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**A discussion about Lamynix**  
*(and key ideas on how to assess your current supply chain strategy)*

Executive Education  
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## Basic facts about Lamynix's product

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**Who is Lamynix?**

- *A leading manufacturer of specialty laminates.*

**What are laminates?**

- *They are protective films, used on things like screens.*

**Who buys laminates?**

- *Original equipment manufacturers (OEMs).*


**What is the main raw material for laminates?**


- *Oil (Petroleum.)*

**Some key factors in the manufacture of laminates:**

- *Economies of scale are huge.*
- *Switch-over costs are huge, too.*

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## The nature of Lamynix's leadership

Lamynix currently enjoys a position of leadership as a supplier of laminates to OEM's, because of its product has two desirable features:

- **High quality.** *Since a defective laminate would result in defective finished goods, high quality in the laminates is valued by OEMs. Lamynix has a reputation for offering consistent high quality products.*
- **High availability.** *Since running out of laminate would stop their manufacturing process, OEMs value the availability of laminates. Lamynix prides itself in maintaining a high availability of products.*

Because of this, Lamynix commands high-end prices from the OEM's.

Lamynix also competes, but is not a leader, in low cost markets.

In terms of **innovation**, recently Lamynix managed to produce a laminate with thermal properties that basically created a new market segment. Beyond this product, Lamynix is not known as an innovator.

## Key Question #1

What is our current  
supply chain strategy?

## Lamynix's business strategy

As a publicly traded company, Lamynix seeks to please its stockholders by maximizing its revenue and its profitability. This is done by:

- **Growing volume.** Lamynix wants to not only retain their current market share with OEMs through sustained quality and service leadership, but also to grow with the market's most profitable areas.
- **Growing margin.** Lamynix already has healthy margins, but wants to grow them even further, by continuing to command high-end prices from OEMs and by lowering the final delivered cost of the laminates.

Lamynix articulates its business strategy around these four pillars:



## Translating the business strategy into supply chain decisions

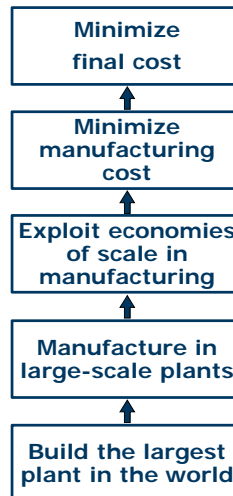
By 2011, Lamynix had finished building the largest laminate extrusion plant in the world.

