

# Managing global supply chains

*A McKinsey Quarterly survey finds that supply chain risk is rising sharply. However, supply chain management isn't keeping pace: most respondents say that their companies aren't meeting strategic goals for it, and relatively few have acted on the global trends with the most influence over supply chains.*

Supply chains are increasingly global and complex, as companies aspire to support a variety of strategies, such as entering new markets, increasing speed to customers, and lowering costs. In this survey,<sup>1</sup> we asked operations and other senior executives from around the world about their companies' supply chain strategies, the factors that influence those strategies, and the ways their companies act on these factors. We also explored how well executives think their companies are meeting their goals, how they manage their supply chains, and the challenges involved in running a global supply chain.

The results show that supply chain risk is rising sharply. Executives point to the greater complexity of products and services, higher energy prices, and increasing financial volatility as top factors influencing their supply chain strategies. Relatively few respondents, however, say that their companies are translating the importance they place on these factors into corporate action.

Nor do executives express confidence that their companies are meeting the top strategic goals: reducing costs, improving customer service, and getting products to market faster. In addition, for all the public attention paid to environmental concerns, including global warming, executives report that such issues have little influence on supply chain strategies.

What's more, our results suggest that most companies tend toward centralization, not local management, in running their supply chains and that this tendency has increased in recent years.

<sup>1</sup>The McKinsey Quarterly conducted the survey in June 2008 and received responses from 273 executives from around the world. All data are weighted by the GDPs of the constituent countries to adjust for differences in response rates.



**Forces at work**

More than three-quarters of the respondents say the degree of supply chain risk their companies face has increased in the past five years, up from almost two-thirds two years ago (Exhibit 1).<sup>2</sup> Executives in general-management positions are slightly less likely to say it had increased than executives in operational roles (74 percent compared with 86 percent), perhaps because operations executives are closer to supply chain processes and the day-to-day challenges of managing them.

<sup>2</sup> See "Understanding supply chain risk: A McKinsey Global Survey," mckinseyquarterly.com, October 2006.

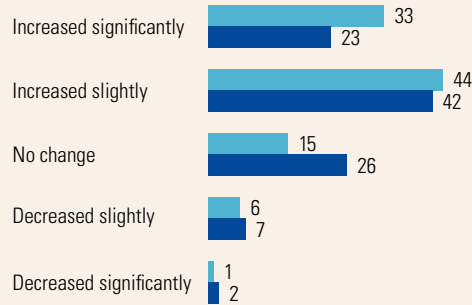
Exhibit 1

**More risky**

% of respondents

*How, if at all, has the amount of supply chain risk faced by your company changed in the past 5 years?*

■ 2008, n = 273  
■ 2006, n = 3,172



The increasing complexity of products and services tops the list of global factors that executives say most influence their supply chain strategies (Exhibit 2). That focus seems persistent: seven in ten respondents who choose this factor say it was also important five years ago. By contrast, among the global executives who say that the rising price of energy is one of the most influential factors today, fully three-quarters indicate that it wasn't five years ago—hardly surprising, given the recent spike in oil prices.

Exhibit 2  
**What's shaping strategy?**

% of respondents,<sup>1</sup> n = 273

*Which of the following factors, if any, currently have the most influence over your supply chain strategy?*

	Total	Europe	Developing markets <sup>2</sup>	North America
Increasing complexity of products/services	47	60	44	35
Rising energy prices	36	33	45	39
Increasing financial volatility	29	17	34	38
Increasingly global labor markets, including rising wage rates	20	25	20	18
Shifting industry structures or forms of corporate organization	18	19	11	18
Adoption of increasingly scientific, data-driven management techniques (eg, tracking technology)	17	4	16	25
Exposure to differing regulatory requirements in different geographies	15	9	20	20
Growing number of consumers in emerging markets/changing consumer tastes	15	18	11	10
Growth of environmental concerns, including concern about climate change	11	11	15	10
Rising consumer demand for safer or healthier products	8	5	6	13
Insufficient infrastructure	8	2	14	9
Geopolitical instability	5	4	7	6
Increasing consumer concern about human rights	2	1	6	2
None of the above	2	3	0	2

<sup>1</sup>Respondents could select up to 3 answers; those who answered "other" or "don't know" are not shown.

