

# Knowledge Supply Chains

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## Any colour as long as it's black

Although Henry Ford did not invent the assembly line, it can certainly be claimed that he perfected it.

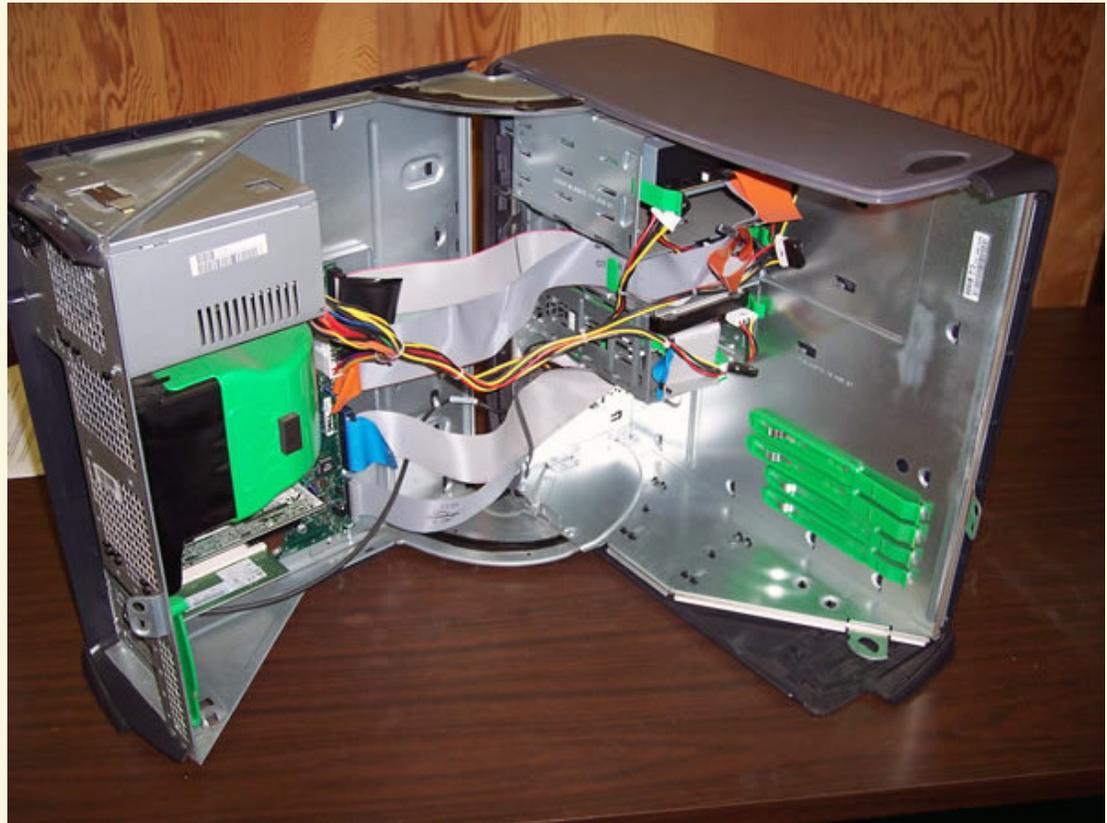


# The heir of Henry Ford



## From the assembly line to the dis-assembly line

Dell sources components from several Asian countries before a computer is assembled “to order” in Mexico for the US market.



## From the assembly line to the dis-assembly line

Meredith (2007)  
details how a \$220  
women's linen  
sweater can go  
through eight  
separate Chinese  
processing facilities  
before reaching its  
destination market.

