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How to Make Good Supply Chain Decisions

McKinsey Surveys Finds Ad Hoc Processes, Parochial Input, among Factors that Lead to Decisions that don't Pan Out

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Despite all the information and articles on supply chain strategy and execution, there seems to actually be very little information about the decision-making process itself.

The consultants at McKinsey recently conducted research to look at decision-making processes – and results – from an overall business perspective, but the insights provided are spot on for supply chain decision-making as well. Perhaps even more important, the survey found the failure of many companies to well consider supply chain and operations input often leads to decisions that ultimately do not deliver expected results.

The survey found that the most common type of "corporate-level" decision was to expand into a new product area, service business, or geography. That was followed by decisions related to the company's overall organizational structure. Both these two areas, of course, can have significant ties to the supply chain.

McKinsey found that only 30% of major organizational decisions occurred as an offshoot of the company's annual planning process. The vast majority occurred at other times, based on the priorities of the CEO or outside influences that forces a decision inflection point. We would expect the percentages are not much different for supply chain decisions as well.

The analysis that McKinsey offers on what makes a good decision at the corporate level should also resonate with supply chain executives and managers.

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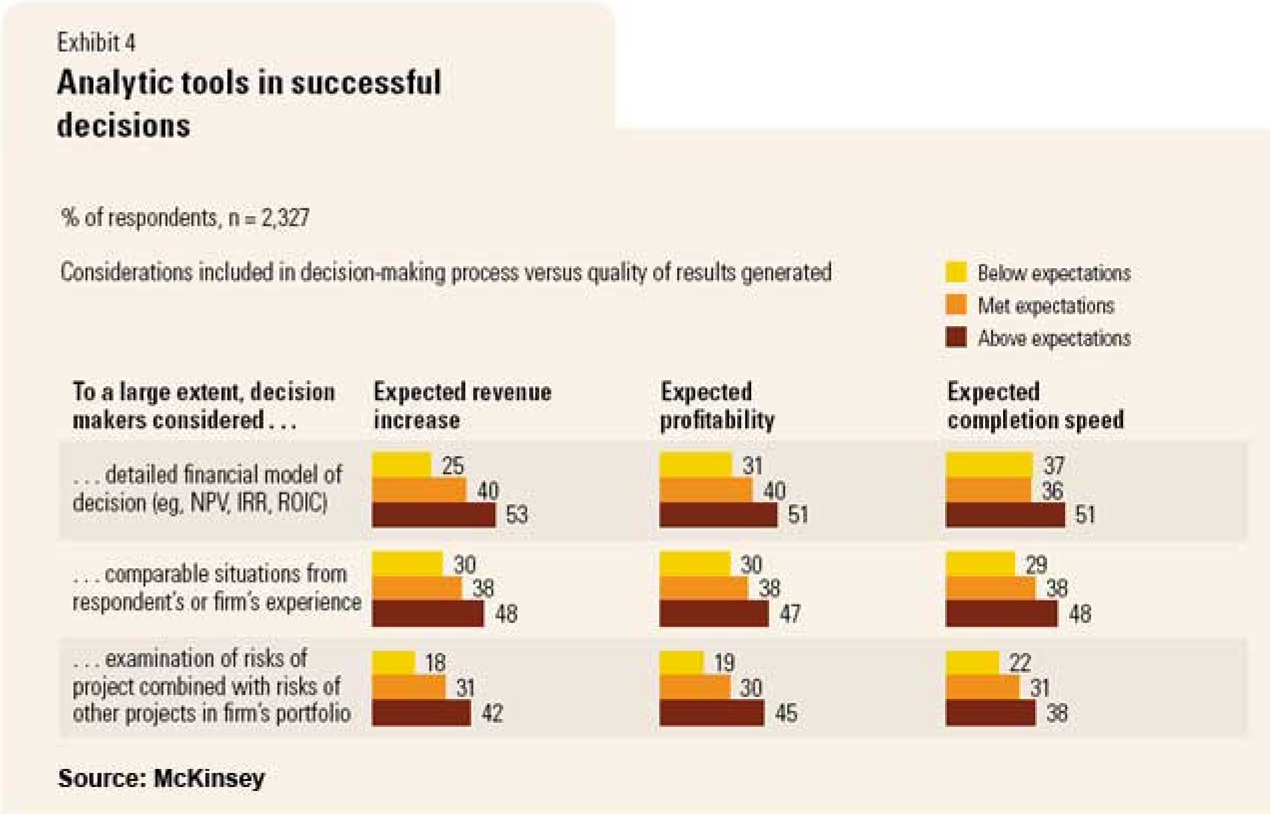
- **Decisions initiated and approved by the same person generate the worst results:** A robust and open discussion among the team simply results in generally better decisions.
- **At a corporate level, operations/supply chain input is critical:** Of the "unsuccessful" decisions, operations/supply chain had significant input in only about one-third of those decision processes, "reinforcing findings from other surveys that companies frequently overlook execution when making decisions."
- **Decisions made in companies/organizations that have formal strategic planning processes are much more likely to succeed:** Formal and well-understood decision processes and structure have major benefits over those made in more ad hoc decision environments.
- **Decisions must be clearly linked to financial/operational results expectations:** When the clear focus is on the bottom line impact, decisions are more likely to be good ones.

How to Make Good Supply Chain Decisions (Con't)



- **Decisions that result in one person being clearly responsible for the implementation are much more likely to be successful, especially if that person is involved in the decision-process:** It's commons sense, of course, but nonetheless these are principles too many companies/ organizations forget at times.

- **Being receptive to the experience current team members had in other organizations relative to the path being considered generally yields improved results:** The success or lack thereof of in other organizations of strategies being considered in your company is ignored at your peril.

- **Decisions made when the input from managers is more focused on the impact to the executive/manager's operation generate worse results than when that input is based on the likelihood of successful results for the company overall:** Again, this is common sense, but identifying the source of a manager's objections or recommendations can often be quickly understood by asking the right questions. Make sure organizational goals, not department/functional goals, are at the center of the decision process/discussion.

- **"Transparency" is associated with successful decisions:** The more open the decision process itself is and the follow up communication about the decision internally, the greater the likelihood of success.

- **Decisions that formally address risk lead to better results:** The use of sensitivity analysis, simulation and other tools to well consider risk on average lead to greater success.

No company or supply chain organization ever bats 1000, but remembering and adopting the principles articulated can ensure your supply chain is consistently at the top of the batting average leaders.