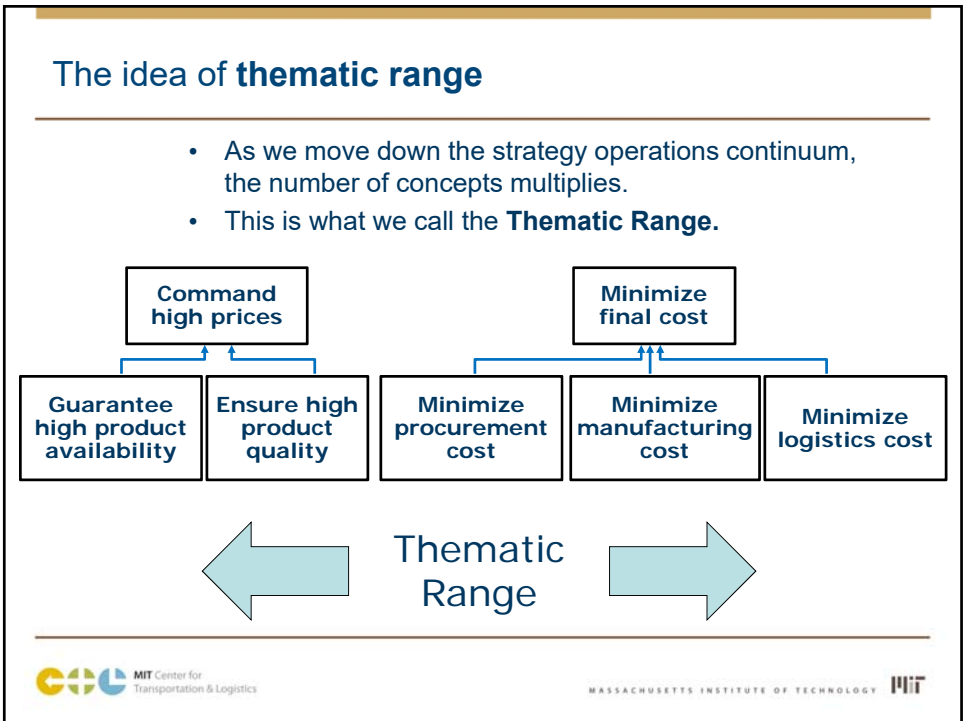
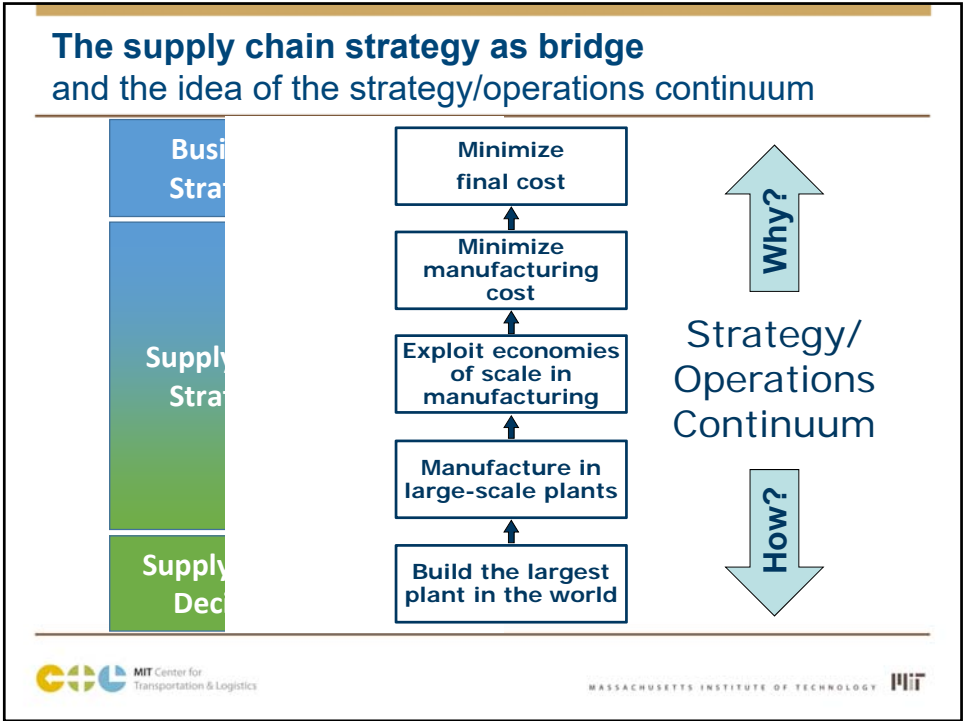
This plant is an example of a supply chain decision informed by its business strategy. Why?

As a matter of policy, Lamynix manufactures its laminates using only high volume plants.

This allows the company to exploit economies of scale.

This minimizes manufacturing costs, and provides support to the strategy pillar about costs.





