

McKinsey Global Survey results:

The challenges ahead for supply chains

Senior executives say their companies manage key trade-offs well, yet see barriers to better performance: rising risk, lack of collaboration, and low CEO involvement.

As economies around the world step back from the financial brink and begin adjusting to a new normal, companies face a different set of supply chain challenges than they did at the height of the downturn—among them are rising pressure from global competition, consumer expectations, and increasingly complex patterns of customer demand. Executives in this McKinsey survey¹ are divided on their companies' preparedness to meet those challenges, and fully two-thirds expect supply chain risk to increase. What's more, the survey highlights troubling signs of struggle associated with key, underlying supply chain processes and capabilities, including the ability of different functions to collaborate, the role of CEOs in supply chain planning, and the extent to which companies gather and use information.

Emerging from the downturn

As companies have managed their supply chains over the past three years, the challenges they faced and the goals they set have reflected a single-minded focus on weathering the financial crisis. The most frequently cited challenge of the past three years is the increasing volatility of customer demand (Exhibit 1). This is no doubt a result of the sharp drop in consumer spending that has reverberated throughout all sectors across the globe. Looking at challenges over the next five years, though, the focus shifts: respondents most frequently cite increasing pressure from global competition. Some issues that receive a lot of public

¹ The online survey was in the field from October 12 to October 22, 2010, and received responses from 639 executives representing the full range of regions, industries, and tenures. At the C-level, the range of functional specialties is also represented.

