

Chapter 2

Supply Chain Strategy: Designing Effective Supply Chains

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ABSTRACT

With global expansion and emerging business model complexities such as omni-channel for retail industry, corporations are under pressure to reinvent their supply chains. They fall into the old trap of following supply chain strategies of lean, agile, or postponement. These however are not strategies, but simply the goals of an effective supply chain: to reduce cost and variability, and optimize production. In contrast, a strategy should guide a corporation on how to reach these goals. The author argues that true supply chain strategy must be derived through an evaluation of capabilities to be built to realize the business goals of a corporation. To effectively create such a supply chain, corporations must further align their technology strategy to enable their supply chain capabilities. Only when the three, business, supply chain, and technology strategies, align can truly lean, responsive, and agile supply chains be enabled that create sustained competitive advantages.

INTRODUCTION

Conventionally, the supply chain for most corporations simply meant managing the logistics, the movement and stocking of goods till they were needed for selling, manufacturing, or assembly. But in modern corporations, the scope of supply chains has been extended to include almost all those activities originally described by Porter (Porter, 1985) as the *value chain* activities. They are essentially a set of capabilities that add value and allow the organizations to operate, survive,

and grow. Given such an extended view of supply chain activities, it would be imperative for a corporation to pro-actively *design* their supply chains to create competitive advantages. However in reality, companies' supply chains grow organically, more in reaction to the emerging business needs rather than being pro-actively designed to address business goals and enable a company to continue leading. Current supply chain literature pushing lean and agile as supply chain strategies does not help either: As if supply chains could actually afford to be specifically lean or agile. In

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fact, the whole view borders on being comical for a subject so serious that it can affect a corporation's survival. That is where I would like to introduce the capability-based view of strategies.

Harvard Business Review's (Collis et al., 1999) *capability-based view* of the business strategies contends that it is essentially the organizational capabilities that create competitive advantages. Organizations that have superior capabilities than their peers in their industry would normally have competitive advantage over them. Conversely, competitive advantage can be built by carefully building the organizational capabilities. Organizational capabilities may belong to one of the many functions that businesses must master to compete effectively. Supply chain management happens to be one such function. Building superior supply chain capabilities then becomes a tool in the hands of business leaders to not only support efficient operations, but wield as a competitive asset that can be leveraged to create competitive advantages.

If you had to decide what supply chain capabilities your company should build to create advantage, what would you build? Supply chains have a large scope of functions affecting the whole value chain of a business from the inbound raw materials through production and distribution of finished goods to the customers. Given this large scope, what should an ideal supply chain enable? How should it support the business? How can one decide what capabilities should be created making the best use of capital investments to create competitive advantages to not only support today's requirements, but also position the company for future growth and profitability?

We are all familiar with constantly juggling the conflicting goals of minimizing inventory while maximizing service levels, reducing labor while increasing throughput, and reducing supply costs while maintaining stable supplies. We know that a supply chain that is integrated with the rest of the business functions, senses changes, adapts, optimizes, and works within the larger business

context without any conflicts would be great. What we grapple with is how it can be translated into specific capabilities, prioritized, deployed, and measured. This is not a theoretical discussion: pioneering companies must continuously grapple with defining what are the best supply chain practices, what are their peers doing, and what capabilities they must build to leverage their supply chains as a competitive asset.

Supply chain's wide footprint does not help. Its equally wide impact on everything from day-to-day operations to Return on Assets (ROA) also makes it complex to size it up. Even defining what comprises an effective supply chain is no easy task. Is it the ability to quickly react to volatile demand? Is it the ability to maintain the highest inventory turnover in the industry? Does it mean having lowest days of accounts receivable? What about accounts payable? Shortest cash-to-cash cycle? Highest return on assets (ROA)? Agility? Lean? Optimal product mix? Highest resource utilization?

In fact, an *effective* supply chain may do all of the above or none of them. What makes up an effective supply chain is unique to each business and its context must be constrained to the business goals of the company. The supply chain literature talks about lean, agile, speculative and postponement, as types of strategies for supply chains, as if there is a singular type of supply chain that you can design and create, which would address all your business needs. The reality is more complex. Any real supply chain must be agile but also lean, it should be demand driven but also supply aware, it should help lower costs but also raise efficiency. The fact is that a lot of the success metrics that we relate with the supply chains are conflicting. That is why there is no *right* supply chain prescription – it is *right* for you if it *works* for you. In this context there really are no templates for creating the *right* supply chain, rather, it is a private affair, a private picture, a personal destination that every company must define and pursue for itself.

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