



Executive  
Perspectives

# The CEO's Dilemma

Preparing Your Supply Chain for Resilience

*December 2022*




# Introduction to this document


Recent macro events like COVID-19, the Russian invasion of Ukraine, and soaring inflation have stressed supply chains globally. Even when these current challenges subside, future supply chain disruptions in various forms are likely to continue.

To thrive relative to underprepared peers, companies must design their supply chain structure, processes, and organizations for resilience. It is critical to be selective in where and how to invest to stay cost-competitive while mitigating the most at-risk parts of supply chains with the highest potential financial impact.

This document explains which capabilities and enablers are needed to build resilient supply chains, and the no-regret moves that all companies should take today.



**In this BCG Executive Perspectives edition, we address how to respond to uncertainty by building supply chain resilience**



# Executive Summary | Supply chain resilience creates better business outcomes and requires action today to build key capabilities and enablers

## Benefits of supply chain resilience

Companies that invest in **supply chain resilience capabilities turn disruption into a competitive advantage**. The gross profit growth of resilience leaders outpaced that of laggards by up to 55 percentage points. Leaders succeeded because **they invested before they needed it**.

Without these capabilities, companies are exposed to inevitable supply chain disruptions. Resilient supply chains can **minimize costs and lost revenue** in times of crisis and **support accelerated growth** in times of expansion.

Early investments in resilience can deliver immediate benefits **to help fund the journey**. Deploying inventory more efficiently with better demand visibility and improving procurement with better upstream visibility for sourcing are just a few examples.

Unplanned supply chain challenges will continue. It is **imperative that companies prioritize investments now** so they don't fall behind peers. They must invest intelligently in supply resilience to avoid exacerbating costs.

## Building supply chain resilience

Near-term, large opportunities exist to **build supply chain resilience capabilities**. This requires a holistic program:

- **Absorb**: Better handle shocks through network design, sourcing strategy, planning, and product design
- **Recover**: React faster when disruption occurs through monitoring, prediction, and crisis response

To enable these capabilities, companies need **visibility into their extended supply chain**; sustaining this value may require **new enablers**, including digital tools, governance, talent, and change management assets.

# Continued uncertainty about future demand and economic stability

## 1 Global growth outlook

### GDP forecasts<sup>1</sup> (Real GDP YoY)

	2021A	2022E	2023E	2024E
US	5.9%	1.8%	0.4%	1.4%
Eurozone	5.3%	3.2%	-0.1%	1.5%
Global	6.0%	2.9%	2.1%	2.9%

## 2 Commodity prices and inflation

### Commodity prices<sup>2</sup>

	Sep '22	Oct '22	Nov '22	Change <sup>10</sup>
Brent oil	79.5	86.5	80.6	-6.9%
Natural gas				
US	6.8	6.4	6.9	+9.0%
Eurozone	165.0	84.0	145.0	+66.6%

### Consumer price inflation (YoY)<sup>3</sup>

	Sep '22	Oct '22	Nov '22	Change <sup>10</sup>
US	8.2%	7.7%	-	-0.5ppts
Eurozone	9.9%	10.6%	10.0%	-0.6ppts

## 3 Financial markets

### Equity market performance (YTD change)<sup>7</sup>

	Sep '22	Oct '22	Nov '22
S&P 500	-24.8%	-18.8%	-14.4%
Eurostoxx 50	-22.8%	-15.8%	-7.8%

### Corporate spreads (High Yield)<sup>8</sup>

	Sep '22	Oct '22	Nov '22	Change <sup>10</sup>
US	5.52%	4.64%	4.48%	-16bps
Eurozone	6.31%	6.05%	5.20%	-79bps

## 4 Monetary policy

### Monetary policy rates<sup>6</sup>

	Sep '22	Oct '22	Nov '22	Change <sup>10</sup>
US	3.25%	3.25% <sup>12</sup>	4.0%	+75bps
Eurozone	1.25%	2.0%	2.0%	0bps

## 5 Labor market

### Job openings rate<sup>4</sup>

	Q1 '21	Q2 '22	Q3 '22	Change <sup>11</sup>
US	7.3%	6.8%	6.5%	-0.3ppts
Eurozone	3.1%	3.2%	3.2%	0ppts

