

THE KEYS TO IMPROVING SUPPLY CHAIN RISK AND RESILIENCE

Organizations must take a proactive approach to mitigate disruption

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EXECUTIVE SUMMARY

Supply chain risk didn't magically go away when the COVID-19 pandemic ended. Years on, it continues to be a significant and ever-evolving disruptive force across the world. Businesses of all stripes must contend with a myriad of both new and ongoing operational challenges: geopolitical conflicts such as the war in Ukraine, shortages of critical materials like semiconductors, and disruptions in global trade brought on by the Baltimore bridge collapse and other events. The impacts of these difficulties — cost pressure, lost sales, and tight working capital, just to name a few — can pose an existential threat to any organization.

Combating the threat effectively is only possible through a comprehensive strategy that considers the entire flow of goods and how all parts of the supply chain are interconnected. Too often in recent years we have seen companies take on risk resilience solely through reactive measures, pulling levers intended primarily to stabilize their operations as quickly as possible. Because it doesn't [address the entire supply chain holistically](#), this approach is not sufficient for de-risking. These companies do some things right, but neglect others, preventing them from achieving stability.

Some organizations, however, are taking a more proactive, forward-looking path, making investments where necessary to avoid and mitigate potential supply chain disruption in the first place. The Oliver Wyman Forum recently found that [59% of CEOs of companies listed on the New York Stock Exchange are currently de-risking or diversifying their supply chains](#). Critically for such efforts, many businesses heavily utilize data in their decision-making, taking advantage of cutting-edge tools that can help identify and predict impending issues throughout the entire value chain.

To better understand how companies perceive risk and prepare to face the challenges ahead, we surveyed well over 100 executives from nine industries across North America and Europe. Our goal was to address a few key questions:

- What is the level of maturity of organizations with regard to risk and resilience?
- What strategies to increase resilience have they implemented?
- Which of these measures and tools are the most important for the future?

The results of the survey revealed that companies are widely divergent in their prioritization, preparation, and execution around managing supply chain issues and developing long-term resilience. From the responses we identified the organizations that stood out from their peers ("Leaders") and analyzed the traits that separated them.

We found that Leaders protect sales via advanced demand and supply management, maintain profit margin through better cost control, and optimize working capital through different inventory policies. They also purposely invest a meaningful share of their profit back into managing risk and improving operational resilience, and reduce internal barriers to execute on their resilience strategies, often with a mandate from their board. Finally, they rely on several advanced levers to better manage risk, including using generative AI for internal and external monitoring, implementing digital solutions to augment foundational processes like inventory management, and redesigning products to reduce reliance on critical parts.

INTRODUCTION

Conducted during the first quarter of 2024, our survey assessed respondents’ businesses on a range of criteria, including past/current performance, degree of supply chain visibility, strategic maturity, organizational maturity, and technology usage. Based on the results, we placed them in three categories:

- **Leaders (31%):** Those that made significant improvement in supply chain resilience and are ahead of their target and peers
- **Mid of the Pack (38%):** Those that made few improvements and/or did not achieve their targets
- **Laggers (31%):** Those that made no improvement and were significantly behind their peers and targets

Leaders ready their organizations for disruptions as Laggards do but also proactively think through the possibilities of disruption and how and where they may be exposed. For example, are all their goods running on rail lines, flowing through a country that is beset by political instability, or dual sourced from suppliers that rely on the same port? Successful organizations will identify and address these kinds of issues before they can become problematic.

Having that foresight pays off — literally. Between 2018 and 2023, Leaders increased their revenue by 23%, or 8 percentage points more than Laggards did. Leaders also were better during that period at absorbing cost increases (by applying the right flexibilization levers) and managing their working capital (through smarter inventory strategies).

Exhibit 1: Financial performance of Leaders compared with Laggards

Performance (from to 2018–2023)	Leaders	Laggards	Delta
Revenue	23%	15%	+8pp
Profit	0%	-19%	+19pp
Working capital	15%	36%	-21pp

Source: Oliver Wyman Global Risk and Resilience Survey

Through an analysis of the responses, we determined that leaders differentiate themselves from the other categories in three key ways: adopting a comprehensive strategy that is prioritized throughout the company, proactively deploying advanced levers, and using technology to enhance their supply chain capabilities.