<sup>2</sup>Includes China, India, and Latin America.

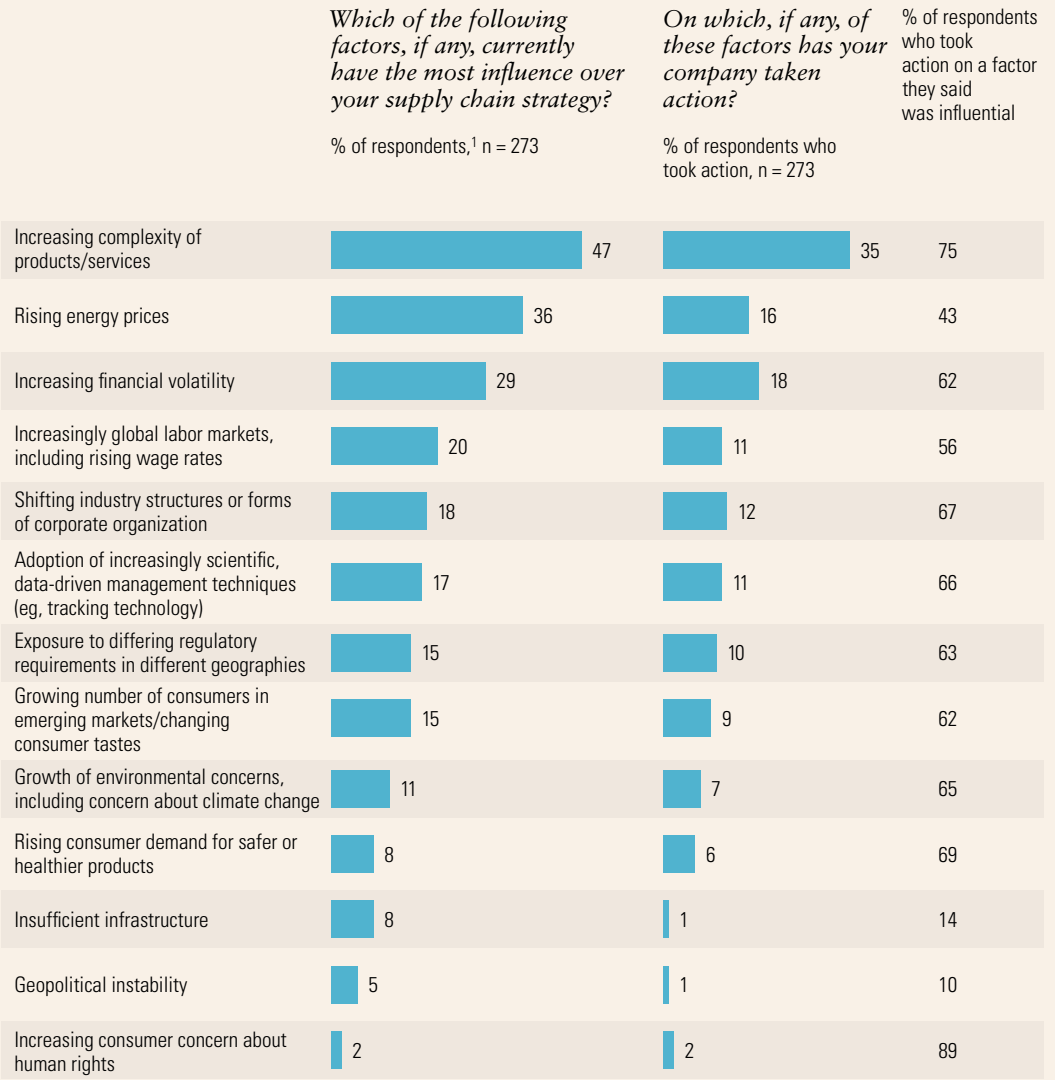


Despite the importance respondents place on these trends, relatively few say that their companies are acting on them. For example, only 35 and 16 percent of the executives say that their companies have acted in response to the increasing complexity of products and services and to rising energy prices, respectively (Exhibit 3).

