


# STRATEGIC GLOBAL SUPPLY CHAINS

By Tomas Hult

**Executive Briefing:** Does your global supply chain adopt a narrow or broad focus? Is either of speed, quality, cost, or flexibility the key outcome in your chain? If so, certain elements drive your performance more than others. But if you truly go for the gold standard, your focus is probably on running a *strategic global supply chain (SGSC)*. Do you know the drivers of a SGSC?

 Supply chain management has been in vogue for the last decade. Now, in an era of outsourcing and offshoring, global supply chains are the keys to firms' success. But why are some global supply chains more effective than others? Finding the right answer is becoming intriguing to corporate executives and rightfully so!

By some accounts, an announcement of a significant supply chain problem reduces a firm's market value by more than 10 percent. Even more telling, Deloitte Touche Tohmatsu finds that "only 7% of companies today are effectively managing their supply chain...however, these companies are 73% more profitable than other manufacturers."

These drastic numbers are frightening since rivalry is becoming more "supply chain vs. supply chain" and less "firm vs. firm" in today's global business world. Firms such as Amazon.com, Dell, FedEx, Toyota, and Wal-Mart clearly owe much of their success to outmaneuvering rivals via unique supply chain capabilities. Some of these firms operate so-called best value supply chains while others focus on achieving competitive priorities that are narrower in scope. Both approaches can lead to success but they are vastly different in design and implementation.

## Adopt a Narrow Scope and Succeed

Before supply chain management became SCM, we had logistics, purchasing, and operations management as independent functions. These functions of course still exist but are often framed with SCM instead of serving as internal independent contractors. A strange thing has happened! Logistics professionals actually communicate (some) with purchasing professionals. Sometimes even operations management professionals get along with both logistics and purchasing.

Well, do not let my cynicism get in the way of the real message. Supply chains are becoming integrated much in the same way that advertising and promotion had to give way to integrated marketing communications. The reward is efficiency and effectiveness as well as a holistic view of the global supply chain. It also results in give and take – where internal negotiation is both needed and

understood by SCM members. And logical reasons exist to outsource some elements and keep others.

These goal-driven supply chains, by direction of their firms, focus on the "competitive priorities" of speed, quality, cost, or flexibility as the performance objective. The Appendix outlines elements that make a certain competitive priority-based chain succeed.

## Features of SGSCs

- Focus on delivering products at the appropriate time.
- Focus on delivering quality products in their target region.
- Focus on delivering products at a competitive cost.
- Focus on delivering products with features the customers typically want.
- Have a great deal of experience with supply chain activities.
- Have a great deal of knowledge with supply chain activities.
- Use existing knowledge to make specific supply chain decisions.
- Use existing knowledge to enrich the basics of their supply chain activities.
- Have supply chain knowledge that is practical and needed at the time.
- Constantly have reliable and relevant knowledge.
- Have quick access to existing supply chain knowledge from key people.
- Periodically review product lines to ensure compatibility with customers' needs.
- Make a concerted effort to modify products when customers demand it.
- Prefer to develop an edge by continual innovation of supply chain processes.
- Prefer to develop a supply chain edge by continual product innovation.

Speed refers to the total cycle time from the starting point to the ending point in the chain for a particular firm. For example, before Dominos got into legal trouble for their 30-minute-or-free promise of delivering pizza, speed was their main concern. The quality of the pizza, the cost of the pizza, and the variety of toppings on the pizza were secondary to the time it took to get a hot pizza to the customer.

Other companies focus on delivering top-notch quality products, say Rolls Royce to take an extreme example, but cost is not an issue, nor speed. Rolls Royce still stress certain flexibility in the product customization, however. Wal-mart is the poster example of stressing low cost for their products, often at the “cost” of speed, quality, and flexibility. Yet, some firms thrive on being flexible. For example, LL Bean provides almost endless flexibility, particularly in return policies. However, very few stores exist for customers to get their products so the speed is slower than for some of their competitors. Cost is higher than the industry average. But their products are usually of high quality.

### Adopt a Broad Scope and Succeed

Some of the brief examples above illustrate that firms can focus on more than one competitive priority. However, very few go after all four of the priorities. It is not realistic to assume that a firm can be the ideal performer on all four priorities – delivering the highest quality products in the exact right quantities at the perfect time and at the lowest cost. However, developing the right “mix” of emphasis on speed, quality, cost, and flexibility

is possible.

