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Reducing Supply Chain Costs is Top Executive Priority – to No One's Surprise

But Execs Believe Insufficient Progress is being Made, as the Relentless Cost Focus Continues; Reducing Carbon Emissions is Low on the Priority List

SCDigest Editorial Staff

It's probably not much of a surprise, but a recent McKinsey survey of nearly 300 top corporate executives from around the world found that reducing supply chain costs was the top priority for supply chain improvement – yet an area of continuing disappointment.

A strong 57% of all respondents placed reducing costs as one of their top two priorities for the supply chain. In second place, at 43%, was improving customer service, followed by increasing the speed of new product introductions (33%), and improving supply chain reliability (26%), among other priorities. Because respondents could pick two top priorities, the percentages total to more than 100.

Of course, despite occasional protests from supply chain pundits to the contrary, other surveys over many years consistently show cost reduction as being at the top of the executive supply chain agenda. Those concerns are no doubt exacerbated in the current environment, which is characterized by rising cost pressures (e.g., fuel, commodities, global logistics) and slowing demand in many product areas, which as usual leads execs to look to the supply chain to cut costs to help shore up the bottom line.

Interestingly, while not detailing specifics, the McKinsey study said that supply chain cost reduction scored even higher as a priority for respondents in developing countries than in North America or Europe. This may reflect rising labor costs in China, India and some other markets, and the need to get better control of supply chain costs there to stay low price leaders.

Perhaps surprisingly, reducing carbon emissions in the supply chain as yet is barely on the corporate agenda, making it as one of the top two priorities for only 4% of execs in the survey.

In what might be construed as bad news for supply chain managers who often feel under siege in the endless pursuit of lower costs, executives do not believe their objectives for lowering supply chain costs are being met.

The McKinsey researchers expect that to change, however, especially if the US adopts Kyoto-like measures that put more financial rewards and penalties tied to the level of a company's carbon emissions.

"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," they write.

Executives Dissatisfied with Progress on Cost Reduction

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As shown the graphic below, only 24% of the executives who picked reducing supply chain costs as a top priority believe the company is meeting its

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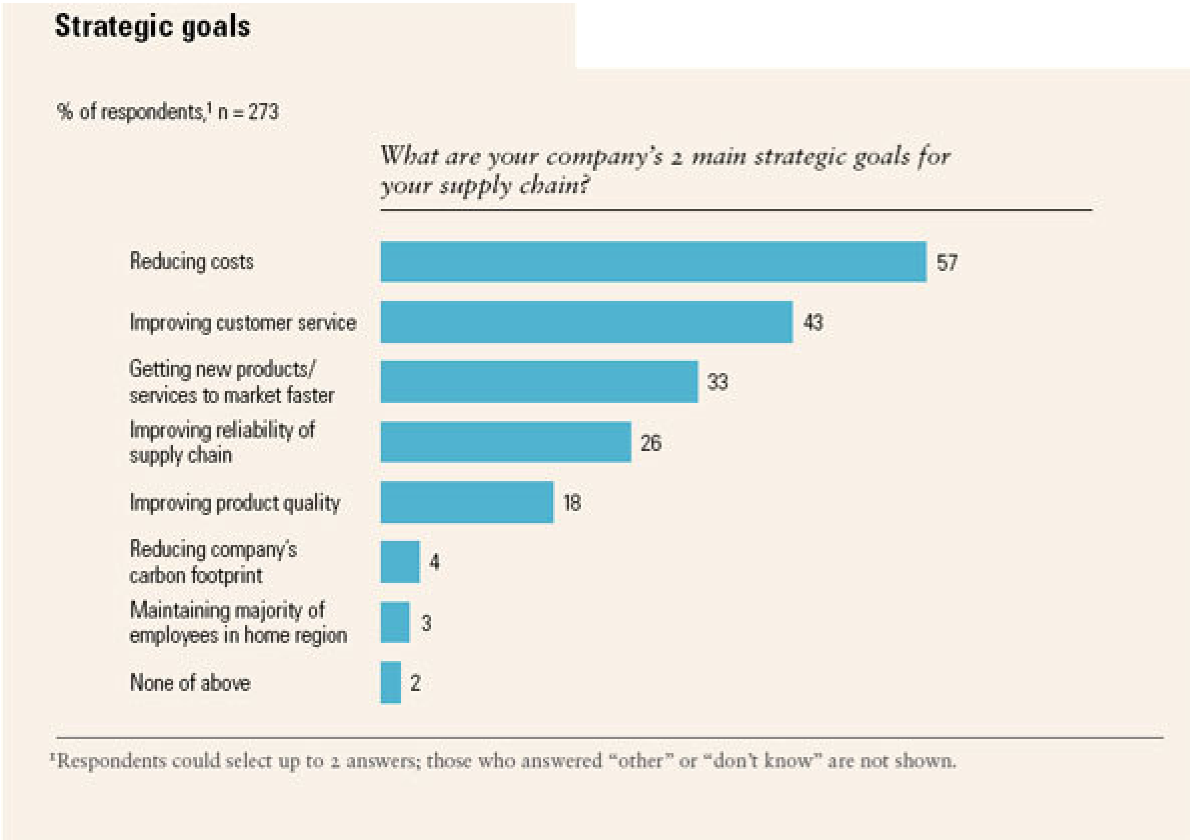

Source: McKinsey Quarterly

goals in that area – the lowest of any of the five top priorities included in the analysis.

In a number of areas, the survey also picked up some important differences in perspective between executives directly involved in operations and those outside of it. McKinsey believes that gaining better alignment between operations and non-operations functions will be the key to overall supply chain and company success.

"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," McKinsey says. "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."