GLOBAL SUPPLY CHAIN GROUP

Winning Global Supply Chain Advantage

The Creative Tension in Global Supply Chains

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Global supply chains are facing a dichotomy. On one hand the wave of mergers and acquisitions in the global supply chain corporate sector continue on unabated in the belief that size will bestow sustainable competitive advantage. On the other hand customers are really getting very sophisticated in unbundling the supply chain packages of various players and cherry picking the best of the lot from each offer, more or less putting together an offer of their own.

This dichotomy can also be called the atomization (modularization) vs. integration debate.

There is a strong belief in a substantial part of the global supply chain community that sooner or later most corporate will see the light and outsource all (or substantial part) of their supply chain activities, more or less, to a single entity capable of providing such services on a global scale. This belief underpins the drive to grow big that has captured the hearts of the global supply chain players.

However, the track record of outsourcing is patchy at best. While most corporate are happy to outsource parts of their supply chains especially the transportation function - they are still very reluctant to outsource their total logistics. Many reasons are cited for this reluctance. Cost escalation, loss of control, information asymmetry, agency problems and lack of supply chain expertise in the global logistics service providers are some of the reasons that show up routinely in surveys.

Given that this has been the case for at least ten years now, it is surprising that the global logistics industry has not come up with mechanisms to handle the concerns that limit even wider adoption of their primary service proposition. Perhaps they are happy with taking each others' market share, combined with whatever growth the industry is achieving on its own. In any case, this integration approach is not the only possible emergent model.

Equally, if not more, plausible is the best of breed model emerging out of the growing modularization of the global supply chain. The customers do tend to want to control their destiny, their customer interaction, their costs and their plans. Many have long experience in cherry picking the best deals out of the range of offers for each sub-part of their supply chain and believe that is the best way to keep their suppliers honest. They also point out the conflict of interest inherent in many LLP driven outsourcing deals and track record of several of these deals.

Finally, the behavior of many logistics companies during the current boom has done nothing to assuage the feeling of insecurity engendered by the apprehended loss of control.

So what is likely to be the final outcome of this creative tension?

The jury is still out on that one. The answer is not likely to emerge till the current cycle has taken a full turn. But on the current trend it appears that the market could well be segmented into a bi-polar grouping each adhering to its own belief. Which grouping becomes prominent in the long run will probably depend as much on the general economic climate and overall cost equation, as it will on the matter of belief in superiority of one model above the other.