Book Review

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The Supply Chain Revolution: Innovative Sourcing and Logistics for a Fiercely Competitive World
by: Suman Sarkar
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The way we do business has changed significantly over the last decade with an explosion of online commerce and a reduction in foot traffic at 'brick-and-mortar' stores. In his latest book, Suman Sarkar asserts that not only has the way consumers shop changed, but managers and executives need to do away with their old methods of management and embrace the changing tenets of business in order to succeed. The new frontier in management is to involve the supply change and sourcing expertise in your business in all aspects of your decision making. Suman Sarkar is a Founder and partner at the Three S Consulting and pulls on his experience with some of the world's largest companies to examine the value that supply chain and sourcing can have throughout a firm.

Citing the example of Zara, a clothing company which has 6,777 stores located at 88 countries. Zara's success can be credited to one thing, exploiting their supply chain. While traditional clothing designers and retailers spend 9–18 months getting new designs from concept to store shelves, Zara can do so in just 10–15 days. They do this by relying on their supply chain to nimbly respond to consumer demands, creating styles in small batches so they can be created and delivered to stores quickly. Zara has kept design, warehousing and logistics in-house while outsourcing only about 50% of its production. This leaves it sufficient capacity to react to a new trend. How and why, does Zara take this approach? Their founder, Amancio Ortega views fashion as a perishable commodity, like fresh fruit, because fashion trends can change so quickly and what was popular last month, may now be long past its prime.

Supply chain is typically not invited to strategy meetings or consulted about new products, goods or services. But why? If your company is focused on customer service, that is not something that sales and marketing can accomplish on their own; they need supply chain. Jeff Bezos found Amazon with the goal of achieving excellent customer service. We do not flock to Amazon to purchase almost anything possible because they have the best price, although they sometimes do, or a great website – we do it because they have great customer service. As an Amazon Prime member, you can virtually anything you want delivered to your door in two days with free shipping. Sales and marketing does not accomplish this, it takes a heavy focus on supply chain and their capabilities. Amazon continues to push the delivery possibilities frontier by exploring same-day and drone delivery services. Best Buy, an electronics retailer, has seen their revenues and profits slip in the past decade. Once known for their innovative service, Best Buy has been hampered by poor inventory management and reverse logistics systems. Customers who had pre-ordered items for Christmas delivery were angry when Best Buy failed to ship thousands of products in time for the holiday, because of their insufficient supply chain capabilities. Sarkar asserts that by elevating the supply chain capabilities, a firm can improve customer satisfaction through excellent customer service; having the right items in stock, on-time deliveries and efficiently handling returns.

Supply chain excellence can also help a company boost revenue. In comparing two of the largest aviation companies, Boeing and Airbus, Sarkar contrasts their production approaches and how Airbus is gaining the advantage. Boeing was once known for the innovation and production excellence. During World War II, production jumped from 60 planes per month to 360 per month. They even were able to produce 16 planes in a single 24-hour period. Post war, Boeing has continued to innovate and excel in aircraft design, but their lack of supply chain prowess has hindered their success. The Japanese airline All Nippon Airways (ANA) was the first customer for Boeing's new 787 Dreamliner, but production of this new long-range aircraft was plagued with issues. The planes were to be delivered in 2008, but the first plane was not delivered until September 2011 and only three planes were manufactured that year, with another 49 in all of 2012. Boeing was not able to produce enough planes to meet their booked orders due to issues with their supply chain. They had decided to buy parts from outside contractors, but then discovered that the parts from different manufacturers did not fit together. To resolve this issue, Boeing purchased some of their suppliers so that they could have better control of the part production. Unfortunately, this drove costs and caused time delays. Boeing also lacked good of communication with their suppliers, both internal and external. Many suppliers were unable to keep up with part demand because it was much larger than anticipated. Boeing also frequently executed design changes without communicating those changes to all their suppliers. In contrast, Airbus's advantage is linked to their superior supply chain. Where Boeing takes a custom construction approach, Airbus uses a modular system. Instead of having to source custom-designed parts, Airbus can use standardised parts which are easier to source. Other benefits of the modular design are lower inventories, improved quality and lower overall costs.

