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ONE-ON-ONE

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## Dr. Hau Lee, Professor, Stanford University

### ONE-ON-ONE PROFILE

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**Professor Hau Lee** is a leading expert in Logistics and Supply Chain Management and a professor at the Graduate School of Business of Stanford University. He was born in Hong Kong and became a naturalized U.S citizen in 1992.

 **Claim to Fame:** Credited with the advancement of profession-defining theories of [“The Bullwhip Effect”](http://sloanreview.mit.edu/article/the-bullwhip-effect-in-supply-chains) (<http://sloanreview.mit.edu/article/the-bullwhip-effect-in-supply-chains>) and the [“Triple-A Supply Chain.”](https://hbr.org/2004/10/the-triple-a-supply-chain) (<https://hbr.org/2004/10/the-triple-a-supply-chain>)

 **Current Research Focus:** [Building supply chain excellence in emerging economies](http://www.gsb.stanford.edu/faculty-research/centers-initiatives/vcii/research) (<http://www.gsb.stanford.edu/faculty-research/centers-initiatives/vcii/research>) and [global sourcing and re-structuring strategies](http://scnavigator.avnet.com/article/april-2015/global-supply-chain-benchmark-study/) (<http://scnavigator.avnet.com/article/april-2015/global-supply-chain-benchmark-study/>)

 **Most Remote Place Ever Visited:** Fiji Islands

 **Miles Traveled in the Past 12 Months:** 250,000

 **Personal Philosophy:** A good teacher must always remain a student.

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*For a complete list of Prof. Lee's many academic degrees, honors and achievements, please visit his Stanford University [faculty page](http://www.gsb.stanford.edu/faculty-research/faculty/hau-l-lee) (<http://www.gsb.stanford.edu/faculty-research/faculty/hau-l-lee>).*

*SCN: Prof. Lee, your research and insights have shaped thinking on supply chain theory and practice for nearly four decades. How have you been able to stay at the forefront of both the art and science of supply chain for so long?*

HL: Well, for all the years I have spent as a professor and lecturer, I have never stopped thinking of myself as a student, first and foremost. I have been blessed to have had so many opportunities through my career to collaborate with leaders from different industry sectors in different regions. And in every one of these interactions, I always look for what I can learn from the experience, because I believe that a good teacher must always remain a student.

*SCN: You are part of an industry consortium that recently completed a [Global Supply Chain Benchmark survey](http://scnavigator.avnet.com/article/april-2015/global-supply-chain-benchmark-study/) (<http://scnavigator.avnet.com/article/april-2015/global-supply-chain-benchmark-study/>) investigating changing manufacturing sourcing strategies. What can you tell us about the results?*

HL: While we are still analyzing the results, one clear finding is that the suggestions of a reversal of the offshoring trend, particularly as it relates to North American companies repatriating manufacturing from low cost regions, like China, are largely unfounded. Our research indicates that while there has been some volume decline, China remains the most attractive region for sourcing production, while the rate of production increase and decrease in North America is evenly balanced.

Another interesting insight relates to the service sector. Like manufacturing, services went through a phase of heavy offshoring; and now, as customer experience becomes a more competitive lever, we are seeing some shifting attitudes around this strategy. This is not something that has been talked about in the mainstream, but will be an important discussion as supply chains become more digital.

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*SCN: [In announcing his candidacy for U.S. president](#)*

*(<http://www.cnn.com/2015/06/20/politics/trump-announcement-speech/>), Donald Trump stated: “I’ll bring back our jobs from China, from Mexico, from Japan, from so many places. I’ll bring back our jobs, and I’ll bring back our money.” It’s a great political sound bite, but is it a sound economic strategy?*

HL: The problem with calls to repatriate manufacturing, like Mr. Trump is advocating, is that they are generally driven more by emotion than a thorough total cost of ownership analysis.

Regardless of what region companies are moving production to or from, they must consider not just labor costs, but a variety of factors including logistics, customs and trade, target market, etc. In addition to this geographical analysis, leading companies are also recognizing the importance of looking at how sourcing costs and benefits vary throughout the lifecycle of a product. As a product matures, many factors change: volume, target market, component availability and cost, labor requirements and cost, etc. So, a TCO calculation done using the initial production requirements will become obsolete as the product moves farther along the lifecycle curve. As a result, these companies may be forfeiting significant savings opportunities, which is why I recommend companies consider taking a more staged approach to their TCO analysis.

