

Global Supply Chains

By Tomas Hult

Executive Briefing: Global supply chains are “total cost systems” that work best if all aspects of the chain are strategically leveraged. With the globalization of supply chains predicted to increase by 43 percent in the next decade, a well-functioning and global supply chain has never been more important. In this article the author shares his thoughts on what this means for firms to maintain a competitive edge.



At a very young age, no matter where we are born and grow up in the world, we are taught to organize our daily lives into smaller pieces. The instruction most often is carried out in an informal manner over a period, first by our parents and elementary teachers, then perhaps by sports team coaches, music instructors and other activity leaders. The idea is that breaking down projects and undertakings into steps will make us focused in completing tasks. The desired result is an optimal outcome if each step is completed fully with quality and speed. In a way, we are all taught to be operational in our daily lives, whether focused on family life or work life.

What about the bigger picture, though, where we can see and achieve vital global business leverage? Clearly, all elements of a project, every meeting in a day, or even each morsel of food on a plate are not equally important or interesting. So, what do we typically do? We make calculated or even intuitive judgments to focus more heavily on one part of a major task. In essence, we all develop a personal operational scheme for accomplishing things that encompass most aspects of our complex lives.

Whether we realize it or not, we intuitively develop a strategy for our lives based on trial and error of where we have been and what we hope to be involved in. In contrast to this, people and organizations involved in global supply chains – all the linkages, resources, and connecting points from raw material to finished products or services – do not have the luxury of this level of daily oversight and cannot be involved in all aspects of the full global supply chain. Rather, supply chain professionals are generally involved in just one or a few links and connecting nodes of the chain, potentially with some influence and input over other parts.

Like people, global supply chains are “total cost systems” that work best if all aspects of the chain are strategically leveraged. For the global supply chain, the idea is to work toward getting the total chain to succeed, not maximizing the success of an individual organization in the chain. Global supply chain management, then, is not the additive utility of its functions (e.g., logistics, purchasing, operations, market channels), rather, the integration and coordination of

the strategic leverage points embedded in those supply chain functions. In addition to the functions, we must consider the entities, activity links, and resources throughout the chain.

This begs the question: Are firms keeping up with the expected globalization of supply chains? And the more direct question is: Will firms be able to leverage supply chains to increase their globalization by the predicted 25 percent in the next 5 years and 43 percent in the next 10 years that my benchmarking data suggests are the key goals for global supply chains? If not, companies will likely fall behind on global strategy and they run a serious risk of losing competitive edge in the global marketplace.

To me, global supply chains are critical for traditional multinational corporations and also for the new breed of firms which are becoming major players in the global marketplace. For these new types of firms, the old blueprint of first serving one or a small set of countries using a diversified conglomerate approach is left to a select few companies in each industry. Some say that no more than three firms can and will fit this “past reality” blueprint in the future. Instead, the “emerging reality” is that firms will develop much more around focused businesses that go global early after inception or early after reconfiguration and then thrive in a globally integrated economy.

To that extent, major competitors of the past – which could be seen from miles away because of their domestic and global footprint – are not necessarily the main immediate threat anymore. The new early-on threat is the firm that effectively uses global supply chain strategies to get its product out effectively in a globally integrated economy to a large number of customers. This firm does so with more limited product lines and product assortments than the massive conglomerates we were accustomed to in the past. And, globalizing supply chains by 43 percent within the next 10 years is an important but also onerous task for large multinational corporations and small and medium-sized enterprises alike. ♦ gBR Article 07-07, Copyright © 2013.

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