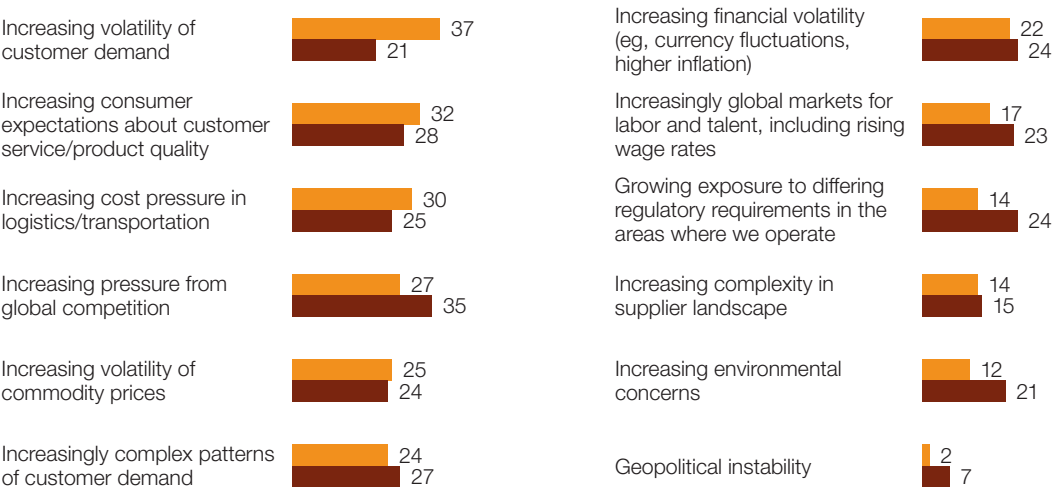


Exhibit 1
New challenges lie ahead

% of respondents,¹ n = 639

Companies' challenges in supply chain management

Over the past 3 years
Over the next 5 years

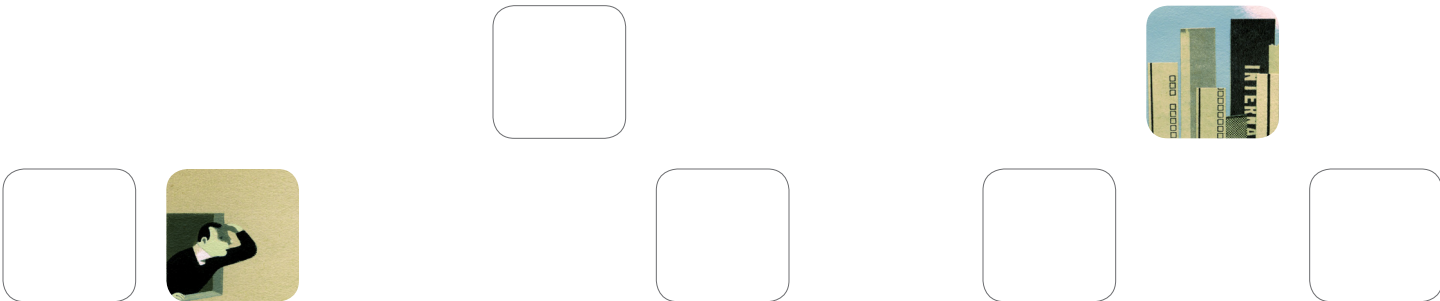


²“Managing global supply chains: McKinsey Global Survey Results,” mckinseyquarterly.com, August 2008.

³ For example, since April 2009, *McKinsey Quarterly*’s research on economic conditions has tracked executives’ thoughts on customer demand, and the share of those expecting an increase in the next six months has fluctuated greatly over time, from 12 percent to 60 percent. However, expectations for customer demand have held steady since June, with about half expecting an increase. The data suggest that expectations for demand are beginning to stabilize.

¹ Respondents who answered “other” or “don’t know” are not shown.

attention, such as climate change and natural-resource use, have remained a low priority since our 2008 survey.² Still, the share that identify environmental concerns as a top challenge in the next five years nearly doubled, to 21 percent, over the proportion saying it was a top challenge during the past three years. This suggests that companies anticipate returning to a new normal,³ wherein they can focus on issues other than cost at least some of the time.



With regard to goals for supply chain management, the results show a similar shift between past and future, perhaps another indicator that companies are focusing on pursuing growth in addition to cost containment (Exhibit 2). Of course, executives are not ignoring supply chain costs altogether; after weathering a downturn, they know their companies can manage and control future expenses, now that this issue has been on their radar consistently. Indeed, reducing operating costs remains the most frequently chosen goal over the next five years—as it was over the past three—followed by customer service. In a 2008 survey, 43 percent of respondents said improving service was one of their companies' top two goals for supply chain management, and though it fell as a priority during the crisis, it is now number two for the next five years.

Exhibit 2

Shifting priorities

% of respondents,¹ n = 639

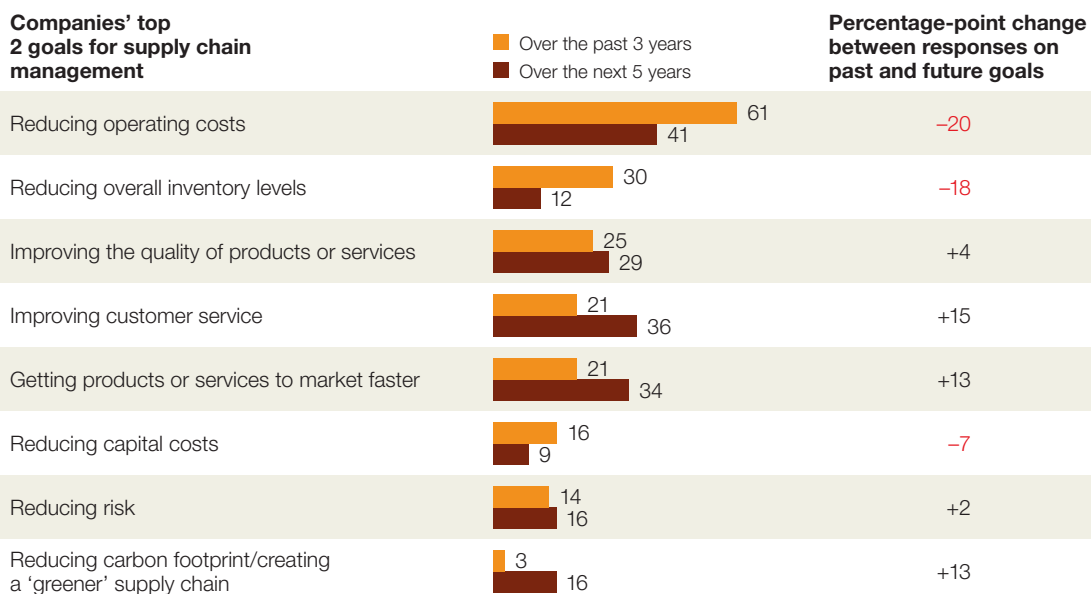
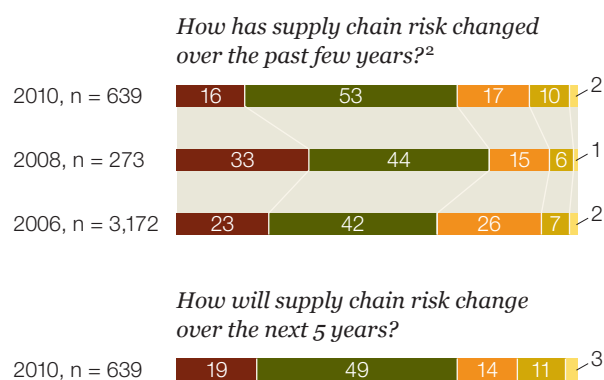


