG, "The Fed's final round… Special biannual report," December 11, 2023
[2] Congressional Budget Office, "The Demographic Outlook: 2023 to 2053," January 24, 2023
[3] KPMG, "Trouble in the Tetons… Disinflation and the global outlook," 2023

Bridge the customer experience gap between online and in-store shopping

Consumer expectations for superior retail experiences across digital and in-store interactions have ballooned coming out of the pandemic. Whether they are shopping online, via social media, or in the store, consumers expect frictionless shopping and purchases across digital and physical channels.

Shoppers, especially Gen Z, are returning to retail locations expecting the same great experience they had with brands online. At the same time, associates are finding it difficult to serve customers on the floor while performing additional store operational responsibilities, including fulfillment for buy online/pick-up-in-store and ship-from-store demand.

As the board understands, a retailer's brand perception is largely shaped by its ability to deliver these seamless experiences where consumers want them, when they want them, and how they want them. Retailers that succeed differentiate themselves and engender trust and loyalty, while gaps between online and in-store experiences are perceived as "breaks" in brand promise.

Addressing the gap requires management's intentional focus on six areas:

- Integrity. Build trust by ensuring online and in-store interactions are safe, secure, and accurate.
- Resolution. Develop an operating model and culture that is quick to recognize and correct dissonance with urgency.
- Expectations. Measure customer and associate satisfaction and proactively identify and address issues to meet and exceed customer expectations.
- Time and effort. Make the customer experience easier and more frictionless to make buying decisions easy.
- Personalization. Leverage data and insights across the customer-to-cash value chain to deliver personalization both online and in the store.
- Empathy. Develop a culture that values emotional intelligence when interacting with customers and associates.

Board members should continually challenge management to ensure the company is providing the best customer experience both in store and online, particularly to hold off further deterioration in a softening demand period.

Board member questions to consider:

- Has the company clearly envisioned and designed intentional, seamless customer experiences across channels?
- How are supply chain fulfillment and replenishment operating models enabling integrated customer experiences?
- How is the company optimizing their associate staffing models within and across physical stores to reflect changes in customer channel preferences?
- What is the plan for enhancing technology online, in physical stores, and in the hands of associates that "blur the line" between physical and digital experiences?
- Has management explored new "marketplace" business models and partnerships to expand product and service assortment mix?

Reshape the brand portfolio for profitable growth through wavering consumer demand

Recent income statements of many C&R companies display higher revenues and narrower profit margins. High inflationary cost increases along every line item in the P&L is driving these outcomes—most of which are only partially offset by higher pricing.

Masked in these results are unit volume declines as consumers trade down, foregoing the familiar branded products for more cost-conscious options. Inflation has trained consumers to be value hounds—more deal seeking prioritizing pricing, value, and promotion, with fewer whimsical and discretionary purchases. They comparison search online for bargains, research brands before shopping, wait for sale events, and favor mass merchandisers, discount stores, and department and club stores.

If manufacturers and retailers are pressured to lower their prices while vendor and supplier costs remain elevated into 2024, the situation becomes untenable, and profits will decline at a rapid rate. To mitigate the downward pressure of this cycle, the top priority for C&R companies should remain the constant evolution of the brand portfolio to ensure they can succeed in any type of macro environment.

Management should demonstrate a deep understanding of the new steady state of the business, including where and how the company earns profits given the postpandemic reset around products, distribution channels, customers, and margins. Only then can they best determine adjacent spaces to move to, where to invest, what to acquire, and what should be divested.

This latter point of divestiture consideration should be addressed for brands that may be underperforming, perhaps better served in another owner's hands, and even to address an unfavorable opportunity cost of continuing to hold; funds generated in a sale can be redeployed to support a more cohesive set of business objectives. This strategic challenge is something board members should continually push to include on the board agenda with adequate discussion time.

The higher interest rate environment will continue to make deal-making more complicated, and margin challenges will mute transaction volumes. However, strong performing brands that are in high-demand subsectors can expect to continue to see competitive auctions. Companies can still drive total value by identifying a differentiated story only they can tell with complementary additions. Likewise, the right acquirer could have greater ability to absorb more of the cost structure than a competitor.

For companies looking to fund growth, debt is starting to mature, and refinancing terms will not be as favorable as before, largely affecting private-equity backed businesses and middle market consumer goods companies and retailers. Many will need to measure costs at a granular level that can help them make the right trade-offs, cutting costs and uncovering efficiencies to support portfolio initiatives.

