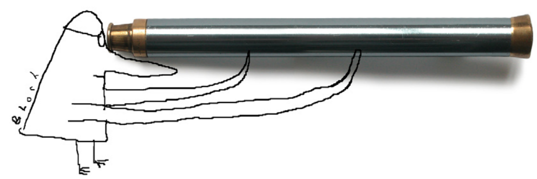
The McKinsey Quarterly



OPERATIONS

JULY 2008

Climate change and supply chain management

Top companies regard climate change as an opportunity to get closer to suppliers—effectively reducing both costs and carbon in their supply chains.

Chris Brickman and Drew Ungerman

Article at a glance

Global executives increasingly identify climate change as a top concern.

When it comes to purchasing, however, it appears that companies aren't necessarily translating the importance they place on climate change into action.

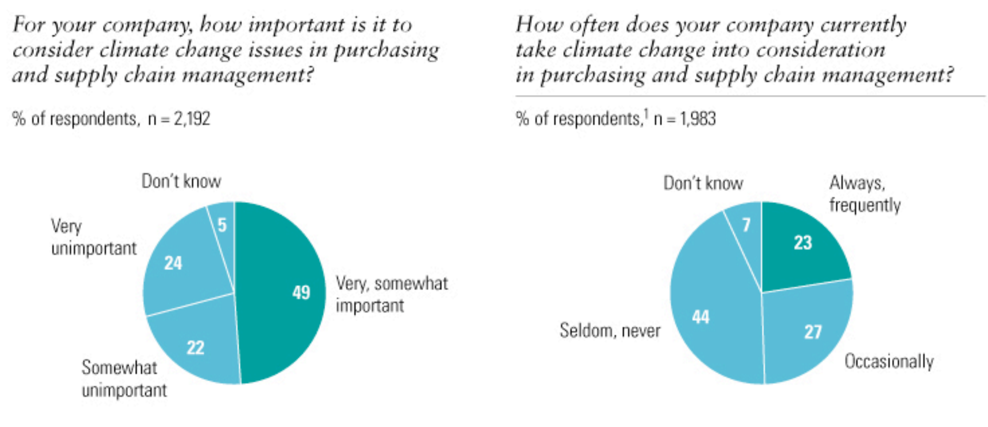
Forward-looking consumer goods makers, high-tech players, and other manufacturers use climate change as an opportunity for cost reductions and supplier development.

McKinsey&Company

Global executives increasingly identify the environment, including climate change, as a top concern. When it comes to purchasing, however, it appears that companies aren't necessarily translating the importance they place on climate change into action. A McKinsey survey of more than 2,000 global executives[1] finds that while nearly half of respondents say that climate change is a somewhat or very important issue to consider in purchasing and supply chain management, fewer than one-quarter report their companies always or frequently take climate change into consideration in these areas. Among high-tech and other manufacturing executives, 54 percent and 56 percent of respondents, respectively, say climate change is important in purchasing, yet these executives were no more likely than average to say it was considered in practice.

EXHIBIT

Importance of climate change in business strategies



[1]Figures do not sum to 100%, because of rounding.

Source: 2007 McKinsey survey of 2,192 executives on climate change

They may be missing an opportunity. Our analysis suggests that for consumer goods makers, high-tech players, and other manufacturers, between 40 and 60 percent of a company's carbon footprint resides upstream in its supply chain—from raw materials, transport, and packaging to the energy consumed in manufacturing processes. For retailers, the figure can be 80 percent. Therefore, any significant carbon-abatement activities will require collaboration with supply chain partners, first to comprehensively understand the emissions associated with products, and then to analyze abatement opportunities systematically. Surprisingly perhaps, we find that many of the opportunities to reduce emissions carry no net life-cycle costs—the upfront investment more than pays for itself through lower energy or material usage. Others, however, will require tradeoffs between emissions and profitability, in areas such as logistics and product design (including product specification and functionality). Forward-looking companies are using such discussions as opportunities for supplier development, for example by transferring best practices in manufacturing, purchasing, and R&D—as well as energy efficiency—to key suppliers. This opens the possibility of still lower costs and improved operational performance, in addition to helping suppliers remove more carbon from their supply chains.

About the Authors

Chris Brickman and **Drew Ungerman** are principals in McKinsey's Dallas office.

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Notes

[1] See "How companies think about climate change: A McKinsey Global Survey" on mckinseyquarterly.com, February 2008.

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"How companies think about climate change: A McKinsey Global Survey"

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