

# Why Supply Chains Must Pivot

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When Nestlé, the world's second biggest food and beverage company, chose José Lopez to serve as its global chief operations officer, he shared the exciting news with his mother. "But what does that mean, exactly?" she wanted to know. Lopez could have explained that he would be responsible for manufacturing spanning 440 factories in 86 countries, as well as supply chains including customer service and physical logistics across 1,300 warehouses and shipment points. Instead, he simply

replied, "It means I will be blamed for whatever goes wrong." Operations executives tended to receive that anecdote just as Lopez delivered it — with a wry smile — because it captured the essence of their daily reality.

Working with operations executives across various industries, we've heard many similar sentiments articulated about the changing nature of the demand curve and the element of uncertainty in the supply chain in the digital age. For operations teams, the challenge and competitive advantage becomes: How well do you respond and execute against ongoing uncertainty?

## Chaos Is Normal

This central challenge points to a truth most companies have yet to fully contend with — the world is not predictable. In fact, chaos is normal. Timetables and priorities shift. A supplier fails to deliver. You get hit with costs no one saw coming. Some surprises are bigger than others, but when you're the one who still has to get the job done, no surprise feels small.

Further, demands on supply chains are increasing exponentially as companies vie to meet consumer desire for more **personalized products and services, delivered exactly when and where they specify, very quickly, at the**

**same low cost.** Just a few years ago, supply chain performance was all about batch quantities, timetables, and lead times. Now companies are shipping millions of packages a day, many with just one or a few items. Trailblazers like Stitch Fix and Warby Parker actually encourage customers to order multiple sizes and colors of the same item, choose the one they like best, and return the rest.

Yet, in the face of this upheaval, supply chains still try to predict what will happen, then optimize performance against plan. More often than not, those plans are not met. This generally triggers nonproductive finger-pointing, even when the failure stemmed from unanticipated challenges rather than poor execution. Meanwhile, companies continue to increase investments in supply chain capabilities, many times with disappointing results.

Something is clearly missing. It is time to pursue a bold leap in supply chain performance.

## Moving Toward Pivoting Supply Chains

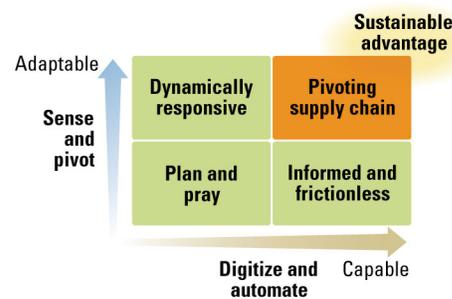
The path forward mirrors the advance from paper road maps to modern GPS systems. The earliest GPS was essentially a digital map that led drivers through a predetermined route faster and with greater ease than a paper map. But as early GPS could not account for traffic jams, road hazards, or other variables, it did not warn drivers to pivot or course-correct to account for the unplanned. Similarly, many companies are currently making major investments in digitizing and **automating** their supply chains to make them better informed, more frictionless, more cost-efficient, and hence more capable.

Those efforts are necessary, but not sufficient. If you simply digitize your supply chain, you may achieve great improvements in speed, efficiency, and reliability, but your supply chain is still not built to pivot.

In order to achieve a sustainable advantage, companies must digitize and automate supply chains to better execute against plan. They must also build in the ability to sense and pivot to perform against the unplannable. (See “Achieving a Sustainable Advantage.”)

### Achieving a Sustainable Advantage

As the business context and strategic requirements become less predictable, the more value there is in moving vertically up the “sense and pivot” axis of maturity.



In our graphic, the y-axis is about creating greater flexibility across the supply chain by making planning, manufacturing, distribution, and logistics more adaptive toward demand volatility, customer expectations for personalization, and an increasingly unpredictable operating environment. Building the y-axis entails developing new processes, governance, and ways of working that leverage the technological capabilities being advanced on the x-axis for increased flexibility and

adaptability, as well as for improved speed, economy, and reliability.

By pursuing strategies along both axes, companies make their supply chains more adaptable as well as more capable. This blend of strengths makes companies better prepared for change and allows them to create more value. In practice, each supply chain improvement axis complements the other.

Here are a few examples of how organizations are implementing technological and organizational advancements to future-proof their supply chains. Major shipping and logistics companies are making massive capability investments in automation, robotics, and other technologies to speed warehouse throughput, truck utilization, and overall operations. Nevertheless, they still struggle to meet an increasingly volatile demand and maintain profitability amidst countless uncontrollable variables in an age driven by e-commerce. Each day brings up questions like the following:

- A prized customer just alerted us they need a last-minute rush shipment. Do we delay an entire cargo plane to meet their request? Or should we depart as scheduled?
- We have an unexpectedly high volume to move today but anticipate relatively light demand tomorrow. Should we pay overtime today? Or delay some of today's order, saving costs but eroding service level?

Such varied, nuanced, and consequential choices should not be governed by rigid policies — but choices made by gut feelings often lead to negative outcomes. Some logistics companies have recognized this challenge and

are exploring more flexible yet reliable ways of making the countless trade-off decisions required to effectively respond to volatility through a combination of new processes, rules, and analytics. On the macro level, companies may fundamentally redesign warehouse operations to handle today's diverse and varied product size and weight configurations (for example, sunglasses, mattresses, fresh groceries), as opposed to placing the priority on maximizing efficiency for “core” product dimensions. More simply, they may redefine driver roles to focus on other tasks in the warehouse or hub when inbound shipments are delayed.

A leading cosmetics company is taking an aggressive approach to digital (x-axis) improvements, including smart prediction, enabled by artificial intelligence, that provides operations leaders point-of-sale data showing the precise SKU volumes *actually* being sold through specific stores, resulting in more accurate forecasts. On the adaptability side, the company is moving decisions concerning escalation and cost versus service trade-offs away from headquarters and out to the field, where managers closest to the action can make rapid adjustments based on “what if” decision analytics.

By embracing technology that provides real-time data, while giving people across the supply chain more power to pivot, operations leaders gain sharper inventory deployments and replenishment, improved reliability, and a more efficient value chain.

## Thoughtfully Prioritize, Boldly Experiment, Prudently Scale

Making your supply chain sense and pivot is a significant endeavor. Organizations should focus first on the supply chain elements that are most susceptible to disruption and carry the most negative business impact. New product launches and new distribution channels also offer a green space where teams can build in the ability to sense and pivot from the start, without having to transition away from ingrained approaches. When a company decides to serve a new market vertical or geographic region, for example, it has an opportunity to prototype its pivoting supply chain, rather than simply replicate what already exists.

Where you do take action, be bold. Don't wait until you have the perfect data or feel absolutely certain something will work before you attempt it. The imperative to be more agile is too pressing to be overly cautious. At the same time, do not fall in love too quickly when your experiments meet success. Operations leads should assess whether the new approach will work at scale, what it will cost to build, and what kind of long-term returns the company can expect.

By developing a flexible supply chain and embracing digital advancements, companies can turn volatility and unpredictability — once overwhelming challenges — into sources of competitive advantage.

**About the Authors**

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