Board member questions to consider:

- What is the steady state of the business after the last several years of change? Based on both external conditions and internal strategies and operations, where are the most promising opportunities to pursue profitable growth?
- Do existing brands provide sufficient competitive differentiation? Can we continue to perform in challenging economic circumstances?
- Does the company's portfolio include the right mix of brands that can drive both top- and bottom-line growth? Does management continually assess brands for divestiture and acquisition?
- Is the company thinking beyond the typical brand and geo extensions in updating its product portfolio? What is the ROI for products in development and from the innovation pipeline?
- Does the company have the balance sheet, liquidity, and access to capital to realize strategic changes to its brand portfolio?

Understand potential impacts of geopolitical unrest and country concentrations

C&R companies face a growing level of global conflict and potential for disruption in 2024—geopolitical, economic, climate, energy transition, societal, etc.—that could impact their operations, particularly supply chains.

Since the pandemic, brands have tried where possible to reduce the physical concentration and distance of their sourcing and operations. They have much deeper knowledge of potential disruption and impacts, and they have improved data, analytics, technology, and skills to trouble-shoot issues and manage inventory. The remaining challenge is better and clearer visibility through technology advancements and improved supply chain relationships. Board members will want to raise and request not only the current-state view, but also the path to improved supply chain visibility to reduce risks in the future.

Conflict in the Middle East, an ongoing Russia-Ukraine War, and uncertain strength in US-China relations means global C&R companies can't rest. They should continually review concentration risk and overreliance on countries where they source raw materials, produce products, or assemble and ship goods. This has put a spotlight on strategies for near-shoring and friend-shoring to move operations closer to the consumer or to countries that are lower risk due to shared political and other beliefs.

The cost, time, and other resources required by such potentially massive supply chain shifts impacts almost every functional area of the business and requires active board-level oversight. In just one example, new environmental, social, and governance (ESG) disclosure rules include Scope 2 and 3 emissions in the supply chain where retailers have their greatest decarbonization challenges. Any proposed supply chain realignment or reduction in concentration risk should factor in the ESG implications.

Meanwhile, the polarization of society could widen even further in 2024 during the lead up to the US presidential election, potentially aided by GenAI and social media–fueled misinformation, economic volatility, and other geopolitical stressors. Retailers need to protect and support their brands and their associates, and boards and management should talk openly about the approach and process for CEOs or other executives who plan to speak publicly on geopolitical or social issues.

Boards should check that the company continually updates risk profiles and crisis response plans with lessons learned from regular scenario planning and stress testing. With preparation, the company can build resilience that will allow it to manage through these challenges.

Board member questions to consider:

- How frequently is management updating the enterprise risk process that is inclusive of geopolitical and economic risk? Is it frequent enough and with adequate risk mitigation and monitoring plans?
- Has the board and management agreed on topics that the CEO can freely speak and respond to?
- Does the company have an early warning system that includes key risk indicators that signal action by management if an unacceptable level of risk is reached?
- What plans are in place to reduce exposure to geopolitical risk in future years? Does this include supply chain realignment to reduce concentration risk with high-risk countries?

Monitor management's design and maintenance of a governance structure to support the strategic long-term benefits of AI and GenAI

The ability for GenAI to accelerate growth and efficiencies across C&R organizations has created a wave of excitement. Far more than in other sectors, C&R executives believe GenAI will have the greatest transformation impact in marketing and sales, which creates even more excitement given the unpredictable levels of consumer demand. Brands are exploring the use of GenAI to analyze customer data and create personalized recommendations, develop trend and predictive analysis for inventory management, and generate content including marketing copy and product summaries.[4]

Training algorithms and other aspects of standing up GenAI capabilities takes time, and first movers in applying GenAI in C&R will have a clear advantage. At the same time, C&R companies need to be purposeful in their development and use of the technology within a trusted and responsible framework.

The board can guide management to focus efforts on the overarching opportunities for GenAI to change the trajectory of the business: productivity enhancement, improved decision-making, and the potential to create solutions that truly impact the bottom line. Use cases should reflect opportunities that are outcome based, measurable, and transformative. And testing should occur on a secure white label GenAI platform for internal use to prevent data leakage and lower the risk of losing intellectual property to the outside world.

Management and directors benefit from an education in GenAI that includes understanding the technology but is more focused on business risk implications, such as the quickly evolving global regulatory landscape and recommendations around traceability, explainability, controls, and other elements of trusted and responsible AI.