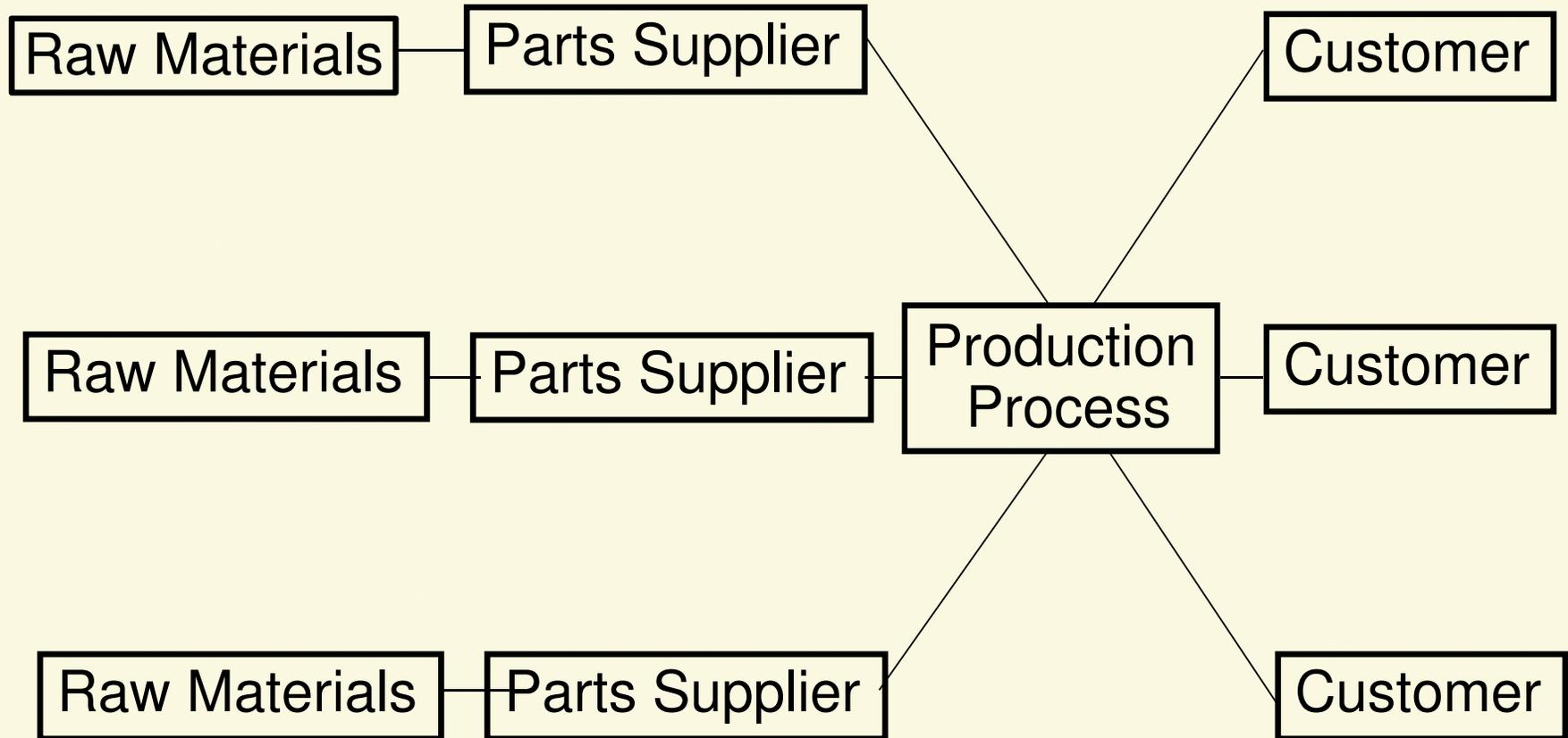


## Logistics

“The ability of the firm to consistently deliver its products, when and where its customers demand them, at a reasonable price, has become just as important as the quality of the products themselves.”

Gourdin (2006)

# The Manufacturing Supply Chain



## From Manufacturing Supply Chains to Knowledge Supply Chains

- Developed world's transition to service economies
- Technological advances
- Lower labour costs → increased profits