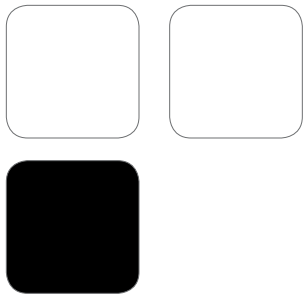
The most common responses to the trends influencing supply chain strategies are increasing the efficiency of supply chain processes (71 percent of executives), actively managing risks along the supply chain (56 percent), and sourcing more inputs from low-cost countries (47 percent). The degree of attention paid to supply chain processes seems prudent, as process improvements are an effective way to manage increasing complexity.

Exhibit 3

**Little action on biggest influences**



<sup>1</sup> Respondents could select up to 3 answers; those who answered “other” or “don’t know” are not shown.



**Supply chain priorities**

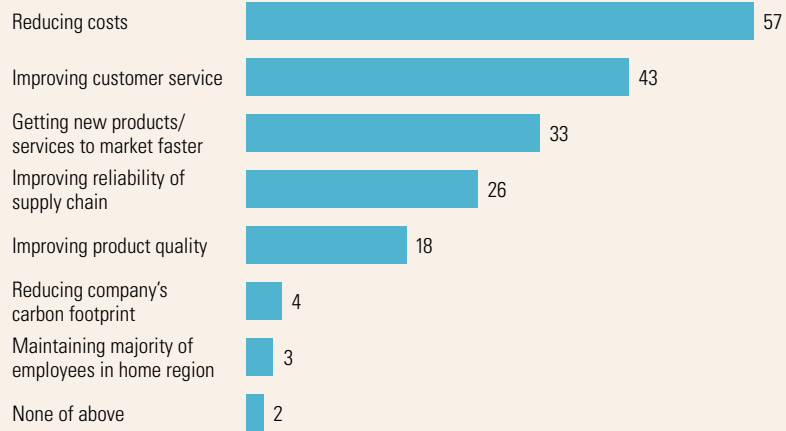
When setting strategic goals for supply chains, the respondents' companies focus first on reducing costs and then on improving customer service and getting new products or services to market faster (Exhibit 4).

Exhibit 4

**Strategic goals**

% of respondents,<sup>1</sup> n = 273

*What are your company's 2 main strategic goals for your supply chain?*



<sup>1</sup> Respondents could select up to 2 answers; those who answered "other" or "don't know" are not shown.



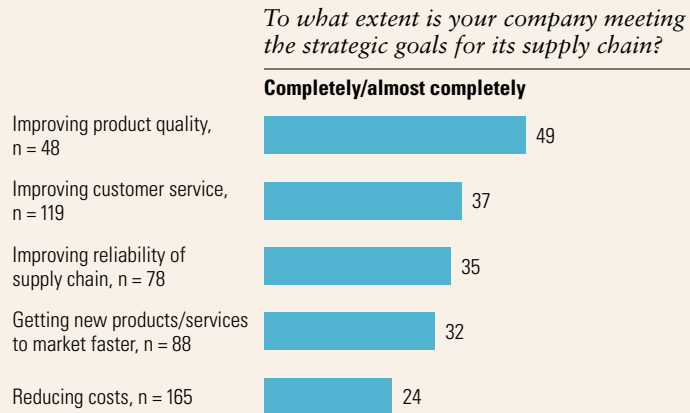
Reducing costs is even more important for companies in developing markets; perhaps companies in countries such as China are trying to anticipate the effect of rising costs (including labor costs and appreciating currencies) on the competitive advantages they currently enjoy as low-cost manufacturers.

Respondents in areas other than operations are upward of twice as likely as operations executives to say that getting new products to market faster is a top priority. The disparity may reflect functional differences between executives such as marketers, who tend to focus on targets like margins and market share (where speed to market is essential), and operations executives, who generally stress costs and customer service.

Executives, whatever the goals of their companies, say that those companies aren't meeting them well (Exhibit 5). Indeed, fewer than half of the executives in our survey indicate that their companies completely or almost completely meet any strategic goal involving supply chains.

Exhibit 5  
**Missing strategic goals**

% of respondents choosing goal as strategically important<sup>1</sup>



<sup>1</sup>Goals for which base sizes were small are excluded.