### Unemployment rate<sup>5</sup>

	Sep '22	Oct '22	Nov '22	Change <sup>10</sup>
US	3.5%	3.7%	3.7%	0ppts
Germany	3.0%	3.0%	-	0ppts
France	7.1%	7.1%	-	0ppts

## 6 Manufacturing

### PMI Manufacturing (<50 = contraction)<sup>9</sup>

	Sep '22	Oct '22	Nov '22	Change <sup>10</sup>
US	50.9	50.2	49.0	-2.4%
Eurozone	48.4	46.6	47.1	+1.5%


1. Bloomberg, data as of 12/06/2022. 2. Data presented as end of month figures. Brent oil in \$/bbl; US Natural gas (Henry Hub) in \$/MMBtu; Dutch Natural gas (TTF front month future) in EUR/MWh. 3. CPI monthly seasonally adjusted data from Bureau of Labor Statistics; HICP monthly data for Eurozone from Eurostat. 4. Seasonally adjusted rates; Bureau of Labor Statistics for US; job vacancy rate from Eurostat for Eurozone. 5. Bureau of Labor Statistics for US; Eurostat for Eurozone. 6. Federal Reserve for US; ECB for Eurozone (main refinancing rate). 7. Bloomberg. 8. Bloomberg US Corporate High Yield Average OAS; Bloomberg Pan-European High Yield Average OAS. 9. ISM manufacturing PMI for US; S&P Global Eurozone Manufacturing PMI from Markit for Eurozone. 10. Change Oct vs Nov. 11. Change Q2 '22 vs Q3 '22. 12. As of 12/06/2022. Note: All displayed numbers are based on end of months figures. Changes based on incremental changes vs. previous months.



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## AGENDA

- ✓ **Benefits of supply chain resilience**
- ✓ Building holistic supply chain resilience



**The nature of supply chain disruptions may change, but disruptions are inevitable**

## Three sources of supply chain disruptions expected to continue in the future



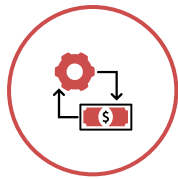
### Macroeconomic

Volatile demand, vulnerable suppliers, capacity/inventory shrinkage from higher interest rates, bankruptcies from higher energy prices, etc.



### Geopolitical

Increased power tensions leading to trade actions (e.g., tariffs, tech restrictions), military actions, ESG<sup>1</sup> (e.g., carbon border taxes), etc.



### Operational

Natural disasters (e.g., hurricanes, floods), pandemics, labor strikes, labor/material shortages, catastrophic equipment downtime, etc.