Once introduced, the impact of GenAI will ripple across the company, including reshaping the workforce. Boards should work with management now to plan for talent and resource needs through upskilling, hiring, and leveraging third parties—an additional risk consideration. Companies may also look at creating a cross-functional governance council for AI that includes employees responsible for data stewardship, legal, cybersecurity, and human resources (HR).

Board member questions to consider:

- Has management articulated clearly to the board the value it seeks from implementing AI and GenAI?
- What is management's roadmap for GenAI? Are milestones and responsibilities clearly defined?
- Does the board understand GenAI well enough to provide oversight, and does the board structure allow for sufficient time on the agenda to discuss the significant opportunities and risks?
- Is management balancing its plans to implement GenAI as quickly as possible with good governance, policy, and controls leveraging a trusted framework?

[4] KPMG, "KPMG generative AI survey report: Consumer and retail," April 2023

Leverage partnerships and digital technologies for direct customer engagement and an improved omnichannel experience

Consumer brands and retailers look to delight customers across all channels with the capabilities to meet them where they are and want to be. Since shoppers returned in person after the pandemic, e-commerce transactions have declined slightly, but overall online engagement remains higher, driven by previously underpenetrated sectors such as grocery, decor, and home improvement. This suggests a long-term trend of customers leveraging digital channels to gather information on brands and products, and a blurring of the channels between transaction, fulfillment, and distribution.

Providing a seamless omnichannel customer experience is easier said than done and remains a primary industry focus for 2024. Management needs a deep understanding of the full customer journey before it can align digital strategy to reach customers as early as possible and at appropriate points along that path. For CPGs, it means meeting consumer desire to research, discover, and find inspiration, such as a beauty brand might do through influencers on TikTok and Instagram. The trend toward transactions through social sites is still nascent in the United States but growing in China among other countries. Given its significance to strategy, it is important for boards to understand the customer journey across channels and to push management to enhance alignment.

Partnerships have been and will be important for companies to execute omnichannel strategies. Shop-in-shop is still popular both for brands as well as for certain multicategory sellers trying to increase the productivity of their space. Increasingly important are partnerships that allow companies to sell and deliver directly to consumers' homes without investing in new or expanded fulfillment capabilities.

Disrupters paved the direct-to-consumer (DTC) path, and now brands are sharpening their focus on identifying value from DTC channels. They are looking at first-party data and innovation while trying to manage marketing and fulfillment costs through use of third-party partnerships. Even if sales and profit margins from a DTC channel are not significant, the data can be worth the effort when paired with advanced data analytics capabilities to uncover new insights on preferences. CPGs could even use the channel to test new products, for which they typically need to rely on their channel partners and retailers.

For retailers, who have the most comprehensive direct relationship with their customers, the ability to analyze vast amounts of data at high speed is only improving. Retailers are now investing in a unified data strategy that ensures they have the same data on customers, products, and inventory across channels and functions (e.g., supply chain, merchandising, customer service, etc.) and that the data is real-time to enable seamless interaction and transactions.

The next step is to embed access to data analytics throughout the organization to better inform their business. A board-level conversation around how the data from expanding C&R channels stand to benefit the company both near- and long-term can be extremely useful as an agenda topic or leading into long-range strategic planning.

Finally, those with brick-and-mortar locations need to stay apprised of the increasing complexity of the store operating model. Once tasked primarily with handling merchandise and checkout, retail associates increasingly operate mini fulfillment centers. Companies need to properly support employees in their changing roles and ensure a positive customer experience. For some retailers, this could include expanded self-checkout, smaller stores, dark or fulfillment stores, and off-mall locations.

Board member questions to consider:

- How is the company using digital technology to drive long-term engagement with consumers? Is digital strategy fully aligned with the customer journey, across all channels?
- Is the company exploring partnerships with other brands, distributors, and other companies that can expand its omnichannel presence?
- For CPGs, has the company identified the value of a DTC channel, both the untapped potential of first-party data and the ability to manage the costs of marketing and fulfillment?
- What is the role of the store across the customer journey and its contribution to a superior omnichannel experience? What is the long-term vision for the in-store operating model?

Incorporate supply chain efficiencies and other lessons learned from the pandemic

Inventory is largely back under control with fewer stockouts, overstocks, and supply chain snags, and 2023 marked the first year since the pandemic that there's capacity across most of the system. Inflationary prices also continued to settle down, creating a bit of a tailwind in comparison to prior years.

Boards have a deeper understanding of supply chain risks having come through the pandemic's turbulence. However, even those companies that fared well should review vulnerabilities exposed by the supply chain storm, including partnerships, business processes, and core data (especially for forecast purposes). Directors will want to see management making clear improvements in agility and efficiency.

