Why Supply Chain Matters

Idea In Short

Supply chain is where strategy meets reality. It is where work gets done, value is created and trade-offs are resolved. Treat it as a core strategic discipline, not a back-office function.

Supply Chain Seems Boring

To most people, the phrase "supply chain" creates little excitement. It probably ranks near the bottom of attractive Master of Business Administration (MBA) topics, somewhere close to corporate governance or airline operating leases. MBAs would be embarrassed to admit it all seems blue-collar. The phrase unfairly carries the weight of large shipping containers and the image of a dirty manufacturing floor. This perception is wrong, and the reality is far more dynamic. Supply chain is where strategy meets execution, where decisions have visible consequences and where global coordination separates winners from losers. The case for taking supply chain seriously rests on ten concrete reasons.

Where the Work Gets Done

For any company that makes a physical product, the bread-and-butter business is product development, manufacturing and distribution. The formula is simple: build products and sell them to customers. For most companies, the headcount and jobs live in manufacturing and distribution. Supply chain is where the work gets done and where the value is created. Ignoring it means ignoring the operational engine that generates revenue.

Supply Chain Is the Real World

Unlike strategy or marketing, supply chain decisions have immediate and visible impact. When things go wrong, the consequences are obvious. Product launches get delayed. Stores run out of product. Products get recalled. Excess inventory piles up. Trucks take product to the wrong locations. Products get diverted to the black market. People get sick from contamination. The world saw this vividly when supply chain bottlenecks, stock-outs and even the blocking of the Suez Canal gripped global commerce. 1 Supply chain failures do not hide in spreadsheets; they appear on front pages.

Long-Term and Cradle-to-Grave

It is hard to overstate how broadly executives must think about supply chain. Building manufacturing capacity or creating a network of distribution centers can take years. For the supply chain strategist, the work demands broad and integrated thinking. At a high enough level, it links closely with both strategy and mergers and acquisitions (M&A) activity. Supply chain is also cradle-to-grave. Too often, people think of it as just logistics, meaning planes, boats, trucks and trains. The SCOR model from the Supply Chain Council offers a better framework. Plan determines what to make, including quantity, type, color, size, timing and location. Source identifies suppliers and secures the inputs for production. Make produces the product at sufficient quality to meet customer need. Deliver transports the product on time at minimum cost to the customer. A colleague who specializes in supply chain notes that the model should also include return, making the deliver step bi-directional and more network-like than linear. This nuance matters because reverse logistics, from product recalls to warranty returns, represent real cost and complexity.

Global and Partnership-Driven

Supply chain is global, and this fact requires almost no argument. Thomas Friedman described it in The Lexus and the Olive Tree, where markets match countries, companies and customers almost magically. Apple's suppliers make iPhone parts in more than 17 different countries, illustrating the reach of a single product's supply chain. The big idea in supply chain is coordination. How does a company marry the activities of its suppliers, its own operations and its customers? What contracts and incentives ensure alignment? In 1987, Procter and Gamble started to actively manage its inventory on Walmart's shelves. When stock of a specific detergent gets low at a particular store, Procter and Gamble knows immediately and plans to replenish at the next shipment. 2 Supply chain is a chain of events, materials, resources and information, and one group supplies the next until the product reaches the customer.

Great Stories and Real Numbers

Reading through history, powerful economic forces compelled explorers, tradesmen and conquerors to seek new lands. Those forces are what we now call supply chain. Mark Kurlansky's books on cod and salt read like supply chain narratives: plan, source, make, deliver. The Planet Money t-shirt project followed an entire product from design to cotton to yarn to production to shipment, tracing the full supply chain. Beyond stories, supply chain is about the numbers. Other than finance and accounting, nothing is more measurable. Large software packages like SAP, Manhattan Associates and Oracle pride themselves on real-time data capture and metric tracking. The complexity is real, and supply chain is a series of trade-offs that demand constant re-evaluation. It makes sense to give all orders to one vendor to lower per-piece cost, and the question is what happens if a flood hits that area. It makes sense to offer free two-day shipping, and the question is what happens to margins. It makes sense to let customers customize orders, and the question is how much that delays the production line.

Supply Chain Is Money

No surprise that companies need help with their supply chain from outside vendors. Consultants, accountants, lawyers and software vendors all benefit when companies go global, launch new products, outsource, insource, run into problems, create new supplier relationships, merge distribution channels and deal with foreign regulatory issues. 3 Supply chain is where the spending happens and where the opportunity sits. The certification landscape reflects this reality. The Certified Supply Chain Professional (CSCP) credential covers strategy and higher-level concepts in a single exam requiring 20 to 30 hours of study. The Certified in Production and Inventory Management (CPIM) credential, by contrast, spans five exams and leans tactical, which is more than most practitioners need. As ambitious as it sounds, the claim that everything besides finance and human resources is supply chain holds some truth. Delivering products and services takes enormous coordination of product development teams, suppliers, manufacturers, truckers, freight forwarders and distributors. It is a feat of nature that most every product you buy has traveled thousands of miles and touched dozens of hands to reach you. The next time someone calls supply chain boring, ask them to explain how a smartphone assembled across 17 countries lands on a doorstep in 48 hours.

- 1a16z podcast on bringing digital to international trade
- 2Apple Supplier Responsibility list of global suppliers
- 3APICS CSCP certification overview

Summary

Supply chain is global, long-term and cradle-to-grave. It requires partnerships, generates measurable data and drives revenue. Everything besides finance and human resources is supply chain. Master it and you master the business.