**Companies must prepare now to be resilient to all these unpredictable future disruptions**

1. ESG = environmental, social, and governance

# Supply chain leaders across industries show better financial performance vs. laggards

**Gross profit increase  
difference between  
leaders and laggards  
(percentage point differential)**



**+25–45 p.p.**



**+5–20 p.p.**

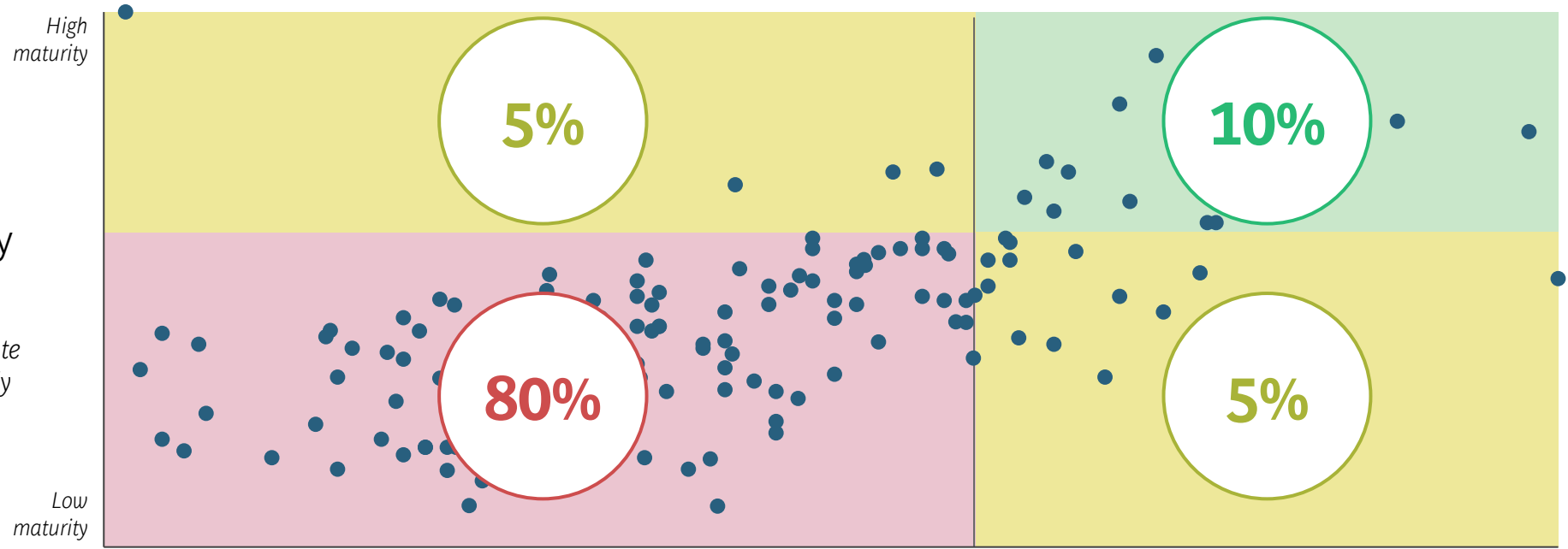


**+0–55 p.p.**



# A resilient supply chain helps absorb shocks and recover from disruption faster – but few companies have managed to build these capabilities yet

**Recover**  
 React faster when supply chain disruption occurs  
*e.g., digital twin of operations to evaluate disruption scenarios and prepare supply chain to minimize financial impact*




**Absorb**  
 Increase ability to handle supply chain shocks  
*e.g., tiered sourcing strategy for custom/critical components through product redesign or alternative sourcing options*

⦿ Denotes % of companies in quadrant

Source: BCG 2022 supply chain resilience capabilities survey (N=136)





## The time to act is now to create a competitive advantage with supply chain resilience

- 1 Supply chains can create a competitive advantage** if they become resilient to prepare for inevitable disruptions; this creates more stable operations and predictable financials in good times and bad
- 2 Act now to build supply chain resilience** and narrow the gap to leaders who continue to invest; prioritizing investments helps fund the journey while building long-term capabilities
- 3 Read on to identify several actions to prepare** your supply chain for resilience, including how to **assess** risk exposure, gain real-time **visibility**, and **absorb and recover** from the most pressing risks