Forecasting for consumer demand, in-stock levels, and on-time delivery is improved but not back to the levels expected. Per the example in grocery retail, the well-documented empty shelves had overall on-time delivery from CPGs to retailers dipping into the 80 percent range compared to historical expectations (96–98 percent on average). This one-time pass during the pandemic is no longer acceptable by companies or retail customers; precision is once again the expectation.

The pandemic also exposed the limitations of analytics tools and systems that were not effectively integrated and far from real time. The solution is not simply cleaning the data but enhancing it with new inputs and putting the right talent (data scientists, engineers, etc.) in place to build planning systems and sophisticated algorithms. Boards should challenge management to provide a view of supply chain forecasting processes and key metrics including accuracy and bias of the forecast.

Management should be executing on an overall strategy to implement AI, GenAI, and advanced data analytics. The potential to improve supply chain planning and forecasting is vast, for example, by correcting data issues and detecting demand patterns in real time. Companies also will need more sophisticated data analytics to assess their suppliers' ESG scorecard and ensure that goals are aligned. Regulations to measure and report Scope 2 and 3 emissions will drive much of the activity, but companies can use their data analytics capabilities to take a proactive approach to decarbonization, such as analyzing emissions as part of the supplier selection process.

Digitalization of the supply chain is resulting in better inventory management, but companies can also use digital technologies to lower transportation and logistics costs to improve margin. There's much more room to reduce waste in the system, including in the retailer's last mile of delivery. Digital and AI are critical to supply chains in the future.

Board member questions to consider:

- What supply chain lessons were learned during the pandemic that can inform risk management going forward? How are we progressing on lessons learned?
- Does the company have the right data, talent, algorithms, and systems to generate real-time and sophisticated insights into the supply chain?
- What is the company's philosophy on measuring ESG in the supply chain? Will management use the information to make supplier decisions and/or manage supply partners more closely?

Prioritize talent management and culture and understand their impact on labor

Talent shortages in consumer products and retail since the pandemic are still a factor. Adding to the challenge is the changing nature of work, including greater employee expectations for job flexibility, a scarcity of workers with digital skills, and the emergence of AI with its as-yet unknown influence on various roles. With so much labor disruption over the last few years, the HR function was often forced to focus on solving near-term tactical issues. With the board's support, HR leaders now need to pivot back into a strategic role even as they continue to put out fires.

For directors, there's an opportunity to examine how the board can provide the talent and culture guidance their companies need now. For example, the addition of directors with a human capital management background—beyond the typical executive compensation and succession experience—can help monitor the full menu of HR and workforce issues management faces. Additionally, the board should emphasize workforce planning and engagement as a board agenda item and not only a topic for the compensation committee.

Such efforts also help meet expectations for transparency and disclosure of ESG goals and progress, including the greater focus on the "S" than in years past. How a company cares for its workforce has become integral to its value proposition and market position as consumers, potential employees, and business partners incorporate social scorecards into their decisions.

It's also important that company leaders have a clear and strong social construct they are comfortable communicating externally and—if appropriate and properly vetted with the board—taking a stand to defend. The employee value proposition, built off that social construct, should be a purpose-driven and powerful contributor to talent recruitment and retention.

The rise of social justice matters, the upheaval of the workplace, and the resurgence of the labor movement since the pandemic are interconnected. More recently, high inflation is contributing to increased worker demand for higher wages to cover their cost of living, and store associates in higher-crime cities are raising concerns about workplace safety.

These issues may significantly impact the company's reputation, and chief human resources officers (CHROs) will benefit from board engagement and perspectives. CHROs also need data-driven insights by location to get a true, current pulse on the workforce, including any factors causing employee dissatisfaction and creating potential vulnerabilities. Board members should receive frequent reporting on this data and the trends drilled down to an appropriate level.

Overall, boards should expect management to think creatively to find solutions to attract, retain, and train employees that don't further impact already slim margins. Some companies are positioned to create portable or "universal" retail jobs or tailor innovative benefit structures for the unique needs of their workforces. More than three out of four C&R executives plan to use technology to address labor shortages.[5] HR needs to be part of a holistic plan that includes identifying the impact on roles and responsibilities, training employees to use the technology to its full potential, and redeploying talent for high-value work.