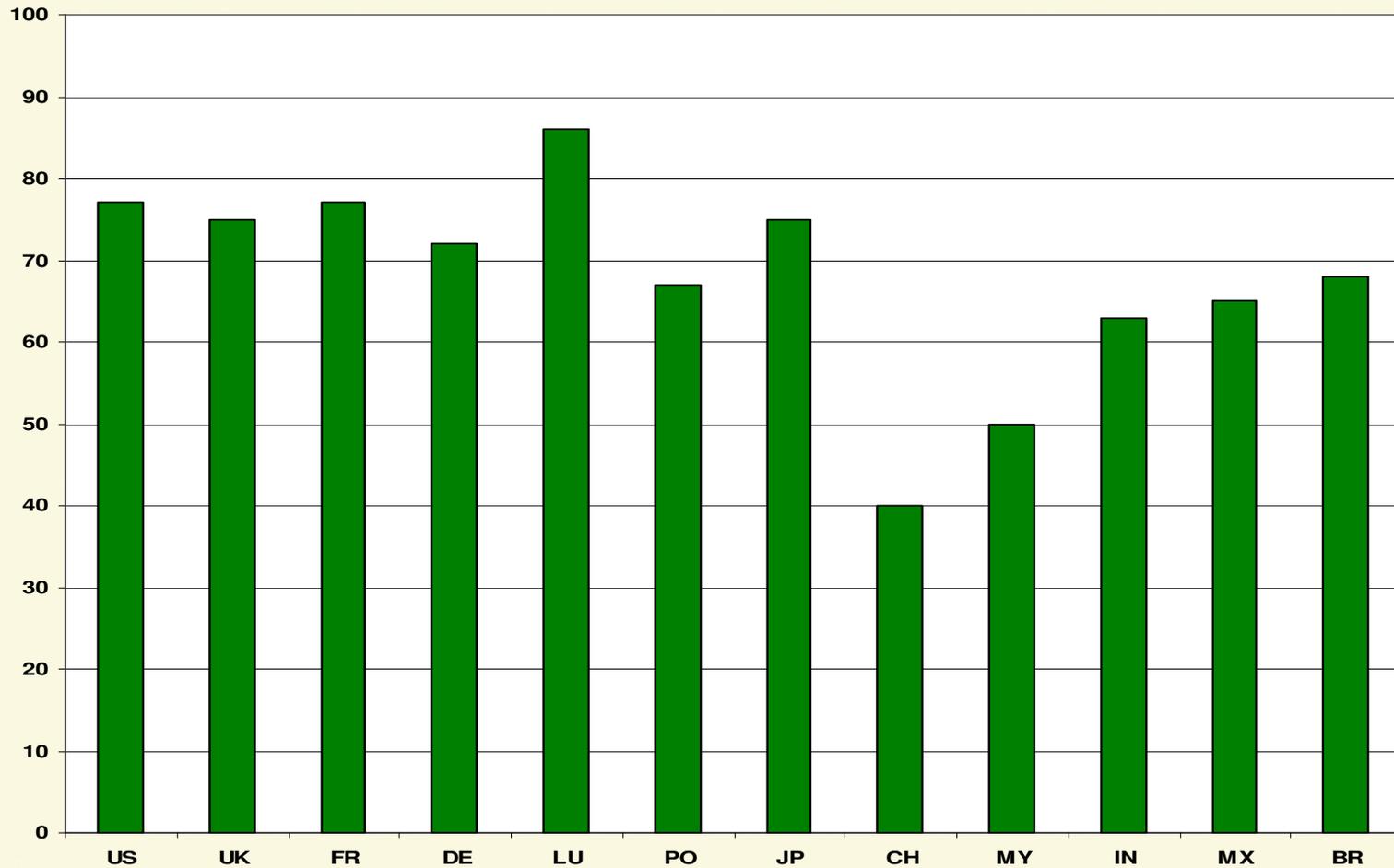
## Offshoring

“...it is estimated that somewhere between 22% and 29% of all US jobs are or will be potentially offshorable within a decade or two ....

