



## FOR SUPPLY CHAINS, FASTER IS NOT ALWAYS BETTER

BUSINESSES MUST MANAGE SPEED

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March 2013 was the coldest in decades for much of Europe and the eastern United States. But in March the previous year, the United States had experienced heatwaves.

The capriciousness of the weather spelled trouble for many fashion retailers. Hennes & Mauritz (H&M), the Swedish apparel giant, reported lower like-for-like sales in the first quarter of 2013 and attributed the fall to the unusually cold weather. Exceptional weather again played a part in August 2016. That month, H&M's sales rose less than forecasted and the company blamed high temperatures for keeping consumers out of shops in three key markets – Germany, the United States and the United Kingdom.

In contrast, Inditex, the world's biggest apparel company, saw sales rise, both in 2013 and in August 2016. The Spanish company has a two-week cycle from product design to delivery to its stores, while its competitors need months. If the weather is cold, for example, in early spring, Inditex delays the introduction of spring and summer clothing: if the weather is warmer, it supplies spring clothing to its stores. Inditex is credited with creating a new business model – fast-fashion – in which a fast supply chain is the critical element for success.

The impact of speed on risks – such as the risk of obsolescence or missed sales – and on business opportunities is tremendous and many business writers have praised its virtues. But higher speed also involves higher costs. The right question to pose is: what is the right speed?

The pharmaceutical industry is considered a low-speed industry with the typical manufacturer carrying seven months of inventory. The entire value chain, down to the patient, holds about 9–10 months of inventory – triple or quadruple the inventories of many consumer goods segments.

In some exceptional cases, however, very high speed is required. For example, in a flu pandemic vast quantities of vaccine must be supplied very quickly. Many manufacturers maintain extra capacity in order to be able meet this extraordinary – and highly profitable – demand. But this capacity is idle most of the time and represents a very high fixed cost.

Product variety and complexity influence supply chain efficiency and speed. Initiatives such as “lean” increase both speed and efficiency by standardizing products and removing variability. In a fast-food restaurant, variety is strictly limited. A luxury restaurant, on the other hand, combines high variety and speed, but at the cost of efficiency, because the proportion of staff to customers is far higher than in fast-food restaurants.

There is a balance between speed, efficiency and variability. It is not possible to have all three.

### **Optimal combination**

Efficiency is easily measured by looking at costs. But the effect of speed and variety on company profit is not so easy to quantify. Business leaders, nevertheless, seek an optimal combination of speed and variety to maximize profits, while reducing risks and increasing opportunities.

But there is a danger that as companies reach – what they believe – is an optimal speed, they institutionalize it and develop a business model that anchors it. For example, forecasts are done weekly, management committee decisions are taken once a month, product development involves a certain number of steps and so on. But when the external environment changes abruptly, organizations may find their speed for balancing costs with risks with opportunities is no longer optimal.

Also, while many companies would like to increase speed to counter the volatile business environment of recent years, they are being thwarted by rising controls and compliance rules. Compliance rules are becoming so obstructive that they are increasing the very risks they are supposed to avoid.

There is an optimal speed for any supply chain, process, company and industry, and it may not be the fastest. It is, therefore, imperative that organizations manage speed proactively. They should measure it and determine the optimum level for a given environment rather than react to events or demands.

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