Leaders versus Laggards Part 1

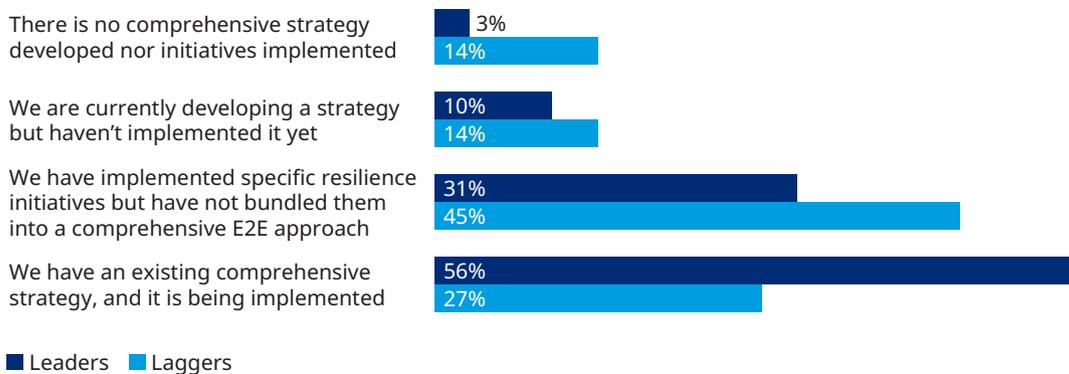
COMPANY STRUCTURE

According to our survey, 55% of Leaders have executed a comprehensive, end-to-end supply chain resilience strategy, nearly double the percentage of Laggards. Taking a comprehensive view requires decision-makers to get out of their normal functional silos — whether it be procurement, logistics, or anything else — and involve other departments. Overwhelmingly, the strategy and supporting initiatives are valued at the board level, which trickles down throughout the rest of the organization and helps it overcome the usual barriers of insufficient money, talent, and capacity.

At the same time, high-level prioritization makes Leaders more willing than others to invest in supply chain resilience strategy; 86% said they have increased their budgets for it since 2021, compared with 50% of Laggards. The rise in investment is also in part a function of Leaders learning to be better equipped against future black swan events and other major disruptions after the COVID-19 pandemic.

Of course, simply throwing more money at a problem does not guarantee positive results. Leaders have recognized the need to build their organizations and culture with a focus on enabling successful implementation of their roadmaps. They make sure to mitigate common obstacles, looking beyond any single initiative or function, and determine the impact across the whole supply/value chain. Their supply chain teams also collaborate well both internally and with business partners to plan and execute their resilience initiatives.

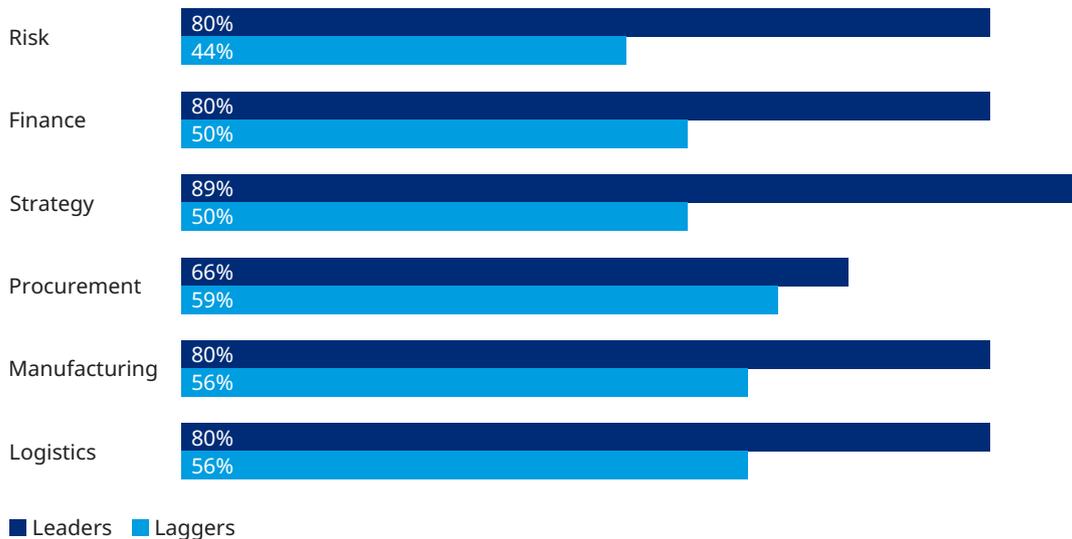
Exhibit 2: Stages of supply chain resilience strategy development and implementation



Source: Oliver Wyman Global Risk and Resilience Survey

90% of Leaders rate supply chain resilience strategy as a high priority for their boards of directors, compared with 52% for Laggards

