

The Supply Chain Response to High Inflation and Recession Risk

4 priorities for chief supply chain officers

Introduction

While chief supply chain officers (CSCOs) primarily focus on developing strategy and enabling organizational capabilities, economic headwinds call for a steadying influence amid reactive stakeholder tendencies. CSCOs must support and inspire their organizations to remain focused on their mission and rise to the challenge, while engaging stakeholders to manage messaging and expectations. This report identifies four leadership priorities for the CSCO's response to high inflation and recession risk.

The Supply Chain Response to High Inflation and Recession Risk (continued)

CSCO Leadership Priorities in Response to High Inflation and Recession Risk

Priority No. 1

Reinforce flawless execution as the primary supply chain mission



Uncertain times require steady leadership from the CSCO, particularly when it comes to operating functions that are critical for ensuring product availability and service delivery. Customer service and logistics teams should have already developed plans for improving efficiency to offset normal inflation. They should hear reassuring messages from the CSCO about the need to implement these plans, while remaining focused on their critical role in fulfilling demand to capture margin. This is particularly true amid concerns about economic softening that would make every customer order precious.

By contrast, murmurs of cost reduction will only create insecurity and anxiety that can distract these teams from delivering superior service and customer experience.

Priority No. 3

Manage overhead cost reductions carefully



According to Gartner Budget & Efficiency Benchmarking, supply chain overhead costs for manufacturing businesses are in the range from 0.5% to 2% of revenue (varying with company size). This is low compared to the supply chain's potential to impact inventory value, cost of goods sold and logistics expense that amount to at least 35% of revenue.

Gartner research shows that the best companies — “Efficient Growth Leaders” — derive cost advantages from superior control over COGS, not from slashing selling, general and administrative expenses. CSCOs should then shift their focus to managing COGS, while ensuring SG&A efficiently supports the capabilities needed for profitable growth.

Priority No. 2

Coach and develop the planning team's rise to the challenge



CSCOs should approach economic headwinds as an opportunity to evaluate and develop their planning teams and processes. With this approach, the CSCO can send a message of “business as usual” that reinforces the important role of planning discipline and governance.

CSCOs should coach and challenge planning leaders and their teams to evaluate a range of economic, market and operating scenarios to proactively identify, escalate and frame within sales and operations planning, required business decisions involving constraints, risks and opportunities.

Priority No. 4

Protect important investment spending



Efficient growth leaders consistently make bigger, riskier growth bets and reintroduce capital expenditures faster after a recession. In the Gartner 2022 Inflation Response survey, only one-fifth of companies cited plans to significantly reduce discretionary spending.

Both product- and service-centric companies cited protecting technology investments, designed for improved efficiency and scalability. For product-centric companies, this means advanced pricing analytics, strategic sourcing and operations automation; for service-centric companies, it means back-office automation and operational visibility.

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