The result is that *strategic global supply chains management* (SGSC) has been born. Strategic supply chains deliver quality products in suitable quantities at the proper time and at a competitive cost. This can be done globally, but being an ideal chain in all world markets is not feasible. And, just because you can develop the best product, should you? Probably not.

These SGSC chains outperform chains that strive for the ideal because too much effort is spent by these ideal-striving chains on being the best and not enough effort is spent on marketing products to customers. At the same time, SGSCs are masters at always knowing the preferred constellation of speed, quality, cost, and flexibility to adopt (i.e., what weights to place on each of these competitive priorities to beat the competition globally). ♦ [gBR Article 01-04](#), Copyright © 2007.

### About the Author

Tomas Hult is Professor of International Business and Director of the International Business Center (IBC) in the Eli Broad Graduate School of Management at Michigan State University. He is also Executive Director of the Academy of International Business and co-founder of Hult Ketchen International Group, LLC. Dr. Hult can be contacted at +1-517-353-4336 or [hult@msu.edu](mailto:hult@msu.edu).

Strategic global supply chains place appropriate weights on achieving speed, quality, cost, and flexibility (SQCF) throughout their chains in the global marketplace. This “mix” of the SQCF elements makes strategic global supply chains thrive where other chains struggle.



## Appendix

### Specialized Priorities for Global Supply Chains

The most successful <u>speed</u> driven global supply chains:	The most successful <u>quality</u> driven global supply chains:	The most successful <u>cost</u> driven global supply chains:	The most successful <u>flexibility</u> driven global supply chains:
<p>Focus on delivering products in the shortest cycle time possible.</p> <p>Have a great deal of experience with supply chain activities.</p> <p>Use existing knowledge to make specific supply chain decisions.</p> <p>Recognize customers' needs before the majority of the market recognizes them.</p> <p>Have supply chain knowledge that is practical and needed at the time.</p> <p>Use existing knowledge as an important component to deliver fast cycle times.</p> <p>Rapidly attend to customers' (changing) product needs.</p> <p>Prefer to develop an edge by continual innovation of supply chain processes.</p>	<p>Focus on delivering products of the highest quality in their target region.</p> <p>Invest a great deal of R&amp;D in operating and managing supply chains.</p> <p>Use existing knowledge to analyze and identify quality-related supply chain issues.</p> <p>Constantly have reliable and relevant knowledge.</p> <p>Have supply chain knowledge easily accessible when needed.</p> <p>Use existing knowledge as an important component to increase product quality.</p> <p>Develop product quality strategies based on understanding customers' needs.</p> <p>Periodically review product lines to ensure compatibility with customers' needs.</p> <p>Prefer to develop a supply chain edge by continual product innovation.</p>	<p>Focus on delivering average quality products at lower than market cost.</p> <p>Have a great deal of familiarity with supply chain activities.</p> <p>Use existing knowledge to enrich the basics of their supply chain activities.</p> <p>Have quick access to existing supply chain knowledge for decision-making.</p> <p>Use existing knowledge as an important component to lower costs.</p> <p>Filter knowledge into levels of importance to share it in meaningful ways.</p> <p>Develop low cost strategies based on understanding customers' needs.</p> <p>Rapidly attend to product complaints from customers.</p> <p>Prefer to imitate practices of competitors rather than innovate themselves.</p>	<p>Focus on delivering customized and/or easily modifiable products as need arises.</p> <p>Have a great deal of knowledge with supply chain activities.</p> <p>Use existing knowledge to reduce uncertainty of supply chain activities.</p> <p>Filter knowledge into levels of importance to reduce its complexity.</p> <p>Have quick access to existing supply chain knowledge from key people.</p> <p>Have supply chain knowledge that is accurate and specific to their needs.</p> <p>Use existing knowledge as an important component to increase product flexibility.</p> <p>Develop flexibility strategies based on understanding customers' needs.</p> <p>Make a concerted effort to modify products when customers demand it.</p> <p>Prefer to avoid risk when developing new products and supply chain processes.</p>

#### Color coding:

Focus of the supply chain  
 Storing knowledge in the supply chain  
 Applying knowledge in the supply chain  
 Other knowledge efforts in the supply chain  
 Taking action in the supply chain  
 Innovation in the supply chain