Exhibit 3: Ratings of how other organizational departments collaborate with the supply chain team to plan and execute resilience measures



Source: Oliver Wyman Global Risk and Resilience Survey

Leaders versus Laggards Part 2

LEVERS DEPLOYED

Leaders differ markedly from Laggards in what they aim to achieve with their supply chain resilience strategies. While it is important to assess the impact of supply chain difficulties, Leaders care more about mitigation than developing playbooks to manage damage control. They are more than twice as likely as Laggards, who often gravitate toward inexpensive, easy-to-implement levers, to focus on proactive rather than reactive capabilities (69% versus 32%). As a result, we are seeing Leaders separate themselves further in their efforts to make use of more proactive levers — network realignment, advanced digital technology, and product redesign, among others — that both fundamentally reduce risk profile and help enable a competitive advantage.

Similarly, Leaders tend to concentrate on measuring key performance indicators (KPIs) that are more actionable in nature, such as the percentage of locally sourced supply or supplier performance/scorecards. They are constantly examining how they handle critical inventory components and their costs, as well as evaluating the performance of their suppliers.

Exhibit 4: Deployment of proactive levers to improve supply chain resilience

Lever	Examples	Leaders	Laggers
Advance, proactive: Average gap 30pp			
Network realignment	<ul style="list-style-type: none"> Manufacturing process optimization and/or automation Sourcing strategy (dual source, alternative supply sources, long-term contracts) 	97%	72%
Advanced demand planning and inventory management	<ul style="list-style-type: none"> Inventory build-ups for critical parts Improved of demand planning capabilities (for example, AI-based forecasting algorithms) 	86%	59%
Advanced digital technology	<ul style="list-style-type: none"> Automation of logistics processes (such as transportation and warehouse) 	79%	55%
Product redesign	<ul style="list-style-type: none"> Change in used materials, to decrease raw material dependencies) 	72%	28%
Reactive: Average gap 18pp			
3PL diversification and securement	<ul style="list-style-type: none"> Third-party logistics service provider diversification (for example, alternative ocean carrier, or air freight) Long-term logistics 3PL contracts to secure logistics capacities 	93%	62%
Network redundancy and flexibility	<ul style="list-style-type: none"> Multi-purpose sites/asset flexibility Redundancy in logistic flows (such as using multiple ports/logistic lanes) 	72%	62%
Supplier expansion	<ul style="list-style-type: none"> Direct contracting of sub-suppliers 	69%	48%
Incorporation of EPR principles	<ul style="list-style-type: none"> Incorporation of extended producer responsibility (EPR) principles into products and manufacturing processes 	62%	52%

Source: Oliver Wyman Global Risk and Resilience Survey

Leaders versus Laggards Part 3

TECH ADOPTION

The third way Leaders differentiate themselves from Laggards is their adoption of technology to augment their workforce and supply chain capabilities. Transparency is the basis for success. No matter how much an organization invests in resilience measures, it is still prone to a host of risks that can strike at any time. Investing heavily in tools that provide the right data to enable proper monitoring and preparation, though, can reduce the effects of those risks significantly.

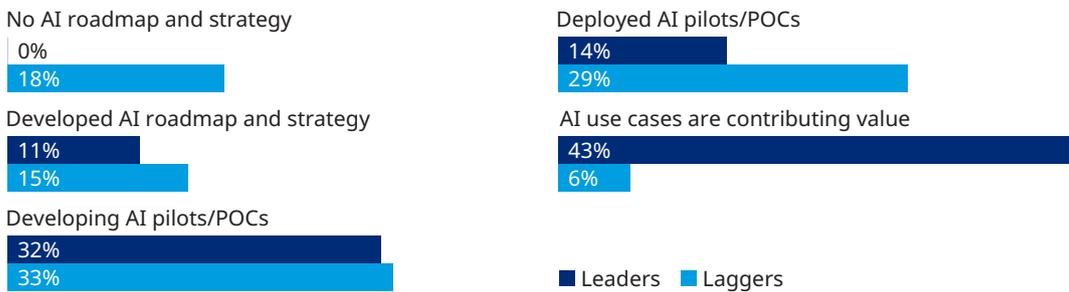


97% of supply chain risk and resilience Leaders have an Advance Planning and Scheduling or Digital Twin tool in place

To that point, nearly two-thirds of Leaders surveyed said they have used a tool to provide end-to-end supply chain visibility, compared with just over one-third of Laggards. Further, Leaders are more likely than Laggards to employ an Advance Planning and Scheduling or Digital Twin solution to improve the accuracy of their forecasts and simulate the effects of different disruption scenarios, and are more effective at utilizing these tools.

