

# The challenge: Supply chains and digital

Companies need a better way to evaluate the benefits, costs and risks of novel approaches.

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In the [first post in this blog series](#), we argued the case for the supply chain function to take a leading role in every organization's digital transformation. Digital technologies have the potential to make supply chains that run faster, cost less, and respond more rapidly. And the supply-chain function has the right knowledge, attitudes and connections to support big, company-wide digital initiatives.

In our conversations with supply-chain leaders, however, many tell us that they have a hard time making the same argument within their own organizations. It usually isn't the principle that causes the problem: most companies accept that digital transformation is not an option, but a competitive necessity. The challenge comes in deciding where and how to allocate resources for the development and implementation of digital projects.

It's easy to see why organizations are nervous. Digital initiatives frequently involve immature, under-explored technologies. At the outset of a project, it can be difficult to estimate its full benefits, costs, and risks. Yet many companies insist on a detailed, fully costed business case before work begins. Such cases can take weeks to develop, and may contain too many uncertainties to be meaningful.

## **Test first, test fast**

Following the example of fast-moving digital-native companies, some organizations are building the business case for digital supply chain projects in a different way. They start on the ground, building and testing prototypes to evaluate digital ideas.

This prototype-driven approach has significant benefits. First, prototyping in the digital space is usually quick and cheap, providing an affordable way to build good estimates of the likely cost and impact of an idea. Second, hands-on engagement in the prototyping process is a great way to build skills in the organization, to motivate and engage employees, and to foster a culture that encourages teams to embrace trial-and-error, innovate and take risks. And if an initiative fails at the prototype phase, the organization will lose little financially, and probably add significantly to its stock of knowledge, digital skills and culture.

To get such an effort under way, a company can create a "play budget" for the creation of digital prototypes. Then it can take what it learns from those prototypes to build a full business case for a portfolio of the most promising initiatives.

## **Help shape the future of digital supply chains**

To learn more about impact of digitization on the supply chain, and about the impact of the supply chain function on wider digital strategies,

McKinsey is embarking on a major collaborative research project with the [WHU Otto Beisheim School of Management](#). This article is one element of the PhD research of Christoph Lennartz on digital SCM transformations.

As part of that research, we'd like to hear about your digital supply chain experiences. **Participating in the project is easy**, requiring only a few minutes of your time to talk to our researchers. In return, **you'll receive privileged access** to the full results of the project, and the opportunity to participate in crucial events, including expert discussions and best-practice-sharing forums.

Take part, and help put yourself in the driving seat of your organization's digital transformation. For more information, contact [Christoph Lennartz@mckinsey.com](mailto:Christoph.Lennartz@mckinsey.com) ■

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