Exhibit 3

Continued risk% of respondents¹

■ Increase significantly
 ■ Increase somewhat
 ■ No change
 ■ Decrease somewhat
 ■ Decrease significantly

¹Respondents who answered “don’t know” are not shown.²In the 2006 and 2008 surveys, respondents were asked how the amount of risk has changed in the past 5 years; in 2010, over the past 3 years.

Executives also indicate that many of their companies have met past goals, with supply chain performance improving in both efficiency and effectiveness as they come out of the downturn. For example, nearly half say their companies’ service levels are higher now than they were three years ago, 39 percent say costs as a percentage of sales are lower, and 45 percent have cut inventories.

What hasn’t changed much, though, is the amount of supply chain risk that executives foresee (Exhibit 3). More than two-thirds say risk increased in the past three years, and nearly the same share see risk continuing to rise. Respondents in developed Asian countries report more concern than those in any other region: 82 percent say their companies’ supply chain risk will increase in the next five years.⁴

⁴ Respondents in the Asia-Pacific region work at offices in the following countries, regions, and territories: Australia, Hong Kong, Japan, New Zealand, the Philippines, Singapore, South Korea, and Taiwan.



Managing challenges and trade-offs

Though the strategic goals executives are setting suggest a hope that more predictable business conditions will prevail over the next five years, respondents are divided over how well their companies can manage the challenges (Exhibit 4). This finding holds true for large and small companies alike and among executives in different functions.