Leaders especially stand out from their peers when it comes to the [application of generative artificial intelligence \(AI\) to supply chain risk and resilience](#). Far more than Laggards, they view the technology as relevant for a host of use cases, especially ones focused on improving risk monitoring and visibility.

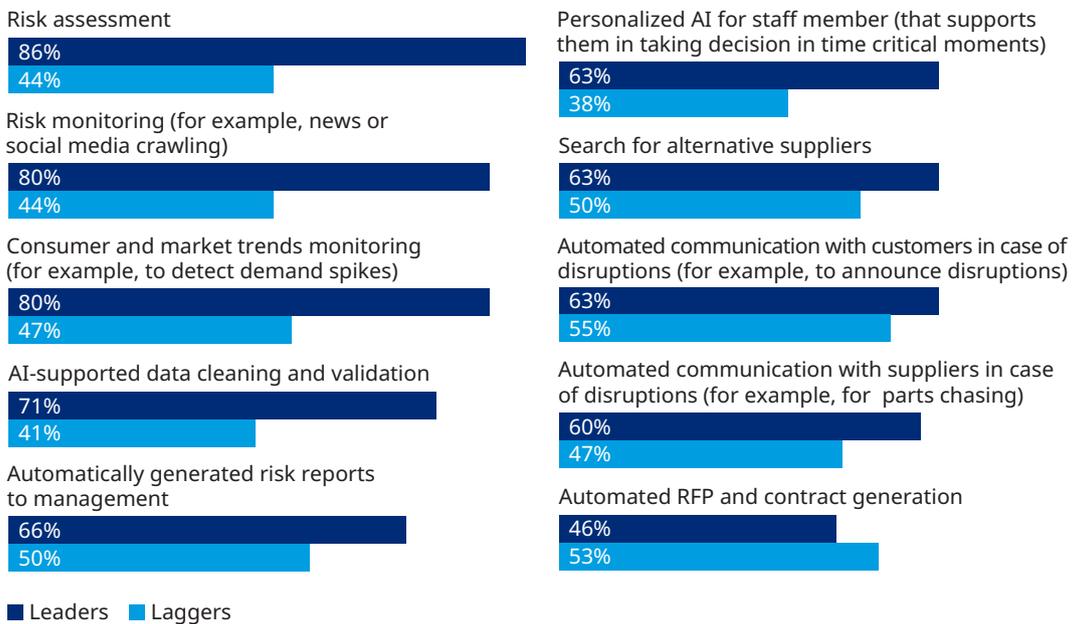
Exhibit 5: Maturity in deploying AI to manage supply chain resilience



Source: Oliver Wyman Global Risk and Resilience Survey

Exhibit 6: Relevance of generative AI for various use cases aimed at building resilience

Aggregated results — respondents rated use cases as relevant or not relevant



Source: Oliver Wyman Global Risk and Resilience Survey

WHAT TO DO TO IMPROVE RISK/RESILIENCE

The survey results provide the outline of a three-part approach for building winning supply chain resilience strategies.

1. Embrace supply chain resilience from the boardroom to the shop floor

The effort to combat supply chain risk must be on the agenda — constantly, not just when there is a crisis — at the highest levels of the company. Formulate a strategy that goes beyond firefighting to proactively develop resilience in the organization. From there, you need to be ready to invest and gather support by building a compelling business case, and to engage your top talent to ensure sustainable success.

2. Pick the right levers and follow up relentlessly when deploying

Any successful initiative to foster supply chain resilience will have to deploy levers that do more than simple inventory build-up or double-sourcing. That means revisiting the company's sourcing and/or manufacturing footprint and focusing on solving large "pockets of risk." Meanwhile, all levers must be aligned across the organization to realize the expected returns on investments and avoid bad surprises, such as being out of a critical part even after a business function has implemented plans that were expected to prevent that from happening.

3. Embrace AI and technology to win in the long term

AI is still evolving but the potential is huge for organizations that choose the right, proven tools for supply chain visibility and scenario planning. Work with your ecosystem, integrate your IT and planning systems, and augment critical operational capabilities with digital solutions to increase competitiveness.

Conclusion

A BETTER WAY TO DERISK

Many industries still have less-than-ideal processes for allocating the responsibility for supply chain risk management. Typically, derisking initiatives start with the board, which directs the chief operating officer (COO), who passes it on to someone in the supply chain function such as the chief procurement officer (CPO). Finally, from there, the burden of executing the derisking strategies is placed on someone further down in the organization. It would be far more effective to empower someone higher up who can communicate with engineering, product design, logistics, finance, and other functions that need to play a role.