**How companies manage global supply chains**

Although a majority of the respondents say that their companies manage both sourcing and logistics outside the home country, these activities are run by corporate employees, not vendors. When the respondents were asked how supply chain management has changed over the past five years, 56 percent of those at large companies (with annual revenues greater than \$1 billion) say that it has become more centralized. This finding is consistent with our experience: when possible, companies seek to maximize economies of scale in the supply chain, and many companies treat it as a shared utility of the broader organization—not only to take advantage of synergies, but also to strengthen their operational expertise.

The challenges that respondents associate with managing supply chain talent reflect talent-related concerns that executives have expressed in other research. The top-rated challenge is the ability to share knowledge effectively across different manufacturing and sourcing locations (Exhibit 6).<sup>3</sup>

<sup>3</sup> See “The organizational challenges of global trends: A McKinsey Global Survey,” mckinseyquarterly.com, December 2007; and “How companies act on global trends: A McKinsey Global Survey,” mckinseyquarterly.com, April 2008.

Exhibit 6  
**Top talent challenges**

% of respondents,<sup>1</sup> n = 95



<sup>1</sup> Respondents could select up to 2 answers; includes only executives in an operations function; respondents who answered “other” or “don’t know” are not shown.

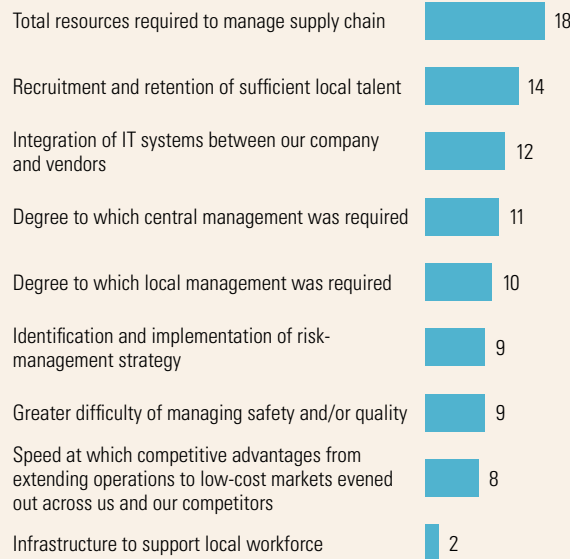


When executives are asked to reflect on the greatest management challenge their companies face as supply chains become more global, they highlight the total resources required, followed by the recruitment and retention of sufficient local talent and the integration of the IT systems of companies and their vendors (Exhibit 7). Such challenges reflect perennial concerns; talent, for example, was the top supply chain risk two years ago. Creating transparency across a company’s supply chain involves thorny challenges as well, both technological (multiple vendors processing a single transaction, for example) and risk based (such as trade-offs in how much visibility a company’s vendors should have into proprietary IT systems that may represent a source of its competitive advantage).

Exhibit 7  
**The challenges of becoming global**

% of respondents,<sup>1</sup> n = 185

*As your supply chain has become more global, what is the greatest management challenge related to the supply chain that your company has faced?*



<sup>1</sup> Respondents could select up to 2 answers; those who answered “other” or “don’t know” are not shown.



**Looking ahead**

Against a backdrop of sharply rising supply chain risk, including the prospect of higher energy prices, companies are likely to take a harder look at their manufacturing and supply footprints. In some cases, companies could even consider localizing elements of their operations now managed in remote—including offshore—locations.

Moreover, our experience suggests that successful cross-functional collaboration will increasingly differentiate companies that meet the full range of their strategic goals from those that don't. Companies that can ensure closer partnerships between operations and groups such as sales and marketing, for example, will be able to respond more quickly to changing trends and will have the edge in turning strategic trade-offs (say, speed versus cost) into sources of advantage.

Finally, while environmental concerns, particularly a company's carbon footprint, are of increasing interest to consumers and executives, they are not yet major strategic considerations for supply chains. That will probably change. Trade-offs between emissions and profitability may lead companies to explore new kinds of supplier relationships, including the transfer of best practices to supply chain partners. ■

**About the Contributors**

Contributors to the development and analysis of this survey include **Denise Paulonis**, an associate principal in McKinsey's Chicago office, and **Sabina Norton**, a consultant in the Seattle office.

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