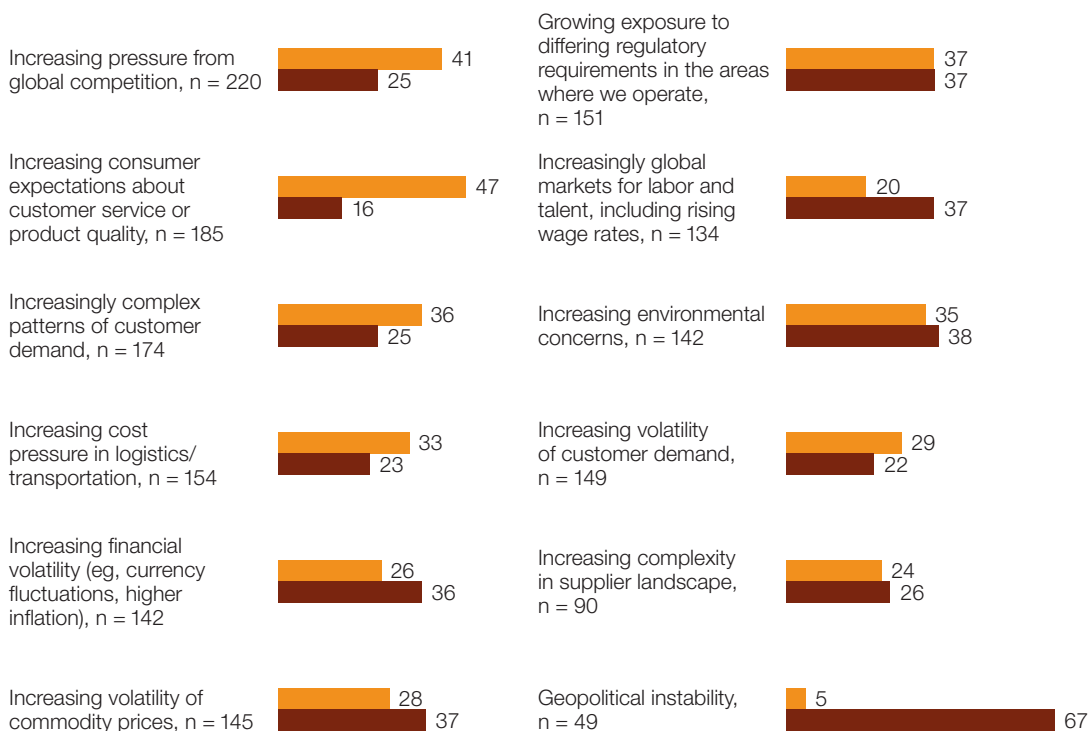
Exhibit 4

Facing the future

% of respondents¹

■ Prepared
■ Not prepared

Companies' level of preparedness to meet supply chain challenges over the next 5 years,
by % of top response to the most significant challenges in the future



¹Respondents who answered "neither prepared nor unprepared" or "don't know" are not shown.

The good news is that on the three challenges cited most frequently (global competition, rising consumer expectations, and complex patterns of customer demand), the highest shares of executives say their companies are prepared to meet those challenges. The bad news is that the shares saying their companies are well prepared are still below half.

Most executives recognize the importance of managing the functional trade-offs related to these challenges and think that their companies are effective at doing so. Among trade-offs, the highest share of respondents—85 percent—say balancing cost to serve and customer service is important to their companies' supply chain strategy. The lowest share (59 percent) say balancing centralized production against proximity to customers is important. Respondents also report that the managers who make decisions about supply chain trade-offs are well informed.

Yet the cross-functional discussions that companies need if they are to make informed decisions are not happening often. For each of the six trade-offs the survey explored, regular cross-functional meetings are cited as the most common process for making decisions, but between 31 and 40 percent of respondents say their operations teams never or rarely meet with sales and marketing to discuss supply chain tensions. Furthermore, respondents across functions say sales/marketing has the most difficulty collaborating with other functions, with 23 percent citing a problem between that group and manufacturing, and 21 percent between it and planning. Additionally, one-third of respondents say the biggest barrier to collaborating when managing trade-offs is that functional areas don't understand their impact on others.

