The intangible benefits of a digital supply chain

How thoroughly has the digital age reshaped the average large corporation? A 2015 study by investment bank Ocean Tomo provides one way of quantifying the answer. The study calculated that in 1975, tangible assets—buildings, equipment, and so on—comprised a full 83% of the combined value of the Standard & Poor's 500 Index. By January 2015, that number had plummeted to 16%, meaning that today, 84% of the S&P's value is made up of intangible assets—things like a company's intellectual property, its customer relationships or its proprietary way of doing things.

These figures tell us one thing: The average company's value today is largely the sum of its ideas and solutions. And those solutions increasingly come from harnessing digital technology to do things better and faster along every link of the value chain—delivering more convenience, shortening cycle times, providing supply chain transparency, and other intangibles that build stronger, more enduring customer relationships.

The problem for many traditional company executives, however, is that digital technology can quickly become overwhelming. Amid a massive proliferation of "must-have" digital solutions, just knowing where to start can often be the biggest hurdle. We find it useful to view the question through two lenses:

- Which digital solutions enable you to either reinforce or expand the value you offer your customers?
- Where can you invest in capabilities that enable you to create a defensible moat against the competition?

Applying digital solutions across the supply chain is a powerful way for businesses to deliver results along both these dimensions. Most companies are just starting to think about how digital can transform their supply chains, which means that the opportunity to produce a step change in performance is very real. Every company faces a different set of needs and challenges. But when defining a digital supply chain strategy, it is critical to start with the customer and work backwards.

For a business-to-business (B2B) company, the key opportunity might be to mimic the smooth and efficient business-to-consumer (B2C) customer experience that retailers like Amazon and Zappos have made commonplace. After all, if Domino's Pizza customers can track their order from oven to doorstep, why shouldn't business customers expect the same level of transparency and convenience when ordering a skid-steer loader? Similarly, if companies in developing markets such as India and China haven't already adopted rapid delivery standards, they probably should. Customer expectations and competitor performance in those markets are rapidly catching up with—and even exceeding—the standards that are common in developed markets.

Digital technology, of course, has given some companies the opportunity to make monumental disruptive bets. Tesla, for instance, might forever change the traditional model-year cycle in the auto business by using software updates to improve a wide range of functions and performance. But not every digital investment needs to be monumental. Where most companies stumble is the assumption that they need to reinvent themselves entirely or invest heavily in technology just because everybody says they should. Often, the right answer is simpler and less expensive than it might seem.

A good example is software that helps companies improve their sales and operations (S&OP) planning. Typically, such software comes attached to a full-blown enterprise resource planning (ERP) system that contains all the bells and whistles, tailored to your company's exact needs. The problem is that your needs—and your customers'—will likely change in the two years or so that it takes the ERP vendor to develop and install your bespoke system. If part of your core strategy is to adapt quickly to market turbulence, it might make more sense to invest in one of the S&OP systems that various companies have built on top of Microsoft Excel. Such a system won't be the gold standard, but it will offer a lot of the functionality you need at significantly lower cost.

Consider also how one company in India got a lot smarter about its supply chain simply by giving each end distributor a free cell phone. Its only condition was that the distributors send a text to the company each day with three pieces of information: What is your inventory level? Which master distributor are you buying from? And what Net Promoter Score® (NPS®) would you assign that company? Most Indian companies find it impossible to get such data on a regular basis. But for a small investment in an old technology, this company developed a clear view from one end of its supply chain to the other. That view made it much easier to efficiently manage production and avoid pipeline problems. The loyalty data gave the company a means to initiate meaningful conversations with the master distributors about how distributors could improve service.

Leadership teams recognize that their customers are demanding digital supply chain solutions sooner rather than later. And they know that the market for digital technology will only get more complex and confusing as more digital products emerge looking for a problem to solve. But that doesn't mean devising and choreographing the right digital strategy needs to tie companies in knots or cause them to overinvest in the wrong solutions.

The critical set of tests for any digital investment is the same as you already use for more conventional investments: Does it serve your strategy, add value for existing customers or open the door to new ones? In other words, will it improve what you do best and add to your company's intangible value? With those questions forming the funnel, the list of solutions at the narrow end will become a lot more manageable.

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