Winning in the Turns: A Supply Chain Action Guide

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Top performers defy conventional thinking during disruptions. The most successful take risks in “the turns,” which can be economic, geopolitical, environmental, social or competitive. Supply chain executives must prepare and lead by building agility into systems, processes and decision making.

Opportunities and Challenges

- Organizations that practice discipline and display confidence are rewarded with sustained advantage over their competitors long after the turn passes.
- Successful businesses ensure a fully aligned and agreed-upon plan on how to respond to risk events, typically increasing oversight of strategy execution and risk management.

What You Need to Know

- Over the past 20 years, only 60 companies across the Fortune 1000 and S&P Europe 350 had consistent year-over-year revenue and margin improvement and long-term growth that exceeded their industry peers.
- At the moment, signs of global economic health are mixed. U.S. GDP pulled back from 3.1% in the first quarter of 2019 to 2.1% in the second. Yet, during that same period, consumer confidence improved. Expectations for corporate earnings are falling, while venture and private equity investors hold reserves of $2.1 trillion.
- While capital expenditure (capex) is up for 2019, the increase is a modest 3%, with current projections pointing to an increased hesitancy to invest with a 1% decline in spending for 2020 and 2021.
- The labor market remains very tight for some of the critical talent firms need to deliver on their strategies. Global unemployment for advanced economies dipped to its lowest rate in over three decades — 5% — in 2019. Convergence on critical talent pools continues to intensify.
Insight From the Analyst

Winning in the Turns: Uncertainty and Mixed Signals

Michael Uskert, Managing Vice President

Through the first half of 2019, there has been a growing sense of economic uncertainty among Gartner’s executive clients. This sentiment is complicated by many mixed signals, some of which overwhelmingly point to a positive economic outlook. For example, many parts of the world are experiencing full employment, and hiring is strong. Consumer sentiment is healthy, and earnings growth is the strongest in a decade. Venture and private equity investors have stockpiled cash.

So, why the uneasiness? Well, for starters, it’s been a long run of economic prosperity, and we are in a late-stage growth cycle. The law of averages alone would suggest it should come to an end soon. Some non-Gartner analysts predict a recession in late 2019 or 2020. Even without one, there seem to be more than the normal unsettling events to manage. There is an abundance of geopolitical and trade drama, causing long-held partnerships to strain. 2019 profitability forecasts are down. Debt levels are precipitous in a period of rising interest rates. Employee engagement is down in a tight labor market.

Executive Overview

Turns can be economic, geopolitical, environmental, social or competitive, to name a few. Winning in the turns demands contrary measures around cost, strategy and talent (see Figure 1).
“Bad companies are destroyed by crisis. Good companies survive them. Great companies are improved by them.” Andy Grove, former global CEO of Intel.

But, what if we don’t look at events like these as a crisis but rather a “turn” requiring a shift from our current strategy. We have the choice to make it a turn for the best rather than a turn for the worst. A turn changes the dynamics of the status quo and forces a reaction.

It is in the turns that the best athletes take risks and make moves. They brake late and then accelerate out of turns instead of simply pushing the brakes of risk aversion. They trust their abilities to take risks that lead to higher performance. They don’t take speculative risks but, rather, calculated ones by trusting in their core capabilities. They have practiced. They are ready. They are uniquely prepared to “win in the turns.”
U.S. speed skater Apolo Anton Ohno was trailing three skaters when he rounded the final turn of the men’s 1,500-meter short track at the 2010 Winter Olympics. Ohno jostled fiercely with two skaters who then wiped out, leaving Ohno to take second place and his eighth Olympic medal. As an elite competitor, Ohno knows that heading into a turn — when momentum is shifting, visibility is poor and the outcome uncertain — is his single best shot to pursue and seize the lead.

The most recognizable type of turn tends to be economic. During the financial crisis of 2008-2010, leaders broke away from the competition (see Figure 2) and achieved efficient growth. A select few companies — just 60 of the largest 1,200 global companies in the U.S. and Europe — ended up as winners. In these organizations, the actions of the executive team create the core strength required to win in the turns. Winning in the turns endures, with this select few sustaining their outperformance for the subsequent decade. How you exit the turns likely determines your long-term prosperity.

**Figure 2. Winners Accelerate in the Turns**

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**Winners Accelerate in the Turns**

Company Earnings (2003 indexed to 100)

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**Turns Come in Many Forms**

Economic turns are common in business, and most executives have survived several. But, there are many other types of turns (see Table 1) — unexpected changes in context that force decisions. These turns may appear without much notice (e.g., supply chain cyberattack, weather-related catastrophic events, political confrontations) and from unexpected directions (e.g., outside your
industry). The G-forces in the turn may be extreme (e.g., a nontraditional competitor that doesn’t need to make a profit), and the time to impact may be short due to digital capabilities. These turns often come in combinations, thereby increasing the need to react on different business vectors and requiring a high-performing executive team.