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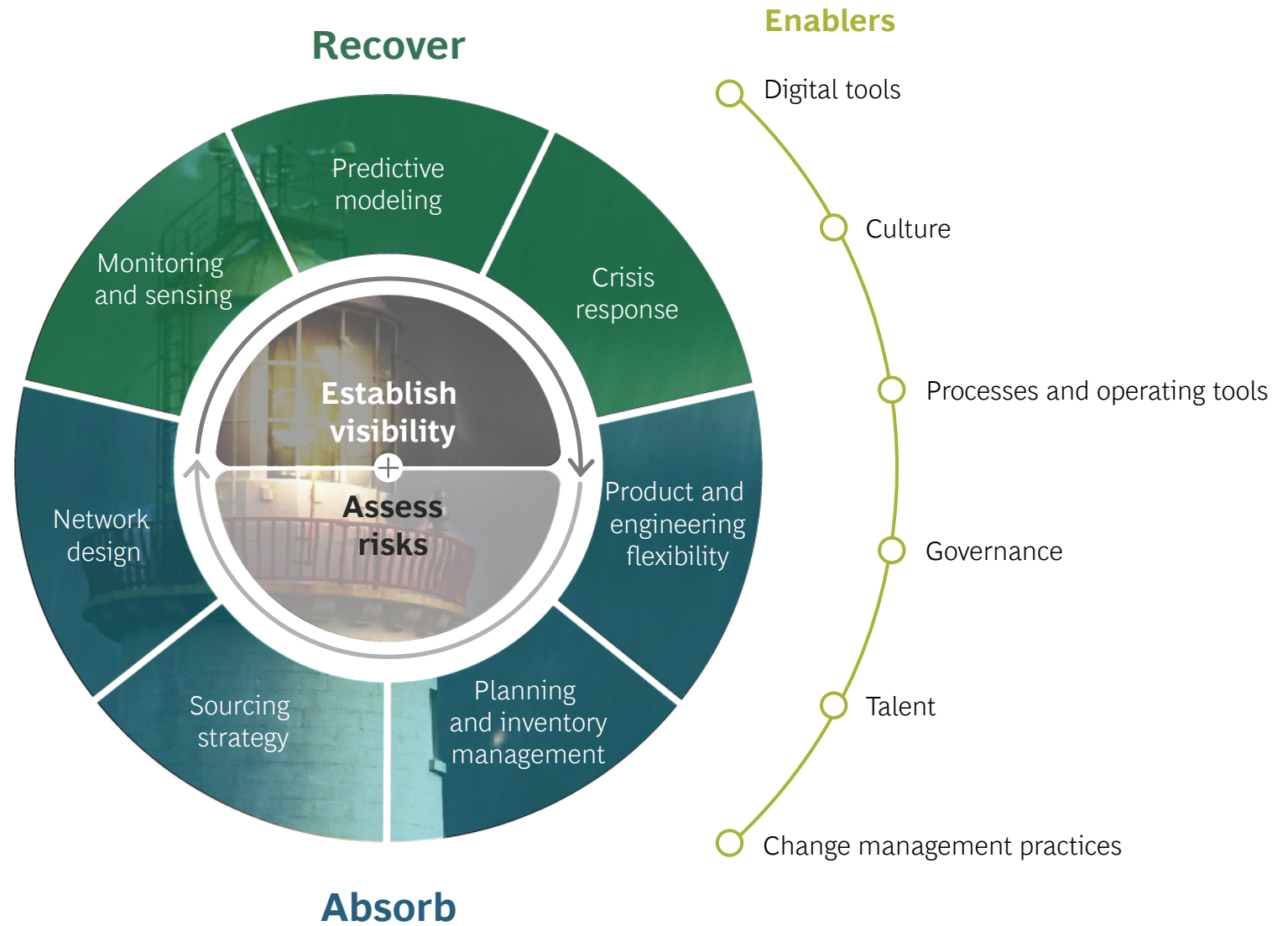
## AGENDA



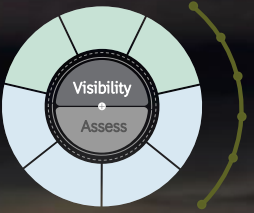
- ✓ Benefits of supply chain resilience
- ✓ **Building holistic supply chain resilience**



## Excellence in supply chain resilience requires a holistic approach

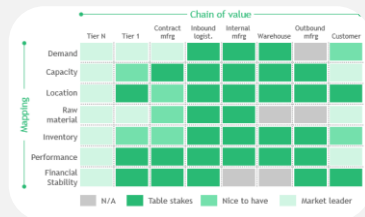


# Visibility and Assessment | Understand potential problems and quantify the magnitude of potential exposure



## Visibility

- Create visibility across network, including multi-tier supplier mapping, multi-echelon inventory, production facilities, and transportation
- Quickly view changes in performance across various KPIs in different parts of the network



## Assessment

- Establish KPIs that measure a company's level of resilience capabilities
- Identify potential exposures at the part, supplier, location, and product level
- Prioritize risks by quantifying the magnitude and likelihood of exposure
- Develop capability building and a risk mitigation roadmap to improve resilience



## Case example: industrial goods company

### Why was it important?

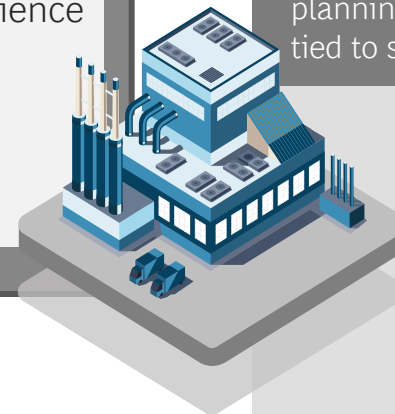
Client concerned about geopolitical & trade risk with large percentage of components sourced from China, especially single sourced, with specialized technology

### How did we help?

Built an enhanced monitoring dashboard to enable risk segmentation and quantification; developed a mitigation roadmap to address risks

