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Three ways CEOs can improve the supply chain

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CEOs increasingly view the supply chain as a critical point of competitive differentiation. Here's how to make it better.

In recent decades, companies in sectors from automotive and high tech to retail and consumer packaged goods have come to realize that their supply chain is much more than the cost of getting products into customers' hands. These companies understand that it is the supply chain that translates corporate strategy into day-to-day interactions both within and beyond the organization. Ultimately, it is the supply chain that satisfies or disappoints their customers. These companies also use a broader definition of the supply chain—one that includes planning, information sharing, and value-adding activities, from raw material to final distribution, rather than just logistics.

Leading companies have made strategic investments in their supply-chain capabilities and set up efficient and effective organizations that overcome cross-functional silos. By outperforming the overall level of maturity in their sectors, they have been able to disrupt them, as Amazon has done in retail, for example. These companies have redefined their customers' expectations of service and their ability to bring innovation to the market, turning their excellence in supply-chain execution into a powerful source of competitive advantage.

Critically, the very best companies continue to evolve and reinvent their supply chains, even if they have already achieved a leading position in their industry. By doing so, they are able to manage risks; respond to changes in the economic, technological, and competitive environment; and exploit new opportunities more effectively than their competitors.

A CEO priority

Senior executives tell us that supply-chain issues are increasingly demanding their attention. Yet achieving supply-chain excellence is getting harder. Production and distribution networks are increasingly complex and global, and their effective operation is vital for profitability and resilience. At the same time, risks across the supply chain have increased, and improved transparency is critical to the coordination of effective responses. Making those supply chains work at their best requires tight cross-functional coordination and the right decisions and trade-offs across the organization (see sidebar, "What CEOs should ask about the supply chain"). More important, however, the right supply-chain capabilities are playing a critical role in allowing companies to exploit emerging opportunities to boost growth and improve profitability.

What CEOs should ask about the supply chain

Check your current understanding of your organization's supply-chain needs and capabilities. Can you answer these questions?

- What is your customers' experience of your supply chain? How does it stand out from your competitors?
- What is your supply-chain strategy, and how does it support your business strategy? For which customers, products, and segments does your supply chain target the best performance? Where does it optimize for cost rather than for service?
- Do you have clear supply-chain performance and cost targets? Which key performance indicators do you use to measure these?
- Who is ultimately responsible to deliver against these performance targets? How do you ensure every function in your business supports those efforts?
- How quickly can you ramp up production of a new product or a new sales region?
- Is your supply chain agile enough to flexibly respond to external changes?

Three examples illustrate the difference supply-chain excellence can make.

One leading company in consumer packaged goods uses its supply chain to manage input-price volatility. It has created multiple recipes and supply chains for a core brand of cleaning products. Depending on the current prices of ingredients, it switches between these recipes and supply chains, allowing it to hedge against increasingly volatile raw-material prices.

A major cosmetics company has created a dedicated high-speed supply chain for new products. This supply chain, which provides incentive only on time to market and product-launch excellence, allows the company to get the latest trends into the hands of consumers before its competitors, while its conventional supply-chain segment controls costs for products with steadier demand.

Or take the fast-growing online retail market that is transforming consumer expectations of delivery time and product availability. In China, the online retail market for consumer electronics provides an example. Companies such as Suning Appliance and GOME Electrical Appliances, the two leading players, provide delivery within hours to consumers in larger cities. Such speed has become a competitive necessity, since consumers increasingly order the same item from several retailers, take the one that is delivered first, and reject the later arrivals.

Three powerful interventions

If these examples demonstrate anything, it is the variety of ways that supply-chain execution can drive business performance. In our work helping companies to transform their supply-chain performance, however, we have identified three actions that senior leaders can take to maximize the potential of their own organizations' supply chains.

Differentiate your supply-chain and corporate strategies

Whether the strategy of your business is superior service, product innovation, or cost leadership, ensure your supply chain is helping to deliver the key points of that strategy. Bring together leaders from across your business to define the supply chain that will work for you—and make sure they provide the data your organization must deliver. Marketing should tell you what your customers value most from your service, how those needs vary among customers, and what will differentiate you from your competitors. Your commercial functions have to identify which customers justify the cost of the highest service and which would be better served using a more standardized approach. Together, your supply-chain and product-development functions can find ways to create innovative products that suit the needs of all those customer groups while keeping overall costs under control.

Create a modern, end-to-end supply-chain organization

The times of managing the supply chain in separate tiers is over. Sophisticated data analysis enables companies to manage supply chains end to end and, in industries such as retail, almost in real time. Appoint a single leader with responsibility for end-to-end performance and for delivering improvement projects across tiers and traditional functions such as marketing, manufacturing, and procurement. Make sure your supply-chain organization combines operational excellence with strong analytical capabilities and data-driven, cross-functional decision making. Create analytical teams to support decision making and identify hidden risks and opportunities in unstructured data. Ensure your IT function is supporting them with nimble applications and platforms that enable collaboration and analytical decision making.

Set performance standards for the entire organization

Give incentive to your supply-chain organization to work in ways that deliver the most value for your business while protecting against its biggest risks. That means using more than the traditional metrics of cost, service, and capital. The right key performance indicators depend strongly on the needs of the business, the product, and the market segment: the cost of production for value players, the stability of supply for staples and critical products, agility in volatile markets with fluctuating demand, and launch excellence for new products are essential. If a metric doesn't matter in your business, don't misdirect the organization by using it.



The best companies have transformed their supply chains with time, investment, and sustained top-management attention. What are you doing to turn your supply chain into a powerful source of competitive advantage? [□](#)

This article is based on the first chapter of *Excellence in Supply Chain Management*. To request a hard copy of the full book, visit McKinsey's Operations site, on mckinsey.com.

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