The Triple - A Supply Chain

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Know Your Speaker

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Currently

• Chief Executive Officer – ISCEA Asia
• Managing Director & Lead Consultant – Mind Mapper Bangladesh
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• ISCEA Advisory Board Member – Bangladesh
• Vice President – Bangladesh Supply Chain Society
• President – Business Administration Society, University of Chittagong

 Formerly

• Chief Operating Officer – Sanmar Group (2009-2010)
• Supply Chain Director – Coats Bangladesh (2007-2009)
• Supply Chain Director – Coats Sri Lanka (2004-2007)
Agenda for the session

- Scene setting
- Overview on The Triple- A Supply Chain
- Methods for making your supply chain Agile, Adaptable and Aligned
- Examples of organizations that follow/don’t follow The Triple-A Supply Chain
A Framework for Structuring Supply Chain Drivers

Competitive Strategy

Supply Chain Strategy

Supply Chain Structure

Efficiency

Responsiveness

Logistical Drivers

Facilities

Inventory

Transportation

Information

Sourcing

Pricing

Cross Functional Drivers

Source: Sunil Chopra; Supply Chain Management
The Triple - A Supply Chain
The Triple- A Supply Chain

Original idea coined by Hau L. Lee; Thoma Professor of Operations, Information, and Technology at Stanford Graduate School of Business (HBR article - October 2004)

The best supply chains aren’t just fast and cost-effective. They are also agile and adaptable and they ensure that all their companies’ interests stay aligned.
Agile

• They respond quickly to sudden changes in supply or demand.

• They handle unexpected external disruptions smoothly and cost-efficiently.

• The recover promptly from shocks such as natural disasters, epidemics, and computer viruses.
Adaptable

- They evolve over time as economic progress, political shifts, demographic trends, and technological advances reshape markets.
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.
Threats of Efficiency
High-speed, low-cost supply chains are unable to respond to unexpected changes in demand or supply.
Issues with only efficiency focus

Companies with centralized manufacturing and distribution facilities generate economies of scale, and deliver only container loads of products to customers to minimize transportation time, freight costs, and the number of deliveries.

But then this is what happens with such companies:
Issues with only efficiency focus

• When demand for a particular brand, pack size, or assortment rises without warning, these organizations are unable to react even if they have the items in stock.

• Companies’ obsession with speed and costs also causes supply chains to break down during the launch of new products.

• Efficient supply chains often become un-competitive because they don’t adapt to changes in the structures of markets.
Issues with only efficiency focus

As seen in most cases around the world, supply chain efficiency is necessary, but it isn’t good enough to ensure that firms will do better than their rivals. Only those companies that build agile, adaptable, and aligned supply chains get ahead of the competition.
Cultivating Agility

In most industries, both demand and supply fluctuate more rapidly and widely than they used to. Most supply chains cope by playing speed against costs, but agile ones respond both quickly and cost-efficiently.
Building the Triple- A Supply Chain

**Agility**

Objectives:

Respond to short-term changes in demand or supply quickly; handle external disruptions smoothly.
Building the Triple-A Supply Chain

Agility

Methods:

• Promote flow of information with suppliers and customers.
• Develop collaborative relationships with suppliers.
• Design for postponement.
• Build inventory buffers by maintaining a stockpile of inexpensive but key components.
Building the Triple- A Supply Chain

Agility

Methods:

• Have a dependable logistics system or partner.
• Draw up contingency plans and develop crisis management teams.
Zara – Leader in Fast Fashion

• Sales growth at 20%/yr since ‘90
• Net profit margin at 10%
• New products once a week, 12K new products per year
• 23-30 days of final design to sales cycle
• Agile design process: As soon as designers spot possible trends, they create sketches and order fabrics. This gives Zara a head start over its rivals because fabric suppliers require the longest lead times.

• Agile manufacturing: Finalization of designs and manufacturing garments only happens after getting reliable data from stores. This helps to meet customer taste and reduce discount sell.
• Zara manufactures its apparel using a combination of flexible and quick sources in Europe, and low-cost sources in Asia. Products with highly uncertain demand are sourced out of Europe, whereas more predictable products are sourced from its Asian locations.

• Superefficient distribution centers: Use of state-of-art sorting and material handling technologies ensure that distribution does not become a bottleneck when they must respond to demand fluctuations.
Adapting the Supply Chain

Great companies don’t stick to the same supply chain networks when markets or strategies change. Rather, such organizations keep adapting their supply chains so they can adjust to changing needs. Adaptation can be tough, but it’s critical in developing a supply chain that delivers a sustainable advantage.
Building the Triple-A Supply Chain

Adaptability

Objectives:

Adjust supply chain’s design to meet structural shifts in markets; modify supply network to strategies, products, and technologies.
Building the Triple- A Supply Chain

Adaptability

Methods:

• Monitor economies all over the world to spot new supply bases and markets.
• Use intermediaries to develop fresh suppliers and logistics infrastructure.
• Evaluate needs of ultimate consumers- not just immediate customers.
Building the Triple- A Supply Chain

Adaptability

Methods:

• Create flexible product designs.
• Determine where companies’ products stand in terms of technology cycles and product life cycles.
• Mid 1990s: Lucent (American Telecom Giant) realized it could make inroads in Asia if it had local manufacturing facilities.

• Supply Chain overhauled. Plants were set up in Taiwan and China allowing Lucent to customize switches as inexpensively and quickly as rivals Siemens and Alcatel could.

• Late 1990s: Lucent had recaptured market share in China, Taiwan, India and Indonesia.
• Afterwards: the story changed as Lucent stopped adapting its supply chain.
• Many of Lucent’s small and medium sized rivals had developed the technology and expertise to produce same products as Lucent at a much lower cost. The rivals aggressively outsourced the manufacture of switching systems which helped them achieve economies of scale.
• Rivals started biting Lucent on price.
Lucent Technologies
Bell Labs Innovations

- Lucent was reluctant to outsource its manufacturing as it had already invested in its own factories.
- Later in 2002 Lucent had to shut down its Taiwan factory and create an outsourced supply chain.
- At this instance, adaptation came too late to regain control of the global markets, even though supply chain was agile and aligned.
Creating the Right Alignment

Great companies take care to align the interests of all the firms in their supply chain with their own. That’s critical, because every firm—be it a supplier, an assembler, a distributor, or a retailer—tries to maximize only its own interests. If any company’s interests differ from those of the other organizations in the supply chain, its actions will not maximize the supply chain’s performance.
Building the Triple- A Supply Chain

Alignment

Objectives:

Establish incentives for supply chain partners to improve performance of the entire chain.
Building the Triple-A Supply Chain

Alignment

Methods:

• Exchange information and knowledge freely with vendors and customers.

• Lay down roles, tasks, and responsibilities clearly for suppliers and customers.

• Equitably share risks, costs, and gains of improvement initiatives.
• Fundamental to SEJ’s supply chain operation is the close alignment between SEJ’s interest and those of its partners.

• Incentives and disincentives are clear:
  – Make Seven-Eleven Japan successful, and share the rewards.
  – Fail to deliver on time, and pay a penalty.

• Penalties may seem harsh but, SEJ balances the equation by trusting its partners.
• When carriers deliver products to stores, no one verifies the truck’s contents. This allows carriers to save time and money.

• When SEJ spots business opportunities, it works with suppliers to develop products and shares revenues with them.

• By encouraging partners to set up multimedia kiosks to produce games, tickets, CDs in its shops, SEJ has become a manufacturing outlet for its partners!
Thank You for Listening