The Organizational De-Isolation of Supply Chain Management

Supply chain management often functions in isolation from other departments and the impact can be considerable on service levels and costs.

A company's supply chain management department, which generally works independently from the marketing department, works to minimize operational costs. On the other hand, the marketing department is a profit maximizing department that focuses on consumer behavior, advertising strategies and customer service, without, however, taking into account the specificities of the appropriate supply chain for the marketed products and the constraints that these specificities entail for service levels and costs. As a result, the costs that arise from the misalignment of marketing policies and supply chain competencies are transferred to the price of the product or service.

Customer service levels—that is, the probability of fulfilling demand—depend on reliable demand forecasts and on efficient product and information flows, given trade-offs and constraints that vary depending on the industry, product, etc. For marketing, if a customer wants a product and does not find it on the shelf or if the variety of the products offered is not high, then customer service levels are low. Aiming for the highest variety of products and for 100% product availability is desirable for marketing.

Nevertheless, a policy aiming to offer customer service levels close to 100% does not take into account the trade-offs that supply chains face. A customer service level of 100% is a heaven for marketing, but when demand is volatile, it is disastrous for the firm. It requires huge inventory buffers with very high costs. This is just one of many reasons why marketing and supply chain management must cooperate, understand the trade-offs that each faces, and make collective decisions.

Nowadays, predictive analytics that use big data and artificial intelligence algorithms to forecast demand make the integration of supply chain management, marketing and information systems a necessity. These algorithms are able to learn and to fine-tune their predictions using real time data. In a retail environment, these algorithms not only use point-of-sales data but also camera data. Using in-store cameras, they can cluster customers according to age, gender and other characteristics (even when the face of the customer is not clearly visible), match these characteristics with point-of-sales data, and provide customer profiling and demand forecasts. When the appropriate databases and information systems are in place, demand forecasts can be shared across the supply chain to better match supply and demand, resulting in a higher customer service levels, lower costs and an improved competitive advantage.

Amazon Inc. is a prime example of integra-

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tion of marketing, supply chain management and information systems. Amazon made a strategic choice to invest in operational excellence and process and information technology innovation as its core competences in order to offer a high variety of products at competitive prices. It was these operational and supply chain competences that have made it possible for Amazon to enter completely new markets and expand in the grocery business.