### Table 1. Types of Turns

<table>
<thead>
<tr>
<th>Types of Turns</th>
<th>Attributes/Examples</th>
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<tbody>
<tr>
<td>Economic</td>
<td>- Macroeconomic (e.g., recession)</td>
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<tr>
<td></td>
<td>- Industry-specific (e.g., crash in crude oil prices; margin wars)</td>
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<td>- Public sector (e.g., revised or lack of budget agreements, uncertainty around funding)</td>
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<tr>
<td>Geopolitical</td>
<td>- Trade wars and tariffs</td>
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<td>- New political regimes</td>
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<td></td>
<td>- Immigration and migration; labor constraints</td>
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<td>- Nationalism</td>
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<td></td>
<td>- Belt and Road Initiative</td>
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<tr>
<td>Competition</td>
<td>- Sideswipe (e.g., unexpected entrants from outside your industry, especially from the digital giants)</td>
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<tr>
<td>Cybersecurity/Risk</td>
<td>- Individual privacy awareness (e.g., EU’s General Data Protection Regulation [GDPR])</td>
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<td></td>
<td>- Breaches or misuse of data</td>
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<tr>
<td></td>
<td>- Nation-state actors</td>
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<tr>
<td>Social</td>
<td>- Fake news, counterfeit reality, deep fakes</td>
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<td></td>
<td>- Viral social uprising</td>
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<tr>
<td>Environment</td>
<td>- Antiplastic consumers (e.g., Montreal banning all single-use products in 2020)</td>
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<td></td>
<td>- Decarbonization policies</td>
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<tr>
<td></td>
<td>- Extreme weather occurrences (e.g., tsunami)</td>
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Source: Gartner (September 2019)

This sentiment that “everything is turning or changing at the same time” isn’t just gut feel. Figure 3 shows that companies are experiencing trends at historic peaks in combinations that would have seemed infeasible just a few years ago. Consider the following:

- Peaking changes in businesses — From business model transformation to merger and acquisition (M&A) transactions, and cross-enterprise initiatives, businesses are evolving at an accelerating pace.
- Conflicting economic signals — There is high CEO confidence, together with peaking economic uncertainty and probability of recession indexes.
- A unique market competition environment — With strong entrepreneurial health and next-generation digital startup indexes, coupled with spiking industry consolidation, the competitive environment is changing at a speed we haven’t seen before.
- Balance sheet health outlying indexes — Both corporate debt and corporate cash on hand are at record highs, with corporate cost increases outpacing corporate revenue gains.

Figure 3. Trend Lines Across Major Indexes

Individually, each of those clusters are puzzling — many traditionally conflicting business markers spiking simultaneously. Taken together, at 15-year peaks, these represent real risks — and opportunities.

What It Means to Win

As shown in Figure 2, efficient growth companies experience significantly better market results. These companies not only produced healthy margins, but were also 1.44 times more likely to be an industry-first mover in products and services. Failing to take chances in the turns results in stasis or...
loss. For some, missing the opportunities in the turns may take them out of the race completely, if not immediately. On the other hand, those enterprises that take risk without proper preparation could crash and burn.

Many leaders prefer not to make big moves until the signals are clear or look for ways to weather the uncertainty — most likely first targeting low-hanging cost cutting to improve a few performance metrics. In the wake of the Great Recession, 57% of corporate strategists surveyed said business leadership was too cautious. However, neither a wait-and-see approach nor defensive cost cutting powers winners through adversity — today’s current state of uncertainty won’t simply disappear. There is little clarity on a range of economic, regulatory, geopolitical and trade issues, and digital disruption has made widespread and multidimensional uncertainty the new normal.

The risk of paralysis is very real, though, especially if your organization lacks institutional memory of what worked and what didn’t during previous turns. Assuming our next large turn will be a recession, it is a sobering fact that a large number of today’s leaders have only experienced the decade-long bull market.

Fewer than half of current CxOs were functional heads in 2008-2009, and less than 10% were heading the same function in their current company.

Strengthening the Core: The Pillars for Success

Supply chains can prepare for the turns by strengthening their core. This enterprise fitness falls into three pillars: strategy, cost and talent. Gartner has extensively studied the disciplines needed in these pillars and how they help organizations win in the turns.