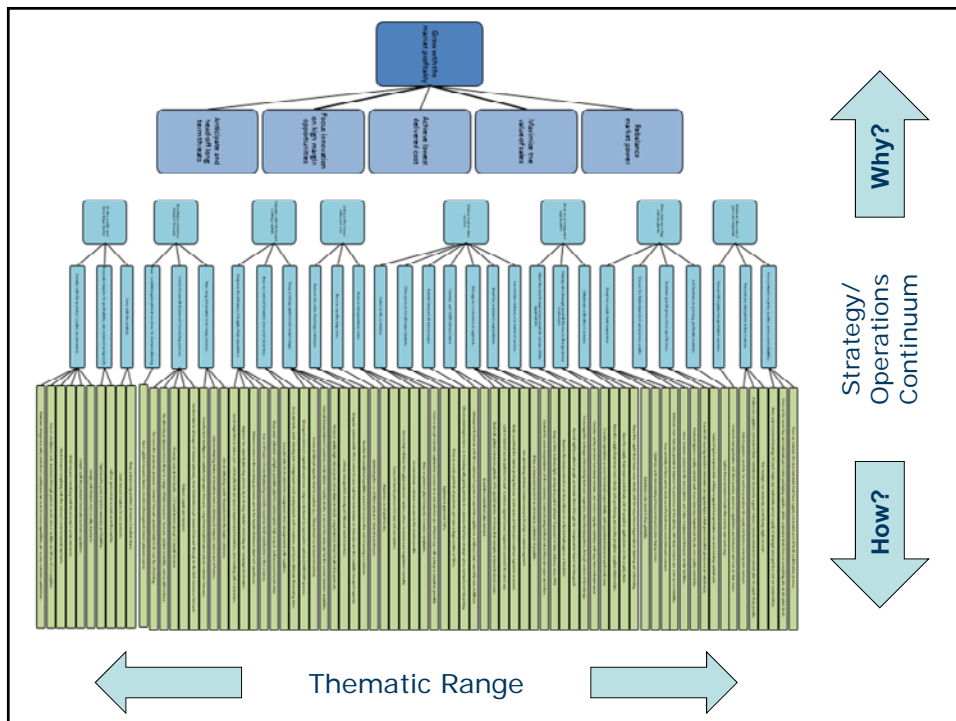
## Key Idea #1: Capture

Making a supply chain strategy explicit

It is useful to ‘capture’ the current supply chain strategy of a BU in an explicit manner...

...by mapping the concepts that logically connect the current supply chain decisions and activities with the current business strategy...

...along the strategy-operations continuum and the thematic range.



## Key Question #2

Is our supply chain strategy  
“right” for our purposes?

## Key Idea #2: Evaluation

What makes for a *good* supply chain strategy?

Once you know what your current supply chain strategy is, you can evaluate it using three basic goodness criteria:

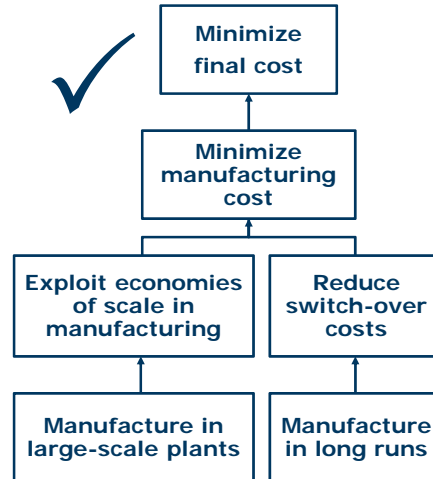
- **Support.** *Your supply chain strategy results in supply chain decisions that support to your business strategy.*
- **Consistency.** *The objectives and decisions that make up your supply chain strategy are internally consistent.*
- **Coverage.** *Your supply chain strategy is addressing all the themes that matter to you, i.e. it has no “blind spots”.*

Let’s see apply these three criteria to the case of Lamynix.

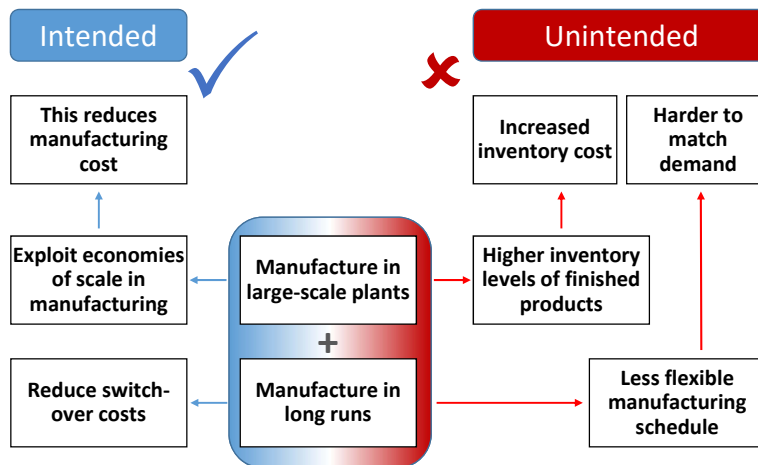
## Assessing the impact of Lamynix's manufacturing philosophy, and the criteria of "Support"