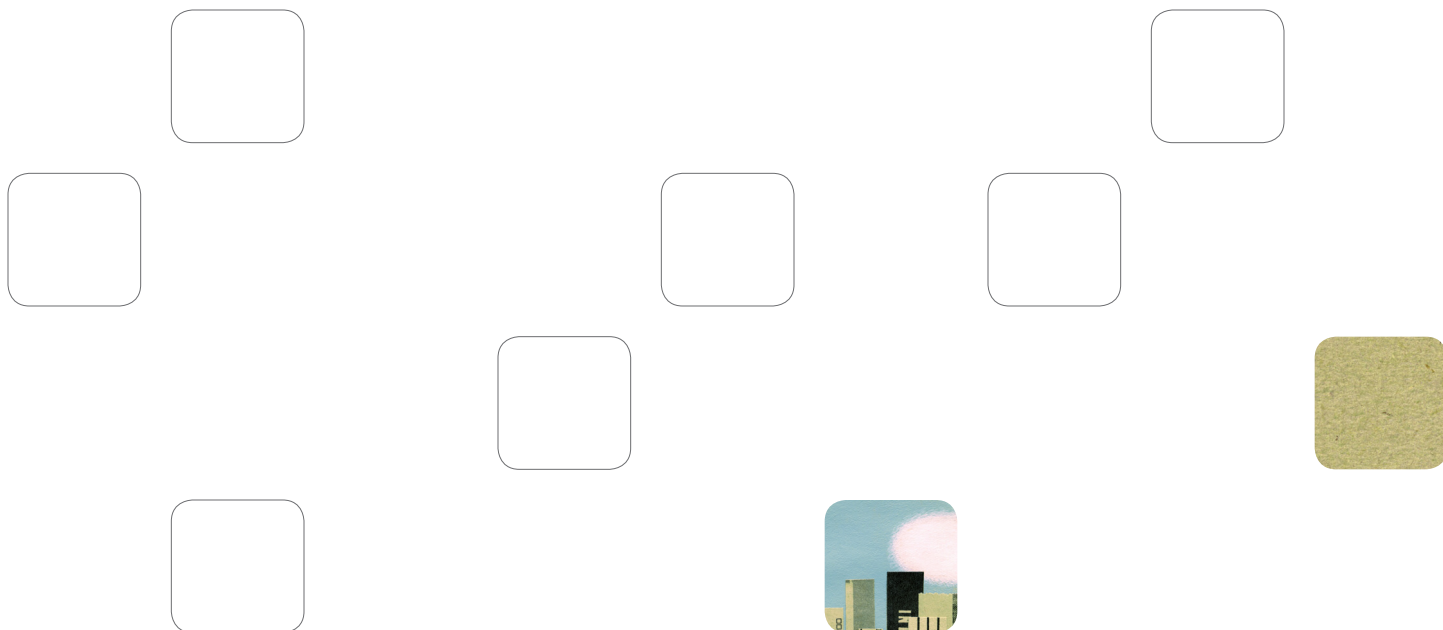


Exhibit 5

CEO involvement

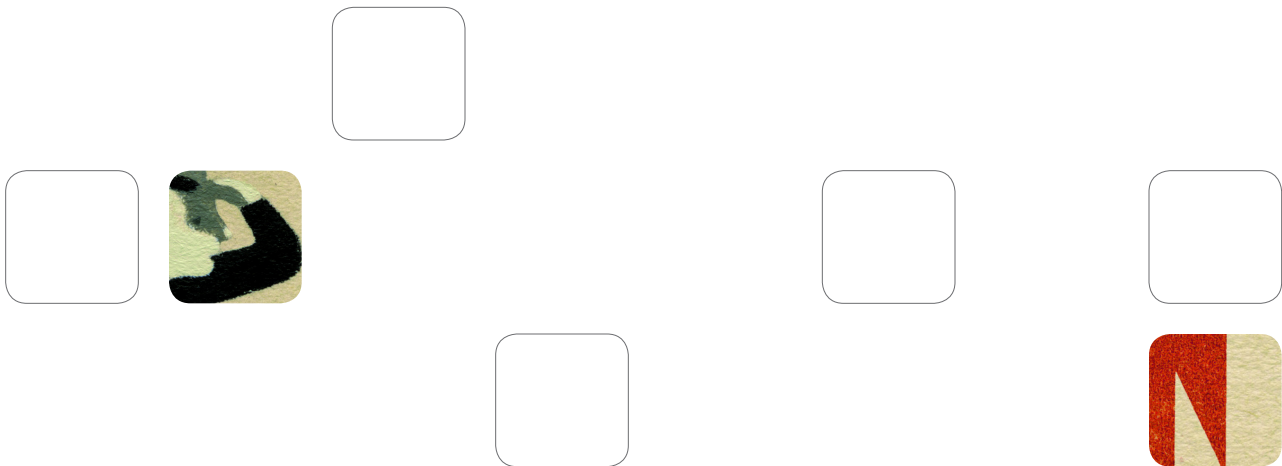
% of respondents,¹ n = 639

What role, if any, does the CEO of your company play in managing supply chain today? Over the next 5 years, what do you expect the CEO's role to be?



