Why Supply Chain Effectiveness Is Better Than Supply Chain Efficiency

Traditional approaches to supply chain management (SCM) and optimization have prioritized cost savings above most other considerations.

The oft-praised "lean, mean" supply chain model used by many contemporary businesses secures these cost savings through process automation and other digital tools.

However, in the long term, this focus on efficiency in SCM may result in a suboptimal supply chain unless these same chains are also optimized for effectiveness.

Supply chain effectiveness may prove to be the new "secret weapon" in generating value, capturing savings, and enhancing competitive advantage.

It supports these goals not through doing things with optimal precision or speed alone, but by ensuring you're meeting stakeholder expectations, protecting your operations and profitability, and remaining agile enough to creatively solve your biggest business challenges.

Supply Chain Efficiency vs. Supply Chain Effectiveness

The emphasis on speed, accuracy, and maximum return on investment (ROI)—usually tied to cost reductions and value creation—has, in the digital age, become a major component of effective supply chain management.

But supply chain effectiveness has not been given the same consideration, and as a result, companies with otherwise stellar optimization methodologies continue to struggle with obtaining long-term positive results through SCM.

This problem stems in large part from the tendency to conflate two terms which are indeed interrelated with, but still distinct from, one another.

Supply Chain Efficiency

Supply Chain Efficiency is an internal standard for measuring performance with regard to how well a company leverages its available resources to meet its goals for cost savings, process optimization, etc.

You can think of supply chain efficiency as “doing things well,” although of course excellent performance at an irrelevant or even damaging process is a net loss for the company performing such a process.

The term efficiency itself can be considered abstract and subjective; peak efficiency at one organization may be regarded as anything but at another, and maximizing efficiency within one area of your business can have a detrimental effect on others.

For example, an extremely efficient supply chain might excel at obtaining the lowest possible cost for essential materials, but only by sacrificing quality or timely delivery.

As a result, customer satisfaction drops, sales decline, and the company pays a heavy toll for its “peak efficiency.”

Finally, because it is largely an internal standard, supply chain efficiency is ill-equipped to compensate for unexpected, large-scale disruptions in the global supply chain.

Efficiency that depends on lowest possible price points for raw materials, minimal customer service and support, and minimum standards for product quality will quickly vanish when disruptors like the Covid pandemic, natural disasters, or international conflict wreak havoc.

Supply Chain Effectiveness

Supply Chain Effectiveness is focused on external criteria, with a special emphasis on the organization's success at meeting the expectations and demands of investors, customers, and suppliers.

Consideration for these external standards (which include, for example, customer satisfaction and strategic spending based on market conditions) are a large part of the reason effective supply chains are sometimes referred to as *responsive supply chains.*

When measuring supply chain effectiveness, the goal is "do the right things," i.e. implementing improvements to balance hard target items like cost reductions with soft, value-centric targets that can lead to a better ROI through strategic planning, collaboration with external parties, and leveraging supply chain insights harvested through data management and analysis to improve operations, strategic decision making, and spend management planning.

Supply chain effectiveness is a crucial component of long-term SCM success.

It's also crucial to protecting competitive strength, availability of working capital, and business continuity during times of plenty while providing adequate operational agility and flexibility to solve problems and overcome the negative impact of disruptions to the global supply chain.

Let's examine a more detailed comparison between supply chains built on efficiency and those built around effectiveness and responsiveness:

CHARACTERISTIC	EFFICIENCY	EFFECTIVENESS (RESPONSIVE)
Driving Purpose	Minimal cost	Quick and accurate response

Production Design	Focused on minimum production costs	Flexible and modular to accommodate different timeframes.
Pricing Strategy	Low margins	High margins
Manufacturing Strategy	Maximum resource utilization	Operational flexibility
Inventory Strategy	Lowest possible inventory	Strategic inventory management, including buffers.
Vendor Selection	Minimum cost and quality	Balancing speed and quality with flexibility and source contingencies to protect business continuity
Lead Time Strategy	Lowest possible without increasing costs	Minimize even if costs increase
Logistics Management	Prioritize low cost modes	Prioritize responsive modes

In simple terms, successful supply chain management requires optimal efficiency, but it must be tempered with the considerations inherent to supply chain effectiveness to allow an organization to grow, innovate, and realize its goals for productivity and profitability in the long run.

Why Supply Chain Efficiency Doesn't Always Create Supply Chain Effectiveness

As *Supply Chain Insights* founder Lora Cecere pointed out in an oft-cited 2014 piece for *Forbes*, aiming for the most efficient supply chain possible is intrinsically limiting.

Built around a single metric—namely, performing tasks with maximum return for minimum investment, regardless of their impact on more complex values such as total cost of ownership (TCO)—the most efficient supply chains seek to offload costs, waste, and performance accountability onto suppliers in order to gain short-term benefits through better operating margins, faster inventory turns, and shorter cash conversion cycles.

Ultimately, however, this approach is unsustainable, particularly as global supply chains grow longer and more complex and areas of potential risk exposure increase.