Supply chain leaders, working in concert with executive leadership across the organization, must start pushing their teams now to make sure they are prepared to act. Each functional head should be focused on these three vital areas:

- Strategy: Prepare to act confidently amid uncertainty.
- Cost: Implement a cost management discipline to allocate and execute resources while spurring innovation.
- Talent: Position talent to sustain progress on transformation.
Research Highlights

Pillar 1: Strategy — Prepare to Act Confidently Amid Uncertainty

The nature and timing of decisions such as investments and acquisitions made during turns matter greatly. Gartner data from the last recession shows executives regretted acting too slowly and investing too little. There are three main approaches to reduce strategic uncertainty:

1. Pull forward debate on the underlying decision criteria and weightings, and how they could change under alternate scenarios.

2. Implement a bottom-up process in which variation in making assumptions is used to better capture and reflect uncertainties.

3. Model end-state optionality by refocusing business development valuation on the range of actions and investments available today and the strategic options they open or close.

For a healthy core, strategy must be agile, clear and actionable by all. While strategies tend to be associated with long-term planning, to win in the turns, leaders need an agile, or adaptive, strategy that allows the supply chain organization to sense and respond to changes in the business context as they happen.

A strategy that is reviewed every three-to-five years does not work when the turns are coming fast. Supply chain executives must work with peers to continually monitor the business context for changes and review business and strategy whenever there are shifts in the environment.

Strategies tend to be associated with completeness where we wait for it to be comprehensive and fully formed before it’s executed. But, what if an abridged version of the strategy could be created much more quickly using the information that was available at the time? In times of uncertainty, so-called minimum viable strategies allow leaders to create and modify their plans using an iterative approach.

Certainly, top-level direction from the board and CEO (or equivalent) is essential. It sets the enterprise posture for preparedness. Scenario exercises should play out potential futures, even completely unrealistic or absurd ones. Strategy experiments also have a role to play in preparing for the turns and being able to accelerate out of them. Stretch your enterprise thinking past the probable so that hard realities seem easier. Adjust your operating model to deliver your strategy. Adaptive strategy demands an adaptive operating model — one that can quickly execute a change in strategic intent.

Organizations that only use backward-looking metrics in their strategy only see the turn when they are in it. As a result, they can’t react quickly enough. Leaders see the turns coming and can prepare for them. Preparing can involve making the full investment. Or, it may involve making or enabling
foundational investments that can be exploited once the turn happens, allowing them to react more quickly and pull away from the competition.

Winners in the turn define and monitor leading indicators that act as early warning signals that a turn may be coming. Monitoring these indicators is done continually via the adaptive strategy process.

Typically, the areas that need to be monitored are:

- **Strategic assumptions**: These are the assumptions on which the strategy is based (e.g., 50% of our customers will shift to digital channels in the next two years).
- **Strategic issues**: These are the key trends that could significantly impact the strategy if they reach critical mass (e.g., a new market entrant reaches 5% market share).
- **Strategic triggers**: These are the events that challenge the strategy (e.g., the enterprise fails to meet profit targets for three consecutive periods).

Ideally, the strategic assumptions, issues and triggers should be tracked continuously so that the enterprise can respond to any changes as soon as they happen. This may not be practical or even necessary for some factors. At a minimum, review each on a monthly basis, and share the output across the enterprise. In more dynamic sectors, or when there is an imminent risk of disruption, increase the frequency of tracking and reporting against these factors.

Questions every supply chain executive should ask about strategy:

- Do we have the ability to appropriately sense and respond to changes in the business context as they happen?
- What steps are being taken by our top customers, and how do we partner to ensure we stay in step with their changes?
- Can we create a minimum viable supply chain strategy that reduces the initial time and effort required and allows execution to start earlier?
- What is our design agility — how fast can we implement common types of change?
- Have we communicated any changes to our supply chain strategy, their impact and the reasons behind them to ensure clarity of direction is maintained across the enterprise?

Gartner Resources:

- “Six Components to Assess Your Supply Chain Strategy Effectiveness”
- “Toolkit: Templates for Communicating Your Supply Chain Strategy”
- “Responding to Disruptions: Preliminary Findings Show Room for Improvement”
Actions to Take Now:

- Proactively test ideas/hypotheses, and use the adaptive strategy process to determine whether a change in strategy is necessary based on what you learn. Be prepared to quickly deploy/scale successful ideas.

- Define and begin monitoring the strategic assumptions, strategic issues and strategic triggers that are the leading indicators of a turn for your enterprise.

- To support an adaptive strategy and accelerate decision making, create a common way of describing the value proposition of every supply chain initiative and how it supports the current business strategy.