¹Respondents who answered “don’t know” are not shown.

This disconnection is likely exacerbated by the relatively low levels of CEO involvement reported: the vast majority of CEOs do not actively develop supply chain strategy or work hands-on to execute it (Exhibit 5). Respondents do, however, expect more CEO involvement over the next five years—a hopeful sign for companies aspiring to mend key cross-functional disconnections.



Knowledge is power

The results show a similar disconnection between data and decision making: companies seem to collect and use much less detailed information than our experience suggests is prudent in making astute supply chain decisions (Exhibit 6). For example, customer service is becoming a higher priority, and executives say their companies balance service and cost to serve effectively, yet companies are most likely to take a one-size-fits-all approach when defining and managing service-level targets. Half of the executives say their companies have limited or no quantitative information about incremental costs for raw materials, manufacturing capacity, and personnel, and 41 percent do not track per-customer supply chain costs at any useful level of detail.

Many of the future supply chain challenges will require companies to keep better information on individual costs and customers. Yet only about a quarter of respondents expect their companies will invest in IT systems over the next five years, and only 10 percent of respondents say their companies currently use social media to identify customers' service needs.

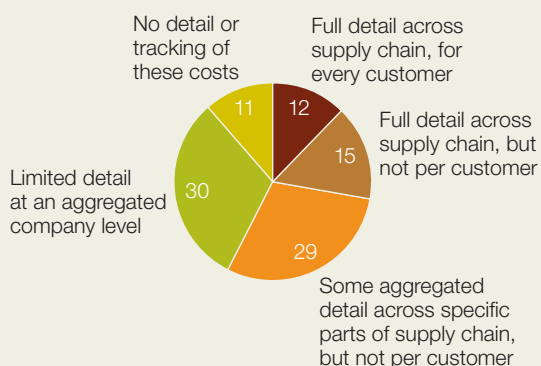
Exhibit 6

The information gap

% of respondents,¹ n = 639

Level of detail for each type of information gathering

Tracking the supply chain costs associated with serving individual customers




Assessing incremental costs including new sources of supply/raw materials, manufacturing capacity, and personnel associated with adding new products or variants to company portfolio



¹Respondents who answered "don't know" or "other" are not shown.

Looking ahead

- In our experience, senior-executive involvement, including hands-on attention from the CEO, is pivotal in managing the cross-functional trade-offs that underpin many supply chain decisions. Yet the role of CEOs at many companies we surveyed is limited or nonexistent. Companies that can bridge the functional divides that thwart collaboration will have an edge in creating competitive supply chains capable of fulfilling business strategy requirements.
- Addressing the challenges companies have identified—improving service and responding to new expectations and patterns of customer demand—requires more and better information, regardless of the geographical scope or the length of supply chains. As the marketplace becomes increasingly fragmented, keeping better track of customer information and costs, which can inform and support interpersonal, cross-functional discussions, will help companies prepare for the supply chain uncertainties that lie ahead.
- Despite the importance of volatile commodity prices as a supply chain challenge, just 28 percent of respondents say their companies are prepared to manage that volatility. One way to cope with this uncertainty: view supply chain assets as a hedge. By considering investment in production resources that aren't necessarily lowest-cost today (but soon could be), companies can position themselves for greater flexibility in the future.
- Executives expect environmental concerns to be a more significant issue for supply chains in the years ahead, yet relatively few consider it a priority today. Given that up to 60 percent of a company's carbon footprint can reside upstream in its supply chain,⁵ companies would be wise to pursue economically attractive opportunities that address environmental impact in the near term and prepare to respond quickly to any sudden shifts in environmental expectations and requirements. 

⁵ Chris Brickman and Drew Ungerman, "Climate change and supply chain management," *mckinseyquarterly.com*, July 2008.

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