### What was the impact?

Integrated dashboard into daily operations planning; executed 5 key mitigation solutions tied to sourcing risks for 85% of revenue



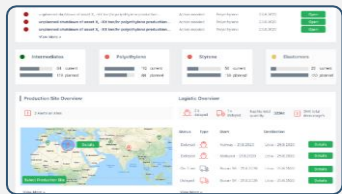


# Recover | Continuously monitor using advanced analytics coupled with predictive algorithms



## Monitoring/sensing

- Real-time monitoring leveraging digital tools to identify external events that may impact ops
- Proactive alerts that sense operational deviations & disruptions



## Prediction

- Predictive algorithm to show how disruptions could impact operations
- Scenario modeling that will show best action given changing conditions



## Crisis response

- Established team(s), processes, & playbook to optimize decision making
- Leverage real-time data to mitigate crisis within existing process



## Case example: medical device company

### Why was it important?

Client anticipated shortage of semiconductors and needed a data-driven approach to monitor and mitigate component supply risks

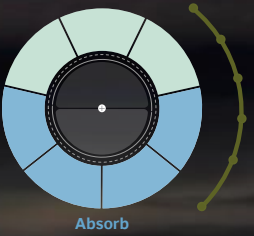
### How did we help?

Implemented a data room and control tower to develop data-driven risk identification for prioritization and management of supply base

### What was the impact?

Reduced potential revenue loss by 20%, prioritizing product redesign/substitution for most profitable products & health criticality to minimize patient impact

# Absorb | Prep for events through network design and inventory planning while developing comprehensive sourcing strategy



## Network design

- Network map of all locations and flows across multiple tiers of the supply chain
- Scenario evaluation for single points of failure



## Sourcing strategy

- Tiered multi-sourcing strategies with recovery for single-sourced items
- Senior and cross-functional engagement on supplier location selection



## Inventory & planning

- Data-driven inventory targets set with additional safety stock for high-risk items
- Sales forecast and demand plan to determine supply & production needs



## Flexible products

- Sourcing strategy to identify source components with roadmap to migrate to flexible designs
- Process for rapid emergency design change, substitution, and spec deviation



## Case example: consumer beverage company

### Why was it important?

Client adversely affected by supply chain disruptions and expected to underdeliver export volumes due to labor & raw material shortages

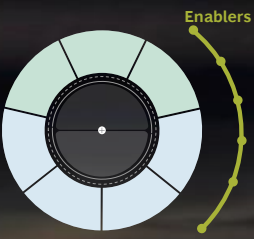
### How did we help?

Developed cross-functional initiatives focused primarily on network design and sourcing/inventory strategy to increase resilience

### What was the impact?

Reduced addressable cost by 20% while increasing volume per site by 50%, significantly reducing planned expansion capex

# Enablers | Resilient companies build capabilities to strengthen overall operations organization and processes



*More details on next page*



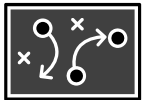
## Data, analytics, and tools

- Build ecosystem of new tools to better anticipate risks and gain a competitive edge
- Improve real-time visibility into multiple supply chain tiers and across network
- Leverage advanced and predictive analytics to enable data-driven planning



## Culture

- Win hearts and minds of employees
- Make talking about risk and resilience as commonplace as cost and efficiency
- Embed resilience in every function across organization and decision processes



## Process and operating model

- Integrate resilience into supply chain, order execution, procurement, and strategic planning
- Focus on both long-term improvements and near-term crisis response



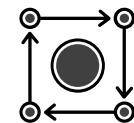
## Governance

- Align metrics and incentives to resilience measures
- Establish regular cadence of executive engagement
- Build cross-functional risk and resilience teams with direct line of reporting to COO or CEO



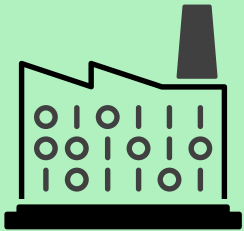
## Talent

- Build new strategic, tactical, analytical, and digital capabilities required to enable resilient operations
- Hire, train, and retain leaders and employees committed to resilience across the organization