- To increase the speed at which changes to how work is done can be implemented, improve your design agility through modularity in your operating model.

Pillar 2: Cost — Implement a Cost Management Discipline to Allocate and Execute Resources While Spurring Innovation

During turns, companies often stop discretionary spending, lay off staff, reduce training and cut capital investments. Winners, however, think long term and forecast for the upturn.

Winning enterprises have an ongoing cost management discipline and practice cost optimization, as opposed to cost cutting (see Figure 4).
More mature organizations will prepare for a turn by having three budgets prepared — best case, worst case and most likely case. They will know ahead of time the moves they need to make when and if the environment changes. Less mature leaders do not spend much time thinking about cost moves until they are told by their CFO to cut their budget. At that point, many revert to cost cutting, just as winners are doubling down on investment for growth and innovation.

To position their organizations for long-term success, leaders should protect innovation funding, even as the cost hammer drops. The best companies assign accountability and authority to “growth guardians” in their organizations to protect these critical initiatives.

A turn is a “burning platform” to lower the organization’s long-term cost base and accelerate simplification, consolidation, automation and outsourcing decisions, as such moves are more palatable in times of uncertainty.
Leaders should establish executive-committee consensus on cost-performance trade-offs upfront so that a clear “cost architecture” is established for all subsequent tactical decisions. For example, the enterprise may decide to prioritize payback over ROI in order to recycle funds and get many smaller initiatives done. Or, it may temporarily employ a lightweight governance process for many investment decisions to promote agility.

**Questions every supply chain executive should ask about cost:**

- What do we need to do to achieve the right level of financial transparency to support our cost-related decisions?
- How can we best engage business stakeholders in discussions about opportunities to shift investments during a turn?
- How can we better utilize existing resources?

**Gartner Resources:**

- “Supply Chain Innovation: Five Essential Steps Toward Revolutionizing Your Supply Chain”
- “A Supply Chain Vision for Driving Cost Optimization Across the Enterprise”
- “Toolkit: Supply Chain Cost Saving Ideas”
- “Focus on Operating Outcomes, Not Reduction Targets, to Optimize Supply Chain Cost”

**Actions to Take Now:**

- **Embed efficiency** in organization values and management practices, and invest in operating capabilities that deliver competitive advantage by cost optimization of supply chain strategy.
- **Develop a cost optimization roadmap** that incorporates long-term value and more immediate spend efficiency.
- **Assign a resource to lead and report progress** against key milestones and targets needed to achieve the desired cost-related results.
- **Halt initiatives that make your organization overly bureaucratized**, such as new chargeback schemes, extended business case reviews and unnecessary business process standardization.
- **Kill projects** that are no longer at the top of the priority list.

**Pillar 3: Talent — Position Talent to Sustain Progress on Transformation**

Healthy, high-performing teams are essential to winning in the turns. Gartner has done extensive research on digital dexterity and high-performing teams that shows the importance of combined business acumen and ability to act. Certainly, supply chain executives should cultivate this in their teams, but they also need to cultivate it among their peers.
Enterprises that take successful risks in turns have powerful executive committees that distribute decision making and action taking in an atmosphere of high trust.

The turns present an opportunity to revamp your playbook around hiring, development and performance management.

Identify your talent competitors that are struggling, and call their best talent. When the turn occurs, the best talent wants to be on a winning team, and they are more likely to move companies during this period. Losing companies keep HR training, programs and services in place because it is what the firm has always done rather than actually being valuable. Use this opportunity to reorient talent programs and services to align with the future direction of your company rather than the legacy of the company.

Common in economic recession, consolidation strategies help people work more broadly so they can apply a wider range of skills on a highly prioritized, efficient basis. Centralized organizational structures with resource pools and centers of excellence are the norm in such a context, and agility is worth investing in for future needs.

During the turns, your next generation of leaders becomes at risk of disengagement. You ask them to do more and contribute more, but rewards and promotions become rarer.

The best companies reduce the number of management layers, removing stagnant leaders to ensure space and opportunities for the next generation of leaders.

Questions every supply chain executive should ask:

- What is our minimum staffing level?
- Are our resources aligned to where the business will be investing?
- Does leadership recognize that the quest for talent does not switch on and off as economic cycles change?

Gartner Resources:
- “Ignition Guide to Driving Employee Adoption of Change”
- “Five Steps Supply Chain Leaders Can Take to Motivate Staff”
- “Toolkit: Building Innovation in Your Supply Chain Team”
Actions to Take Now:

- **Conduct an internal strengths and weaknesses analysis** to determine the organization’s ability to respond to external factors and achieve goals.