Starbucks, the iconic coffee cafe, has used business alliances to further their brand and create the special environment that exists in each of their locations. Howard Schultz bought the company in 1987 and dreamt of creating a 'third place' for coffee. A destination for coffee, that was neither work nor home, and to create a niche for specialty coffees that did not currently exist in the USA. Through partnerships and alliances, Schultz was able to use the innovation of other providers and suppliers to boost his own success. Starbuck's coffee buyers travel directly to the coffee farms throughout the world to secure beans through a Fair-Trade Program. Fair-Trade seeks to ensure a sustainable supply for the company and a fair and just wage for the farmer. In marketing, Starbucks has created alliances with Barnes & Noble for their in-store cafes, and with PepsiCo to sell a retail and vend a bottled version of Frappuccino, and with Tata Coffee to bring Starbucks to India and to allow Starbucks to sell Indian-blended coffee throughout their stores. To create a better customer experience, Starbucks partnered with Yahoo to provide free wireless access and with Apple to sell music as part of the 'coffee house experience'.

To demonstrate the risk of not establishing alliances, the author tells of how cellphone manufacturer Nokia decided to sell their phones directly to consumers and to not partner with a wireless network. In short order, Samsung, LG, and soon Apple, had partnerships with Verizon or AT&T which offered the wireless carriers exclusive products and the manufacturers and expanded customer-base. Apple launched the iPhone in an exclusive partnership with AT&T and quickly became the premier smartphone.

By debottlenecking the supply chain, simplifying many functions and re-evaluating store investments for retail stores, supply chain can reduce the business risk and save money. When Steve Jobs returned to Apple in 1997, he recognised three problems affecting their business: the product pipeline, marketing and their supply chain. To tackle supply chain innovation, Jobs hired Tim Cook in 1998. At the time, Apple had to forecast customer demand out four to six months for production. Cook said "You want to manage it like you're in the dairy business. If it gets past its freshness date, you have a problem." He closed factories and warehouses, replacing with outsourced contracts and reduced the company's inventory from months to days and got phones to consumers faster.

To evaluate store investments, Sarkar examined Macy's and Costco. Macy's, a well-known retailer for over 100 years, is facing a drop in same-store sales, profit margin and return on assets due to declining customer traffic and substantial real estate expenses. For years, their growth has been through acquisition, but they are now closing stores as they try to relieve themselves of some of the real estate debt that is weighing them down. On the other hand, Costco has expanded at a slower pace. Their focus is getting a good real estate deal and will walk away if the land is too expensive. They estimate it costs \$80–\$100 million to build a new store and their new stores typically have sales more than that amount in their very first year. Their focus on keeping costs down extends to the store design, construction and fixtures. The stores have concrete floors, skylights (to reduce lighting expense) and pallet displays (to eliminate the cost of stocking shelves).

Two areas of business that you may not think of, supply chain and sourcing, are a good fit for are marketing and real estate outsourcing. Sarkar argues that getting supply chain managers out of their comfort zone by applying the supply chain metrics and analytical tools to the marketing world. In the past, companies would buy advertising hoping for revenue growth. Now, they must evaluate different marketing platforms to analyse which one will best get them the growth they want. Sarkar points out that by using return on investment (ROI) and zero-based budgeting, sourcing can help marketing improve their decisions. In the last two decades, companies have outsourced more and more functions, especially around real estate. The scope of work has created a new category: integrated facilities management (IFM). IFM companies may manage everything from site services (landscaping, snow removal, pest control, cleaning), to corporate services (conference services, storage, food services) and employee services (fitness centres and onsite daycare) for their clients. The bundling of these services through one central provider was thought to save on costs. Upon evaluating the IFM-client relationship, Sarkar has found that while IFMs claim cost savings (snow removal savings, for example), the entire package has resulted in a price increase. Two new trends are emerging in the facility management field. The first is that firms are beginning to unbundle services and only outsource services to areas which are the IFM's strength. If the IFM has a core competency in site services, the firm may retain them for that purpose, but bring employee and corporate services back in house, or outsource to another IFM for whom that is a company strength. The second trend is that technology is enabling a firm's to manage activities at a distance as never before. Much like Uber has created a way to hail a ride without the cost/use of a middleman taxi dispatcher/service, new technology may enable a firm to manage their suppliers directly without the cost/additional step of an IFM.

This book is aimed at managers and executives in business to increase their awareness of the supply chain value. By including supply chain and sourcing in most aspects of the business, they will gain insight and knowledge from an underutilised player. Supply chain and sourcing can apply their business approach to other functions and help expand the resources and success of the firm as a whole.