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*SCN: You also believe that companies risk missing out on important product and process innovations if they are overly cautious in their offshore sourcing strategies.*

HL: Yes. It is important to remember that although the connectivity that pervades the supply chain adds risk in terms of IP leakage, it also carries the potential to benefit from advances in technology that may be driven by your suppliers. There are a number of innovations in process and technology coming out of factories in Asia and India that U.S. based companies have been able to leverage for their own competitive advantage.

It's like the early days in Silicon Valley, when people were moving from one company to the next. As a result, IP was flowing around; but in the end, this resulted in faster and more powerful innovations that made everyone stronger.

*SCN: You have been dedicated to promoting innovation and supply chain excellence in developing economies like India and East Africa. Why is this so important to you?*

HL: My interest in developing economies is two-fold. Initiatives like the [Stanford Institute for Innovation in Developing Economies \(Stanford SEED\)](https://seed.stanford.edu) (<https://seed.stanford.edu>) are committed to ending the cycle of poverty in developing economies. The living conditions in some of these regions are more horrific than you can imagine. So, from a personal perspective, I want to be a part of the solution.

From a more practical standpoint, the supply chain of almost every industry you can think of now has some connection to these developing nations—both as sources of supply/services as well as potential end markets. So it is important that we support these emerging players, understand the unique dynamics of their economy and culture and learn from their experience. I have been studying coffee, cotton, iron ore mines and vineyards, for example, because I think that there are lessons that can be learned from them that can be of tremendous value to other industries.

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My experience in these developing regions has taught me that innovation can be found in some unexpected places.

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*SCN: What can a high tech multinational company learn from a farmer in East Africa?*

Obviously, we cannot directly borrow lessons learned about how to make seeds more pest resistant, for example. But, there is still a great deal we can learn from farmers and

miners and other “low-tech” industries. These trades have survived for centuries because they have, in their own way, innovated and adapted to change.

What I find most interesting is the attitude toward risk. Most often, we think about risk in terms of demand uncertainty. But in agriculture, for example, supply uncertainty is a perennial concern. As a result, we see that, by necessity, innovations in this industry tend to focus on how to protect and cultivate supply better. Approaches to hedging are often more creative and contracts between buyers and sellers tend to place greater emphasis on incentivizing sellers. Greater attention to the supply side of the equation could be a distinct advantage to high tech companies, when, for instance, an earthquake occurs and the supply chain for key components is disrupted.

My experience in these developing regions has taught me that innovation can be found in some unexpected places. I urge high-tech executives to look outside the tech sector for best practice examples of creativity and ingenuity, no matter how far afield your core business they may seem. You never know where the spark of an idea for a revolutionary new product or process may arise.



## Related Resources:

- Report: [Stanford Initiative for the Study of Supply Chain Responsibility Research](http://www.gsb.stanford.edu/faculty-research/publications/responsible-supply-chain-practices-performance)  
(<http://www.gsb.stanford.edu/faculty-research/publications/responsible-supply-chain-practices-performance>)
- Article: [Global Supply Chain Consortium Benchmark Study, An Analysis of Sourcing and Re-structuring Decisions](http://scnavigator.avnet.com/article/april-2015/global-supply-chain-benchmark-study/)  
(<http://scnavigator.avnet.com/article/april-2015/global-supply-chain-benchmark-study/>)
- Article: [How SEED Helped One Woman Scale an Idea and Create Thousands of Jobs](http://www.gsb.stanford.edu/stanford-gsb-experience/news-history/how-seed-helped-one-woman-scale-idea-create-thousands-jobs)  
(<http://www.gsb.stanford.edu/stanford-gsb-experience/news-history/how-seed-helped-one-woman-scale-idea-create-thousands-jobs>)
- Video: [Is the Reshoring of U.S. Manufacturing a Myth?](https://youtu.be/19_E_k8prj4)  
([https://youtu.be/19\\_E\\_k8prj4](https://youtu.be/19_E_k8prj4))
- Webinar: [Value Chain Innovations in Business Eco-Systems](https://youtu.be/7Wuq1T0Kg-Q)  
(<https://youtu.be/7Wuq1T0Kg-Q>)