- **Analyze a range of what-if scenarios.** This leads to a better understanding of enterprise direction and vulnerability, and the implications for the workforce. Consider intuitive what-ifs generated by the strategic planning process first. Later, apply more analytical what-if questions. Use strength, weakness, opportunity and threat (SWOT) analysis to forecast workforce resource requirements by skills, proficiency and duration.

- **Resist the knee-jerk reaction toward layoffs.** While layoffs may be necessary — and even healthy — they can be more costly in terms of both time and money than many think. Instead of letting go talent you may need to rehire in a year, consider furloughs as a means to lower labor costs.

- **Double down on reskilling.** Boom or bust, leaders will never be able to hire themselves out of the talent gap. The learning market is exploding with new delivery approaches including simulation training, hackathons and virtual-instructor-led training that do not require travel.

Key Initiatives for Continuous Insight

All your initiatives are important, but some are mission critical. Key Initiatives organize the vast Gartner resources around the projects and programs at the top of your list, helping you achieve demonstrable business results efficiently and cost-effectively. Key Initiatives represent how we deliver the ongoing insight throughout the year to help you tackle your top priorities. Be sure to track all Key Initiatives related to your top priorities. Start with the Key Initiative Primers outlined here.

“Supply Chain Strategy, Leadership and Governance Primer for 2019”

“Supply Chain Planning Primer for 2019”

“Supply Chain Customer Fulfillment and Collaboration Primer for 2019”

“Direct Material Sourcing and Supply Chain Services Primer for 2019”

“Logistics Strategy and Operations Primer for 2019”

“Quality Management, Strategy and Leadership Primer for 2019”

“Manufacturing Operations Strategy and Performance Primer for 2019”

“Technology and Solutions for Supply Chain and Operations Primer for 2019”
## Related Priorities

### Table 1. Related Priorities

<table>
<thead>
<tr>
<th>Priority</th>
<th>Focus</th>
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<tbody>
<tr>
<td><strong>Supply Chain Customer Fulfillment and Collaboration</strong></td>
<td>Supply chain customer fulfillment and collaboration optimize profitability, operational efficiency, customer satisfaction, and loyalty by implementing customer-centric processes and solutions.</td>
</tr>
<tr>
<td><strong>Direct Material Sourcing and Supply Chain Services</strong></td>
<td>This research helps to understand your current capabilities, build on those capabilities by mastering leading practices, and evolve procurement’s value proposition to stay ahead of your competition.</td>
</tr>
<tr>
<td><strong>Logistics Strategy and Operations</strong></td>
<td>Logistics, strategy and operations research spans the roles, capabilities and processes required to design, develop, execute and continuously improve the logistics function across a global network.</td>
</tr>
<tr>
<td><strong>Technology and Solutions for Supply Chain and Operations</strong></td>
<td>Supply chain technology and solutions are an important source and differentiating factor for organizations to grow and transform their supply chains.</td>
</tr>
<tr>
<td><strong>Manufacturing Operations Strategy and Performance</strong></td>
<td>Gartner’s 2019 manufacturing operations strategy and performance research will provide guidance on developing, implementing and executing a digitally driven manufacturing operations strategy.</td>
</tr>
<tr>
<td><strong>Supply Chain Planning</strong></td>
<td>Supply chain planning is the process of coordinating assets to deliver goods, services and information from supplier to customer, balancing demand, supply and inventory for optimized business results.</td>
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Source: Gartner

## Related Resources

### Webinars

Get actionable advice in 60 minutes from the world’s most respected experts. Keep pace with the latest issues that impact business.

“Panel Discussion: Why Taking a Risk With External Partners Can Be Good Business”

“2 Outcomes CSCOs Must Focus on When Cost Is Under Pressure”

“Make Buying Faster for the Business”

### Articles

“Define Your Risk Appetite to Create a Resilient Supply Chain”

“Build a Resilient Supply Chain Amid U.S.-China Trade War”
“Supply Chain in the Age of Trade Wars”

“Brexit: Logistics Leaders Face Complexity and Cost Implications”

“Build a Modern Supply Chain Workforce”

Evidence


“Unemployment Rate Percent,” International Monetary Fund.


“Norsk Hydro Q1 Core Profit Plunges After Cyber Attack,” CNBC.

More on This Topic

This is part of three in-depth collections of research. See the collections:

- Winning in the Turns: A CSCO Action Guide — Identify Strategic Issues, Protect Innovation and Nurture Talent
- Winning in the Turns: A Logistics Action Guide — Focus on Value, Maintain Agility and Hire Disruptors