# SUPPORT

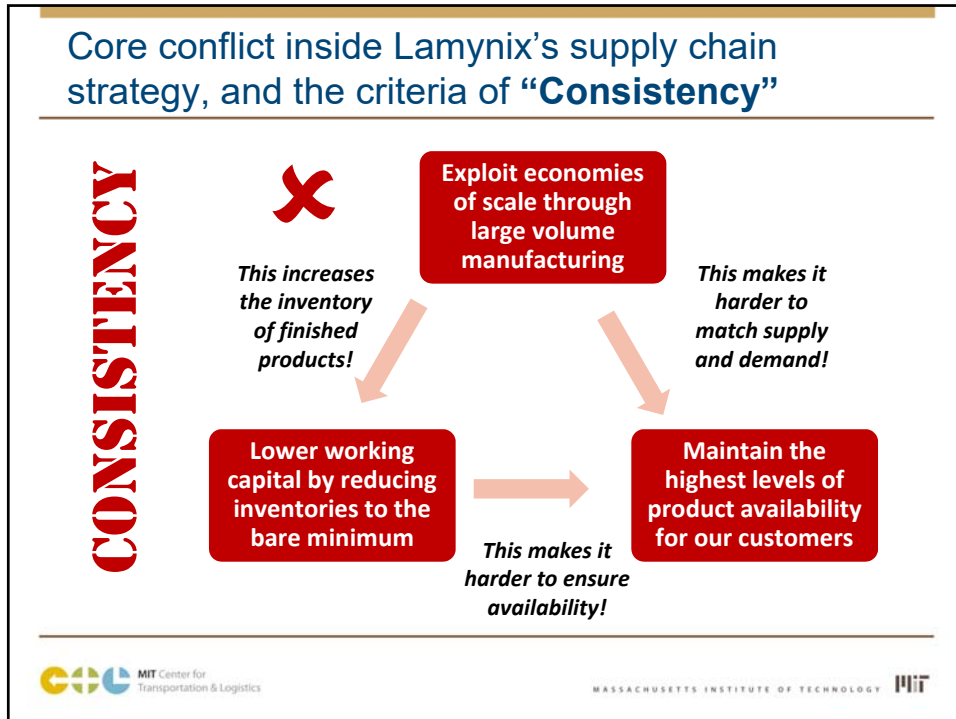
Lamynix's manufacturing philosophy of long runs in large-scale plants supports one of its strategic pillars: minimizing the final cost of the product.



## However, supply chain decisions have multiple consequences, and involve trade-offs



## Core conflict inside Lamynix's supply chain strategy, and the criteria of "Consistency"



## Core conflict was left unresolved

### Was this conflict intentional?

- *A pecking order was clearly needed*
- *Lamynix insisted on keeping goals like that*
- *Conflict lasted for years after this point*

### This, too, has consequences

*Continued struggle among functions to improve on their own*

- *Sales learned to focus on promising high availability,*
- *Manufacturing learned to focus on economies of scale,*
- *Logistics learned to focus on minimizing inventory,*
- *Each function learned to care less about other functions.*



## At this point comes VideoFlat's proposal

### Who is VideoFlat?

- A major customer of Lamynix, a high-end innovative manufacturer of flat screens for TVs and computer monitors.

### What did they want to buy?

- A new laminate that would be twice as wide as the usual size.

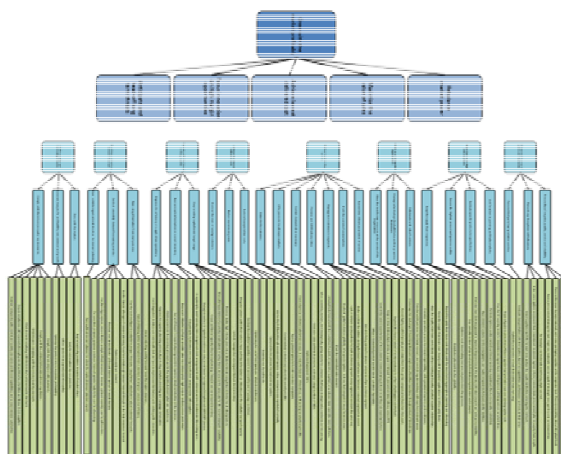
### What did the contract require from Lamynix?

- A significant innovation effort. Must be ready within 12 months.

### What was in it for Lamynix?

- Multi-million dollar sales guaranteed, at a premium price.
- A golden opportunity to capture an emerging and promising segment in the specialty laminates market.

## Is Lamynix's supply chain strategy ready for innovation? The criteria of "Coverage"



### COVERAGE:

? ? ?  
 What about innovation?  
 ? ? ?  
 ? ? ?

