



Why One-Size-Fits-All Supply Chains Frustrate Innovation

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While it is true that supply chains are key for sustained innovation in a company, it is also true that all innovations are not the same. A given supply chain can work perfectly for developing and launching a given innovative product, and yet—if applied like a cookie-cutter—the very same supply chain can spell disaster for a different innovative endeavor.

To illustrate this pitfall, let's look at the fictionalized predicament of a company that we will call PixelArtist when it tried to expand into the wearable electronics market. As a first-rate innovator with a legendary supply chain, the success of PixelArtist's expansion seemed all but guaranteed. But the company stumbled when it tried to apply an established supply chain strategy to the new venture.

Course Correction

Back in the late 1980s, when cathode ray tubes (CRT) were the dominant technology, two Caltech dropouts founded PixelArtist, Silicon Valley's pioneer of liquid crystal displays (LCD) for computer monitors and televisions screens. After more than a decade of slow growth, the company's market share skyrocketed at the turn of the century as old CRTs were quickly replaced by LCDs. Most of the flat screen displays sold in North America and Europe today are designed, manufactured, or built around IP from PixelArtist.

Since then and to this date, PixelArtist is considered the leader in the innovation, design, and manufacture of high-performance displays for computer monitors and large format digital televisions. It is widely acknowledged, both by the company and by outside observers, that a key to PixelArtist's success has been its outstanding supply chain, which is considered a world-class model of excellence. As a result, supply chain management is seen as one of PixelArtist's core competencies.

PixelArtist's move into the arena of wearable electronics was driven by a sense of urgency. Six

years before, the company had decided it would not produce displays for smart phones and tablets; at the time, the market seemed to be of little importance. However, as mobile devices rose to prominence in the early 2010s, and began to erode the demand for computers and TVs, PixelArtist realized its mistake. By then, however, another company was the leader in displays for mobile devices. PixelArtist entered the market but was forced to play second fiddle to remain relevant.

Still reeling from its failure to recognize early on the strategic importance of the mobile device market, PixelArtist vowed publicly that it would be on top of "the next big thing," whatever that may be. As of 2013, wearable electronics seemed like a promising area when PixelArtist decided to launch a Wearables Business Unit (WBU), and give it a clear mission: to make PixelArtist the leader in wearable electronics. The Corporate Supply Chain (CSC) group was tasked with helping WBU achieve this goal. That, at least, was the plan.

Relationship Problems

Eighteen months later, it was increasingly clear to both parties that things were not working as expected between WBU and CSC. Their relationship was marred by friction and distrust.

The WBU team seemed hell-bent on going it alone to determine which suppliers to use for bringing new products to market. This caused much discomfort among the supply experts in the CSC group. It had used a careful supplier selection process to identify four outstanding vendors to serve as "preferred" suppliers. In CSC's view, these vendors could manufacture anything to meet the needs of PixelArtist's small business units at a low cost. By entering into large volume contracts with these suppliers, PixelArtist would be able to leverage its size. To CSC's chagrin, WBU ignored the benefits of this procurement strategy, and contracted with almost 50 small suppliers to manu-

facture an assortment of different products.

Adding insult to injury, the CSC team felt that WBU purposely excluded them from the decision-making loop until it was too late to change WBU's supplier selections. CSC's frustration was vented by one of its leaders. "We want to help, but if we only find out about a product they want to launch when it is already designed, there is not much we can do," the CSC executive said. "We should be included in the decision making process much earlier, when they are still developing the prototype. That way we can steer them into using components that our preferred suppliers can manufacture. But WBU won't give us a seat at the table even though we asked to be consulted."

Speed-to-Market is Key

That, of course, is CSC's view of the problem. To understand WBU's rationale, let's take a closer look at the nature of the wearables market, and try to understand WBU's strategic priorities to win in this market.

WBU competes in a market that is still in the early stages of development. Although some big companies are interested, corporate size carries little weight in this market: Here, big ideas and speed to market will decide who emerges as the leader. A sort of gold rush of technological experimentation is currently taking place. In this market, hundreds of small companies, most of them new, have set out to try new ideas and produce innovations that could go from prototype to blockbuster in the blink of an eye.

To become a leader in the wearables market, WBU has to be able to quickly access any promising intellectual property (IP) generated by these small players in the

ecosystem. Horror stories of PixelArtist's legal team taking more than a year to secure access to a given piece of IP are well known to WBU. So, instead of asking CSC to secure access to a new IP for use in one of the 'preferred' suppliers, WBU often decides to contract directly with a small supplier that already has a license for the desired IP, thus saving a significant amount of time. Fast access to IP is a strategic imperative for WBU.

Something similar happens when WBU acquires a smaller company in order to take over a product it has launched. If WBU decided to follow CSC's advice and move production of the newly acquired product to one of PixelArtist's preferred suppliers, a significant amount of time would be required for certification, training, and retooling. It is much faster for WBU to continue production with whatever supplier the acquired company was using, even if the cost per unit is a bit higher. Product time to market is also a strategic imperative for WBU.

An Ill-Fitting Strategy

It is plain to see why WBU preferred to disregard CSC's advice to move its production to the preferred supplier base: doing so would run counter to WBU's strategic imperatives of facilitating quick access to IP and product speed to market. The WBU team was right to complain that the CSC team did not understand their particular needs, and was trying to impose a supplier consolidation program that would not work for WBU.

CSC's strategy is the wrong fit for the wearables market venture. That, however, doesn't mean it is wrong in itself. Supply chain strategies are not right or wrong in a vacuum:

Their merits should be judged as a function of the needs they are expected to support. Clearly, the corporate supply strategy of using a few preferred suppliers makes a lot of sense for PixelArtist's core business because it allows the company to leverage its size to reduce costs, promote compliance, and increase customer service. The strategy, in other words, is aligned with the strategic imperatives of the core business.

But it would be a mistake to think that—because it works fine elsewhere—the same supply chain strategy should be applied across all business units, regardless of their particular innovation needs. The general lesson is that the wrong supply chain strategy can become an obstacle for the success of a business unit instead of an enabler of innovation. 