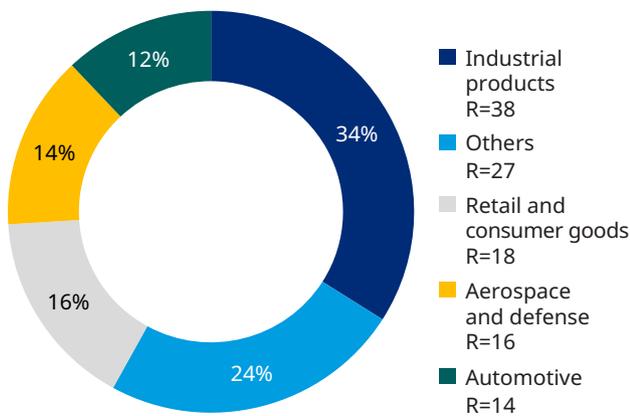
In this regard, industries would be well-served to follow the blueprint set by, for example, financial institutions. These organizations take a far more overarching approach to allocating risk management, all overseen by someone in the chief risk officer (CRO) role. Because with constant disruptions becoming the new norm, every organization is compelled to work toward resilience by optimizing their capabilities and adopting proactive, cross-functional strategies.

METHODOLOGY

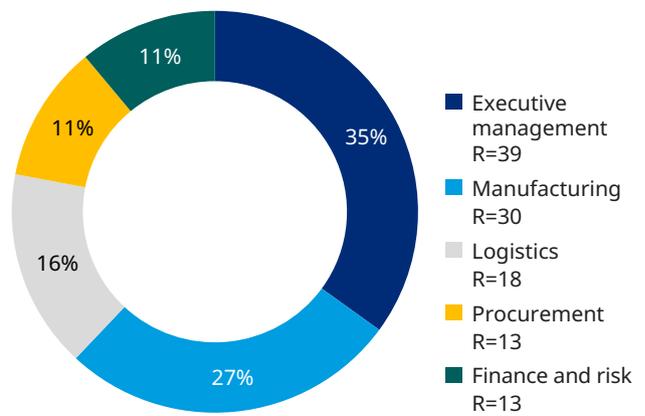
The Global Supply Chain Risk and Resilience Survey collected responses from 113 senior executives across North America and Europe during the start of 2024. The respondents represented companies in nine industries: industrial products; retail and consumer goods; aerospace and defense; automotive; communications, media, and technology; health and life sciences; energy, chemicals, and natural resources; transportation, logistics, and rail; and private equity.

Exhibit 7: Survey participants

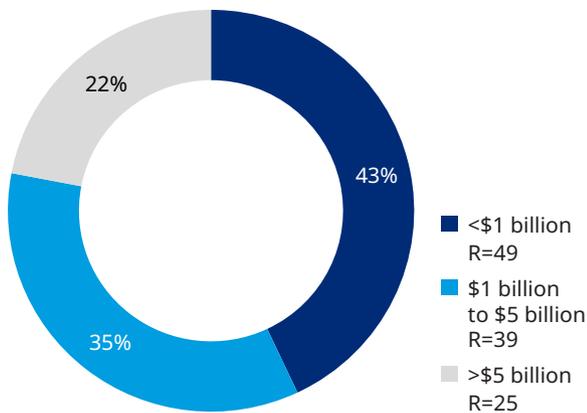
Survey respondents by industry



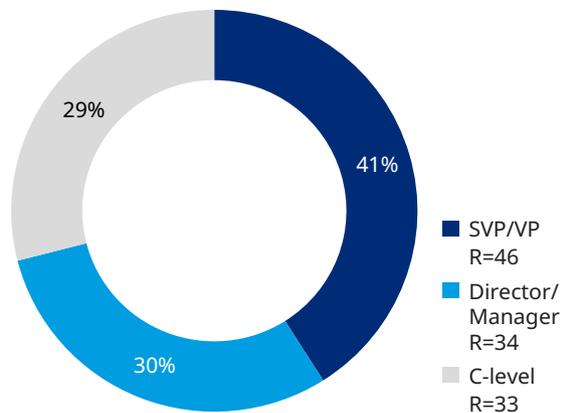
Survey respondents by role



Survey respondents by company size



Survey respondents by position



R= Number of respondents

Source: Oliver Wyman Global Risk and Resilience Survey

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