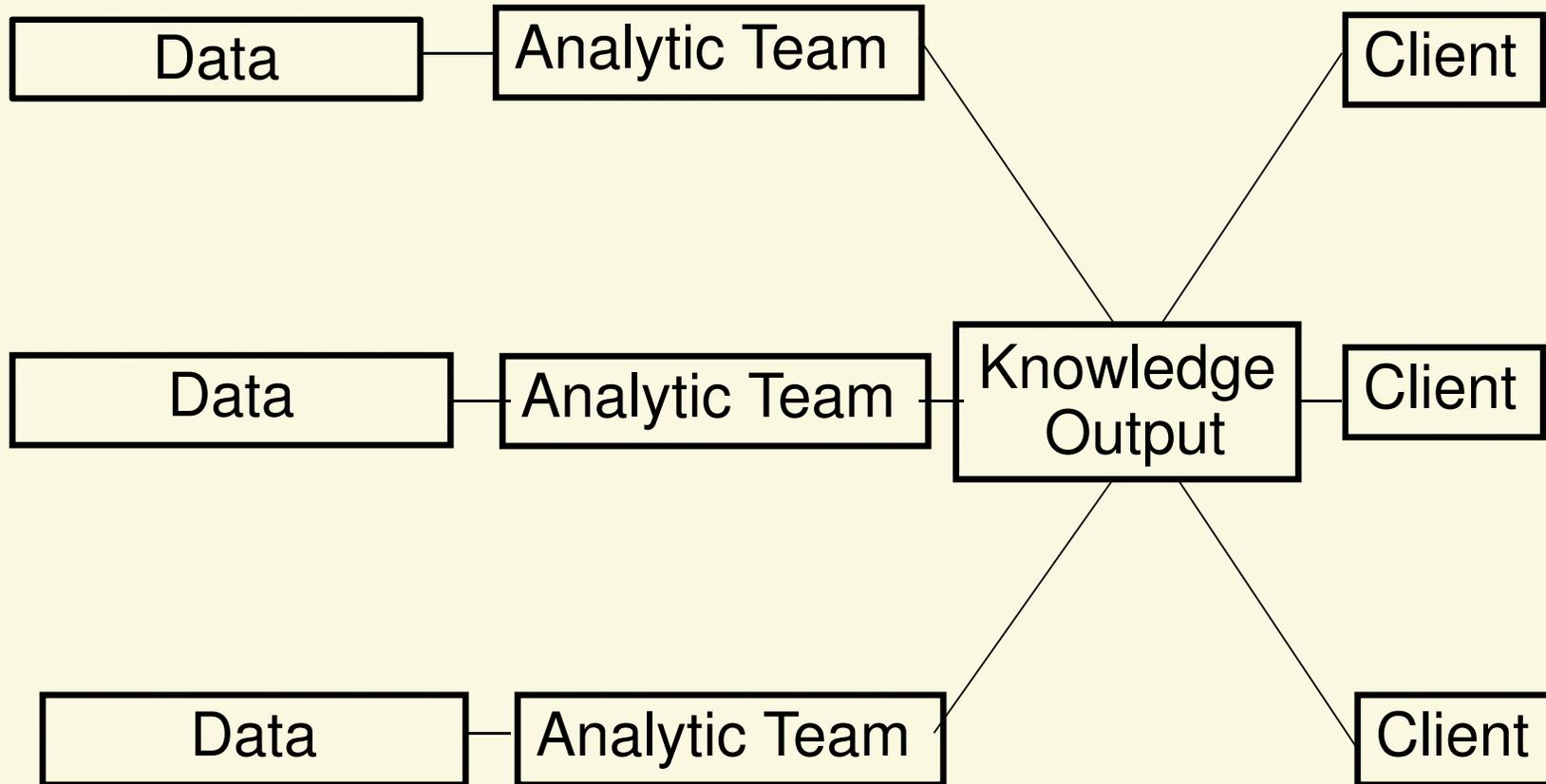
... the most highly offshorable occupations were already paying significantly lower wages in 2004.”

Blinder (2009)

