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### The Triple-A Supply Chain

Key ideas from the [Harvard Business Review](#) article By Hau L. Lee

#### The Idea in Brief

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The holy grails of supply chain management are high speed and low cost--or are they? Though necessary, they aren't sufficient to give companies a sustainable competitive advantage over rivals. Consider these disturbing statistics: Though U.S. supply chains became significantly faster and cheaper between 1980 and 2000, product markdowns owing to excess inventory jumped from 10% to 30% of total units sold--while customer satisfaction with product availability plummeted.

But some companies--Wal-Mart, Amazon.com, Dell Computer--have bucked these trends. How? Their supply chains aren't *just* fast and cost-effective. They're also:

**Agile:** They respond quickly to sudden changes in supply or demand. They handle unexpected external disruptions smoothly and cost-efficiently. And they recover promptly from shocks such as natural disasters, epidemics, and computer viruses.

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**Adaptable:** They evolve over time as economic progress, political shifts, demographic trends, and technological advances reshape markets.

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**Aligned:** They align the interests of all participating firms in the supply chain with their own. As each player maximizes its own interests, it optimizes the chain's performance as well.

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To achieve sustainable competitive advantage, your supply chain needs *all three* of these qualities. Apply the following practices to create agility, adaptability, *and* alignment.

#### The Idea in Practice

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##### Agility

**Objective:** Respond to short-term changes in demand or supply quickly.

**Methods:**

- Continuously provide supply chain partners with data on changes in supply and demand so they can respond promptly.

- Collaborate with suppliers and customers to redesign processes, components, and products in ways that give you a head start over rivals.
- Finish products only when you have accurate information on customer preferences.
- Keep a small inventory of inexpensive, nonbulky product components to prevent manufacturing delays.

## Adaptability

**Objective:** Adjust supply chain design to accommodate market changes.

### Methods:

- Track economic changes, especially in developing countries.
- Use intermediaries to find reliable vendors in unfamiliar parts of the world.
- Create flexibility by ensuring that different products use the same components and production processes.
- Create different supply chains for different product lines, to optimize capabilities for each. For example, with highly customized, low-volume products, use vendors close to your main markets. For standard, high-volume products, commission contract manufacturers in low-cost countries.

## Alignment

**Objectives:** Establish incentives for supply chain partners to improve performance of the entire chain.

### Methods:

- Provide all partners with equal access to forecasts, sales data, and plans.
- Clarify partners' roles and responsibilities to avoid conflict.
- Redefine partnership terms to share risks, costs, and rewards for improving supply chain performance.
- Align incentives so that players maximize overall chain performance while also maximizing their returns from the partnership.

Convenience-store chain Seven Eleven Japan (SEJ) builds supply chain **agility** by using real-time systems to detect changes in customer preferences and track sales and customer data at every store. Satellite connections link stores with distribution centers, suppliers, and logistics providers. SEJ reallocates inventory among stores and reconfigures store shelves three times daily to cater to different customer groups at different hours.

SEJ's **adaptability** is legendary. Within six hours after the 1995 Kobe earthquake, SEJ overcame highway gridlock by mobilizing helicopters and motorcycles to deliver 64,000 rice balls to its stores in the beleaguered city.

SEJ fosters **alignment** by making partners' incentives and disincentives clear. For example, when carriers fail to deliver on time, they pay a penalty. But SEJ also helps carriers save money by forgoing the typical time-consuming requirement that store managers verify all contents of each delivery truck.

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## Further Reading

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### Articles

#### **Fast, Global, and Entrepreneurial: Supply Chain Management, Hong Kong Style**

*Harvard Business Review*

October 2002

by Joan Magretta

Li & Fung, the Hong Kong-based multinational trading company, embodies supply chain agility, adaptability, and alignment. Instead of owning factories, it partners with a worldwide network of thousands of independent suppliers--filling customers' orders by selecting the best partners for each part of the job. It thus adds value at every link in the supply chain. At the front end, it provides design, engineering, and production-planning services. In the middle stages, it organizes raw-material and component sourcing. At the back end, it offers quality control, testing, and logistics services. Li & Fung's basic operating units consist of small, entrepreneurial divisions serving just one large customer or several smaller but similar ones. The company creates or collapses divisions as markets change.

#### **Supply Chain Challenges: Building Relationships**

*Harvard Business Review*

July 2003

by Scott Beth, David N. Burt, William Copacino, Chris Gopal, Hau L. Lee, Robert Porter Lynch, Sandra Morris, and Julia Kirby

In this article, a panel of experts--practitioners from Intel, Intuit, and Unisys; leading academics; and consultants--maintain that relationships have become more important than technology in supply chain management. New opportunities and challenges arising from globalization are requiring companies to establish partnerships with new types of suppliers and to break down internal barriers to cross-functional collaboration. By focusing on relationships, leading supply chain performers are reaping tremendous gains in all variables affecting shareholder value--such as cost, customer

service, asset productivity, and revenue generation. Through these means, leaders are widening the gap between themselves and their rivals--in almost every industry.

### Leading a Supply Chain Turnaround

*Harvard Business Review*

October 2004

by Reuben E. Slone

This article provides another example of a company that has built agility, adaptability, and alignment in its supply chain. Less than five years ago, salespeople at Whirlpool were in the habit of referring to their supply chain organization as the "sales disablers." Now, the company excels at getting product to the right place at the right time--while also managing to keep inventories low. What made the difference? As Reuben Slone of Whirlpool explains, he and his colleagues devised the right supply chain strategy, sold the plan internally, and executed it relentlessly. Slone not only describes how to develop world-class supply chain capabilities; he offers valuable advice for leaders in any turnaround situation.

## About the Author

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**Hau L. Lee** is the Thoma Professor of Operations, Information, and Technology at the Stanford Graduate School of Business in Stanford, California, and the codirector of the Stanford Global Supply Chain Management Forum. He is the coeditor (with Terry P. Harrison and John J. Neale) of *The Practice of Supply Chain Management: Where Theory and Application Converge* (Kluwer Academic Publishers, 2003).

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