## Consider Lamynix's business strategy. Should it accept VideoFlat's proposal?

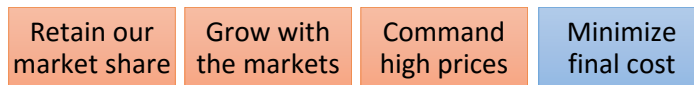
Lamynix seeks to maximize its revenue and its profitability, by:

- **Growing volume.** Lamynix wants to not only retain their current market share with OEMs through sustained quality and service leadership, but also to grow with the market's most profitable areas.
- **Growing margin.** Lamynix already has healthy margins, but wants to grow them even further, by continuing to command high-end prices from OEMs and by lowering the final delivered cost of the laminates.



- How does **accepting** the proposal fit Lamynix's business strategy?
- How does **rejecting** the proposal fit Lamynix's business strategy?

## Rejecting the proposal would mean...



**Rejecting** the proposal seems to detract from most of Lamynix's business strategy

**Rejecting** the proposal would be in line with the cost minimization policies.

## Accepting the proposal would mean...

Retain our market share	Grow with the markets	Command high prices	Minimize final cost	Give priority to innovation
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**Accepting** the proposal is consistent with, and seems to further, three out of four pillars in Lamynix's business strategy.

**Accepting** seems inconsistent with, and may require relaxing, the cost minimization pillar.

**Accepting** would require Lamynix to give innovation a priority that it currently does not enjoy.

## How the project played out (part 1 of 3)

### Was Lamynix able to create the wider laminate?

- Yes! Lamynix was able to create it in a small R&D pilot plant.
- However, a problem arose when they moved it to the high-volume plants: the middle of the laminate would bow in the middle.

### How could Lamynix troubleshoot this problem?

- Option #1: Replicate the high-volume plant equipment in the pilot plant. Besides costing a lot and taking time to set up, there is always the risk that the replica will not be perfect and the problem will persist in the real plant.
- Option #2: Use the high-volume plant to run tests on possible solutions. There would be high costs associated to stopping a huge plant to allow technicians to figure out this innovation problem.

## How should Lamynix have continued?

*By sticking to its low cost policy, Lamynix let the tail wag the dog.*

### **What is the reason for using large-scale plants?**

- *Economies of scale help them lower production costs.*

### **Is Lamynix passing these savings to customers?**

- *Lamynix retains the savings as part of their profit margin.*

### **Would higher production costs result in increased prices?**

- *Only if Lamynix decides keeps its profit margins fixed would higher costs result in higher prices.*
- *An alternative is to keep prices fixed, and temporarily reduce the margins, to allow for inefficiencies until the problem is solved.*

**What would you have done here?**

## How the project played out (part 2 of 3)

### **Testing in the high-volume plant was deemed expensive**

*Using the high-volume plant would have created costs on three fronts:*

1. *Using the plant for something other than production was perceived as a waste of a very valuable invested capital.*
2. *Inventory of finished goods would have to be accumulated to cover for the demand over the time the plant would be used in tests.*
3. *There would be large switch-over costs associated to the tests.*

### **Pressure from investors**

- *The company was under great pressure from its investors to keep large profit margins.*
- *This pressure, however, seemed to be interpreted selectively, since it didn't prevent Lamynix from investing in large plants.*

## How the project played out (part 3 of 3)

- The bowed middle problem required an expensive solution. Implementing it would require swift and decisive action.
- There was nobody in a position of power to make it happen, to tell the logistics people to stock up on inventory and the manufacturing people to lend the plant for the tests.
- Absent a clear signal from the top that the VideoFlat project had a big strategic significance, the staff sensed that the project was doomed.
- Nobody wanted to become the captain of a sinking ship. The project became a hot potato that was passed from hand to hand, sometimes being dropped in the process.
- This absence of both leadership and strategic clarity made problems of the failing VideoFlat project a self fulfilling prophecy.

## How it all ended

- By the end of the 12 months, Lamynix was not any closer to solving the bowed middle problem than it was at the beginning.
- It failed to deliver on the VideoFlat contract, missing out on a multi-million dollar business opportunity.
- VideoFlat went away, and took its business to one of Lamynix's competitors, who figured out a way to solve the problem.
- This competitor, by the way, uses medium sized extrusion plants, that have less economies of scale but are more 'friendly' for innovation.
- Lamynix's reputation on product quality and reliability remained strong, but on the innovation front it took a big blow.
- Lamynix committed to including innovation as an explicit strategic goal, and to give it from then on the weight of a core competency.