

PUSH, PULL, AND POSTPONEMENT STRATEGIES IN SCM

Competition today is between supply chains. Adopting the right supply chain strategy is now more important than ever due to increased complexity and competition in today's world.

By Rafael Vela

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Suppose we are looking for chairs for a kitchen table. What are our options? To understand our options, we go to the furniture store. We are not looking for something special, but we want something that looks good in our kitchen and at an affordable price. Once in the store we find several options at reasonable prices and the great thing is we get to take the chairs home with us today.

The downside is our only options are the chairs they have in the store. We may like what the store has but if we want to change something, like the color, it is not possible. Most of the times customizing those chairs is not an option because the chairs were probably manufactured a while ago at a factory probably located far away.

In supply chain, this is what is called a push strategy. A push strategy simply means that someone in a factory decided what the customer's preference in going to be, what the customers will want, and decided to go ahead and manufacture now as much as possible, even before the customers even know they want it.

The main idea behind the push strategy philosophy is that when the customers realize what they need or want, the product or products will be waiting for them at the store. It's fast for the customer and the manufacturer enjoys the benefits of economies of scale as they make the same chair over and over again, thus saving money. A push strategy looks like this:

A push-based supply chain strategy is usually suggested for products with low demand uncertainty, as the forecast will provide a good indication of what to produce and keep in inventory. It is also used for products that make it possible to benefit from economies of scale and the corresponding cost reduction.

Some companies use the pull strategy instead. Here the company doesn't make anything. Here the company waits for the customer to make a specific order. Which type of chair do they want? Which materials and fabric do they want to use? In what color do they want their chair?

The idea here is that the customer gets exactly what they want. Customers could buy a generic chair down at the store, but here you get a chair that was designed and manufactured just for you.

So, while a company with a push strategy, also called a build to stock or BTS strategy, is said to have a supply chain that pushes lots of product towards the customer, buys raw materials and produces based entirely on forecasts, thus creating a large quantity of inventory, a company with a pull system, also known as a build to order or BTO strategy, is activated by consumer demand. These companies do not produce anything until the consumer pulls on the chain.

Let us do a short comparison of the two systems.

	Push supply chain (a.k.a build to stock or BTS)	Pull supply chain (a.k.a build to order BTO)
Manufacture all you can (no dependency on demand)	yes	no
Manufacture as needed by customers (full dependency on demand)	no	yes
Finished product inventory availability	immediately	short lead times
Offers product customization	no	yes
Lower product prices	yes	no
Better product design	no	yes
Better product quality	no	yes
High finished goods inventory level	yes	no
High raw materials inventory level	no	yes
High level of work in process inventory (WIP)	yes	No

You can use a combination of push and pull as a strategy, this mix is called **postponement**, sometimes also referred as **push-pull point**. The postponement or push-pull point is the point where the supply chain goes from a push or build to stock strategy (BTS), to a pull or build to order strategy (BTO).

Postponement is a concept in supply chain management where the manufacturer produces a generic product, which can be modified later, before the final transport to the customer.

It is a combination of push and pull. What you do here is separate the elements of a product into two groups, one containing the elements that will always be the same and the other the elements that you will let the customers choose. Going back to our chair examples, the materials and design in the chair always remain the same, those elements are the ones that can be pushed. The company manufactures lots of unpainted wooden chairs and lets the customers choose from a specific catalog the type of fabric and the color. So now we will just let those unpainted wooden chairs, sit there. When the customer picks the chair style of preference and decides he/she want the chairs in black with red polyester fabric, then the chairs are painted black, dressed in red polyester and delivered to the customer. This is postponement.

These systems are everywhere. Next time you go to a restaurant and order a meal, look at your order and ask yourself which elements of my meal were pushed, that is, what was done long before you arrived, and which elements had to wait for your order.

Supply chain is everywhere pushing or pulling the things we need in our lives. Knowing exactly which to do and when is fundamental for the survival of any organization in today's complex and volatile market.

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