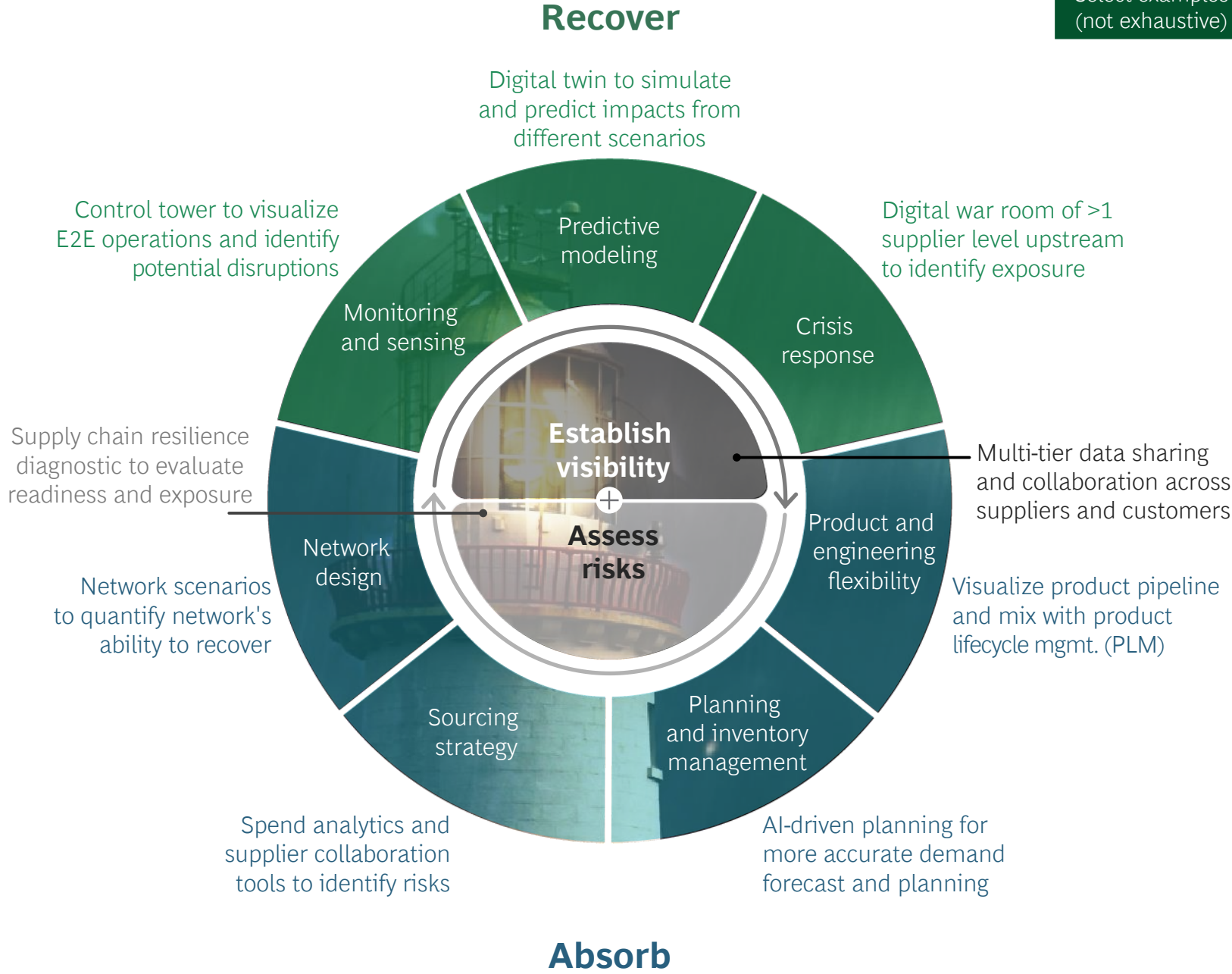


## Change management

- Enable sustainable change to the way work is done and decisions are made
- Ensure that change is both deep (every level) and broad (cross-functional)



# Supply chain resilience strategy is accelerated when leveraging digital and analytics tools





# Connect with our Supply Chain, Central Resilience, and Geopolitics teams

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A dramatic scene featuring a lighthouse on the left with its light glowing. In the center, a large white building complex is visible. The sky is dark and cloudy, with a prominent horizontal beam of light shining across the middle. The overall mood is mysterious and powerful.

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