Board member questions to consider:

- Does HR's reporting structure reflect the importance of talent and culture? For example, is HR fully involved in digital transformation including GenAI, organic and inorganic growth strategies, and other key efforts to drive success?
- Does the company clearly and consistently communicate its values to all stakeholders?
- When management institutes transformational change, are the operational changes and messaging around "how" and "why" cascading down through the entire organization, all the way to the store or factory floor?
- Is the company prepared to answer calls for better wages, benefits, flexibility, and other demands from an increasingly organized workforce? How will the company balance changes to its employee offerings in the current higher-cost, lower-margin environment?

Improve cybersecurity resilience against the growing risk of the extended enterprise

New SEC cybersecurity rules require even more robust oversight by the board at a time when the nature of cyberattacks is evolving and attacks have become more operationalized.

Since the pandemic, the expansion of access points for people to buy nearly everything online and work from home has enlarged the attack surface permanently. Bad actors also are more effectively using AI and automation to increase attack frequency and lower the barrier to being effective.

The SEC final rules on cybersecurity greatly expanded obligations for timely disclosure. Public companies must disclose material "cybersecurity incidents" on Form 8-K within four days and material information regarding their cybersecurity risk management, strategy, and governance in their annual reports on Form 10-K. As a result, companies will need to have or to streamline committees or subcommittees responsible for cybersecurity.

The combination and balance of risk will drive security spend. Given the importance of protecting the brand in addition to preventing losses, C&R companies will want to understand the reality of cyber resiliency—the ability to remain resilient in the time it takes to detect a breach, assess the materiality, and act, including capabilities to fight automated attacks.

Regardless of where cybersecurity is housed, companies now must quickly provide timebound oversight for related internal and disclosure controls and procedures, including how the materiality of cyber events is determined. The materiality assessment is critical in deciding what should be escalated and discussed throughout the disclosure process while ensuring proper documentation of materiality conclusions.

[5] KPMG, "Transforming for growth in C&R," 2023

C&R companies are still short on employees with cybersecurity experience and skills. With the ongoing need to control costs in the current business environment, many are trying to cover the talent gap with greater automation. Boards should work with management to ensure enough resources are in place to meet the goal of a more proactive cybersecurity system.

Board member questions to consider:

- Have cybersecurity practices kept up with changing business activities, expanding retail channels, new third-party vendors, and other developments in the last year?
- Are the company's operational resilience and business continuity practices sufficient to withstand a cybersecurity event?
- Are threat detection and response capabilities integrated across the organization?

Fine tune board structure and composition for effectiveness in an ever-changing consumer world

With many new and evolving issues on the board agenda for 2024, directors will want to make sure the workflow is distributed reasonably across committees and that boards have the composition and education to best guide their C&R companies.

GenAI is just one item that affects almost every item on the 2024 agenda, and new potential applications and risks are constantly arising. C&R boards may not need a specialist but rather one or more directors with the business technology background to understand the nuances of GenAI and ask the right questions. Because GenAI crosses functions and oversight may not fall to one committee, the full board would benefit from high-level training from a third-party expert if necessary.

Boards also need a mechanism to stay abreast of fast-moving geopolitical developments that could impact the economic environment and consumer sentiment. At the same time, boards should maintain a high-level view on the convergence of risks and their impact on the sector and company, rather than try to keep up with individual events. They should ensure management is analyzing downside scenarios and stress testing assumptions, and then updating the company's risk profile and business continuity plans accordingly.

California emissions reporting requirements, SEC climate rules discussions, and other sustainability directives directly impact C&R companies and their supply chain operations. As with oversight of the company's navigation of geopolitical uncertainty, the board should make sure its structure and composition supports a top-line view for effective oversight around the larger regulatory picture, which also includes cybersecurity, data privacy, human capital management, and legal and compliance developments.

Sharing insights and communicating across committees is key for directors to best guide management on complex issues impacting the whole of the company. And while the board is reviewing board composition for subject matter experience, it's a good time to review whether the board's diversity reflects the company's stakeholders and future consumer demand.[6]

Board member questions to consider:

- Do we as a board have backgrounds that allow us to understand the risks and opportunities of GenAI as it quickly develops? If not, how will we become educated?
- Does the board have a sufficient sight-line into the company's ability to manage and even thrive in light of both global and domestic disruption anticipated in 2024?
- Is communication and coordination among our board committees fluid enough to support oversight of intersecting and complicated issues?

[5] See "On the 2024 Board Agenda", KPMG Board Leadership Center, 2023

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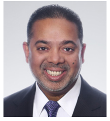

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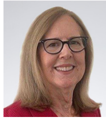

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