## Services as % of GDP



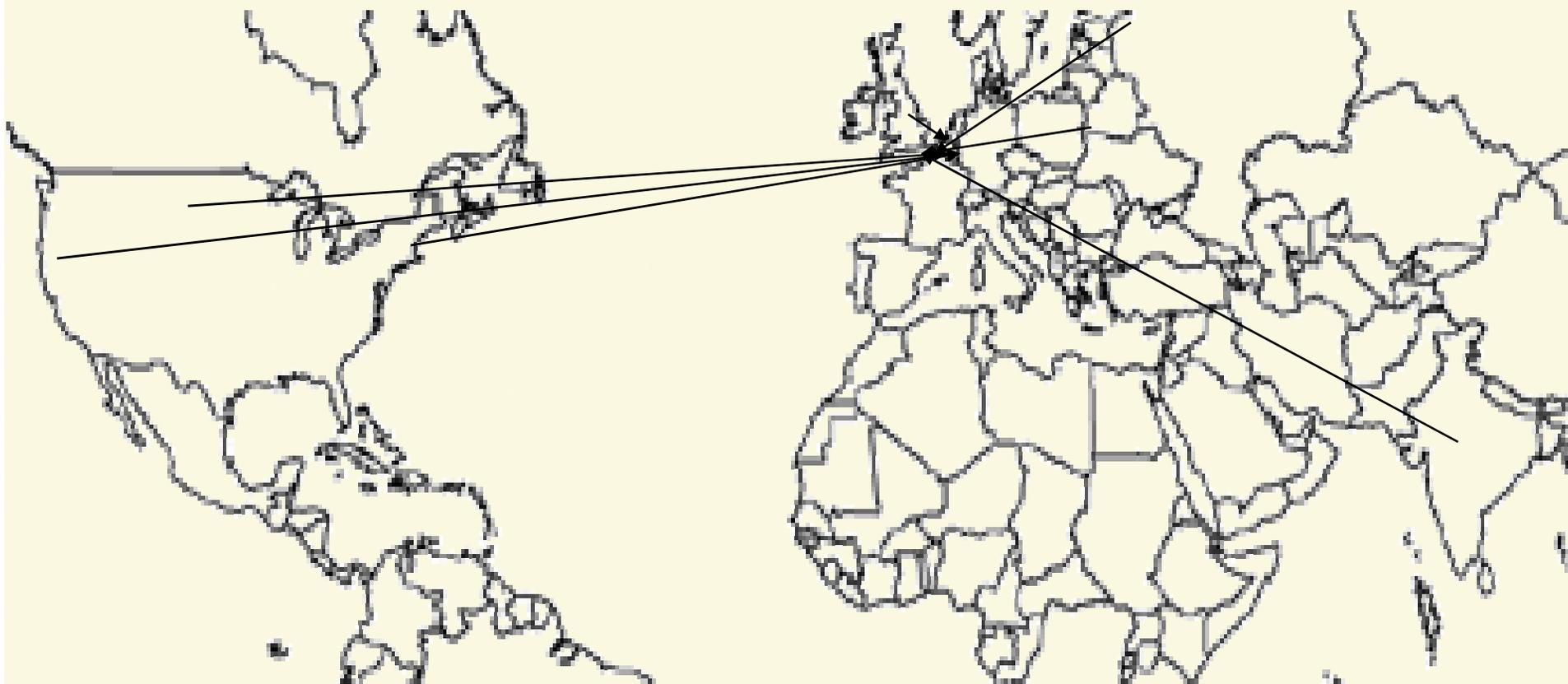
# The Knowledge Supply Chain



## Knowledge Supply Chain: Example I

A US bank has a Luxembourg branch that offers fund administration to international financial institutions.

Fund administration requires calculating the net asset values (NAVs) of the institutions' investment funds.



## Towards JP Morgan

The “grail” of McDonald’s is to have a supply chain automated to such an extent that the only action a worker must perform is to push a red button (Schlosser, 2001).

The “grail” of fund administration is “straight through processing” (STP) in which all data is automatically passed from system to system without human intervention.

## Towards JP Morgan (cont'd)

Currently, STP is stymied by lack of compatibility between banking systems.

The state-of-the-art are applications into which data are input (“cut-and-paste”) from the client’s report into the fund administrator’s system.

The result: “Lack-of-knowledge” workers who are valued based on cost (“race-to-the-bottom”) rather than expertise.

## Towards JP Morgan (cont'd)

Teams work adversarially rather than cooperatively.

Work is process-driven and rule-based rather than judgment-driven.

Workers do not get to see the “big picture”.

## Knowledge Supply Chain: Example II

An India-headquartered “knowledge process outsourcing” (KPO) firm:

- creates and provides content for a management information system for a major petroleum company
- provides financial market research for international investment banks
- performs patent searches for chemical and pharmaceutical companies



## Doing the math

- Cost fo Wall St. firm to cover a listed equity: \$250,000
- Revenues from covering equity: \$200,000
- **Loss to firm: - \$50,000**
- Cost to outsource equity coverage: \$100,000
- **Profit to firm: \$100,000**

## Achieving the Virtual Organisation

- Teams work across time zones as required.
- Intellectual arbitrage as well as cost arbitrage
- Certified personnel (MBAs and CFAs)
- Cost effective development of new opportunities

# Achieving the Virtual Organisation

## Drivers:

- Standardisation of qualifications, skill sets and experience
- Standardisation of analytic activities
- Advances in information security

## Issues still to be addressed

- Is it knowledge or simply information that is being produced?.
- What about experiential/tacit knowledge?
- What is the longer-term result of organisations outsourcing their “core competencies”?