And without significant effort to instill continuous, systemic improvement through collaboration, innovation, and a dedication to building supply chain resilience, SCM strategies focused on efficiency above all will not have the strength or flexibility to preserve business continuity when supply chain disruptions strike.

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A Balanced Approach to Supply Chain Management: Amazon’s SMC Triumph

Once you understand the ways in which both efficiency and effectiveness affect your supply chain, the issue isn’t quite so much “supply chain efficiency vs. effectiveness” but “how can we achieve supply chain effectiveness blended with efficiency?”

One of the best answers to this question comes from one of the world’s biggest companies.

An international business with a titanic global supply chain and massive resources at its disposal, Amazon refuses to compromise in executing its SCM methodology, prioritizing effectiveness through creative and innovative use of efficiency.

Automation, Manufacturing, and Logistics

Management

Automation is an essential part of this synergistic approach to SCM. With physical robots at work in its warehousing facilities and software robots streamlining high-volume, repetitive tasks for maximum speed and accuracy, the company has slashed order processing times and created a new paradigm for click-and-ship buying.

The retail giant's approach to outsourcing and logistics is another area where efficiency and effectiveness blend.

With more than 50% of its sales coming from third-party sellers in 2020, Amazon has invested heavily in internal logistics management while simultaneously outsourcing much of its warehousing services.

The company's invested in more than 75 fulfillment centers in North America, broken into different classes and zones, and strategically located to provide delivery schedules that meet consumer expectations for availability, shipping, and price, but relies on a massive network of third-party warehouses as well.

In addition, Amazon uses data analytics to determine minimum orders for certain goods to keep shipping costs low (for example, a customer ordering a single pen may have to order an additional $15 or $20 worth of other goods to secure free, fast shipping).

They also encourage consumers to take advantage of incentives like Amazon Delivery Day, offering additional savings for those who are content to wait for all their orders in a given week to arrive the same day.

In this way, they promote efficiency while still prioritizing effectiveness and give customers a variety of satisfying choices that still allow Amazon to reach its goals for operating margins, lead times, etc.

Real-time data analytics and total transparency make it possible to execute detailed and efficient fulfillment while preserving efficiency. One-hour and same-day shipping orders are fulfilled with Amazon's own fleet to keep order processing and fulfillment times as low as possible.

No-rush shipping and Amazon Delivery Day orders can be shipped through alternative channels with lower costs but the same dedication to providing customer satisfaction.

The company is willing to spend more in some areas to recoup value and savings that more than make up for such strategic investments in the long run through improved efficiency and greater resiliency.

The company has also entered the manufacturing sector, producing a staggering array of products ranging from home goods to electronics, clothing, and more. In leveraging the economies of scale available to it, the company captures cost savings by producing goods at lower costs than third parties could match while still meeting customer demand for quality and price.

This one-two punch helped them increase their competitive strength across multiple verticals and secure a substantial market share in manufacturing that provides a powerful current and future source of revenue the company can use for innovation, growth, and keeping investors happy.

In short: the company is willing to spend more in some areas to recoup value and savings that more than make up for such strategic investments in the long run through improved efficiency and greater resiliency.

Strategic Supplier Relationship Management

It may have carved out a healthy share of the manufacturing market for itself, but Amazon continues to focus on SCM strategies that make doing business with them attractive to third-party sellers and suppliers of retail goods.

The company's Amazon Web Services (AWS) Partner Network connects third-party suppliers and resellers with the company's massive procurement system, providing data analysis and management tools, strategic partnerships and funding opportunities, and mentorship opportunities to encourage them to grow both their own brands and their shared success with Amazon.

The company also has dedicated vendor portals for its suppliers, and the Amazon Marketplace for those who prefer to let Amazon handle sales, fulfillment, or both while taking a share of the profits.

Here, too, Amazon leverages economies of scale to maximize savings while preserving performance and customer service.

It uses its extensive digital toolset to analyze all of the financial and performance data flowing through its systems to optimize its strategic decision making, streamline and refine its supply chain (including ranking and performance management of Marketplace sellers), and preemptively identify and neutralize potentially negative impacts on labor productivity and operational performance.

As a result of these efforts, Amazon has reached the pinnacle of not just its industry, but of the global economy, providing a best-in-class example for achieving supply chain efficiency, supply chain effectiveness, and supply chain resilience—along with some heavy pressure on competitors to keep up or fall behind.

Through the use of digital tools, a proactive and consultative approach, and leveraging economies of scale while focusing on meeting consumer and investor expectations, Amazon brings its internal and external SCM concerns into profitable and productive alignment.

Blend Supply Chain Effectiveness with Efficiency for Maximum Performance

Few would contest the powerful impact an efficient supply chain has on cost savings and process optimization within a business.

But to intelligently contextualize the gains provided by improved efficiency, companies must find ways to meet both internal business needs and the expectations of customers and external partners through a supply chain management strategy that prioritizes effectiveness.

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