

# Chapter 16 Strategic Challenges and Emerging Changes for Supply Chains

- Supply chain success will be facilitated by the development of effective, collaborative relationships between supply chain participants.
- The ability of organizations to develop and implement effective global supply chain strategies will define future success.
- The most important area is “supply chain transformation”—how an organization can transform itself into one that meets and exceeds future goals and objectives.



# Principles of Supply Chain Management

## Principle 1: Segment Customers Based on Service Needs

- segments customers based on logistics and supply chain needs (e.g. fulfillment priority, frequency of service) as compare to product or trade channel.

## Principle 2: Customize the Logistics Network

- develop supply chain approaches responsive to the needs of individual customer segments (not the “average” customer or the toughest customer)

## Principle 3: Listen to Signals of Demand and Plan Accordingly

- demand planning responsive to and aligned with market signals such as point-of-sale information



# Principles of Supply Chain Management

Principle 4: Differentiate Products Closer to the Customer

- postpone product differentiation to last moment; gain greater understanding and control of cycle times

Principle 5: Source Strategically

- supply chain management excellence requires customers and suppliers to work together to meet overall supply chain objectives

Principle 6: Develop a Chain-wide Technology Strategy

- replace inflexible, poorly integrated transactional systems with enterprise-wide systems that provides current, actionable information



# Principles of Supply Chain Management

## Principle 7: Adopt Channel-Spanning Performance Measures

- realization of overall supply chain objectives is essential to the long-term success of individual supply chain participants

*Technology and “real time” intelligence will be the major change agents that separate winners and losers in supply chain management.*

**Figure 16-1**

**Principles of Supply Chain Management and Financial Outcomes**

**Relationship between supply chain principles and financial outcomes**

Seven Principles	Revenue Growth	Asset Utilization	Cost Reduction
1. Segment Customer Based on Needs	●	◐	◑
2. Customize Logistics Network	◐	●	◑
3. Listen to Market Signals And Plan Accordingly	○	●	◐
4. Differentiate Products Closer to Customers	○	◐	●
5. Source Strategically	○	◐	●
6. Develop Supply Chain Technology Strategy*	◐	●	◐
7. Adopt Channel-Spanning Measures	●	●	●

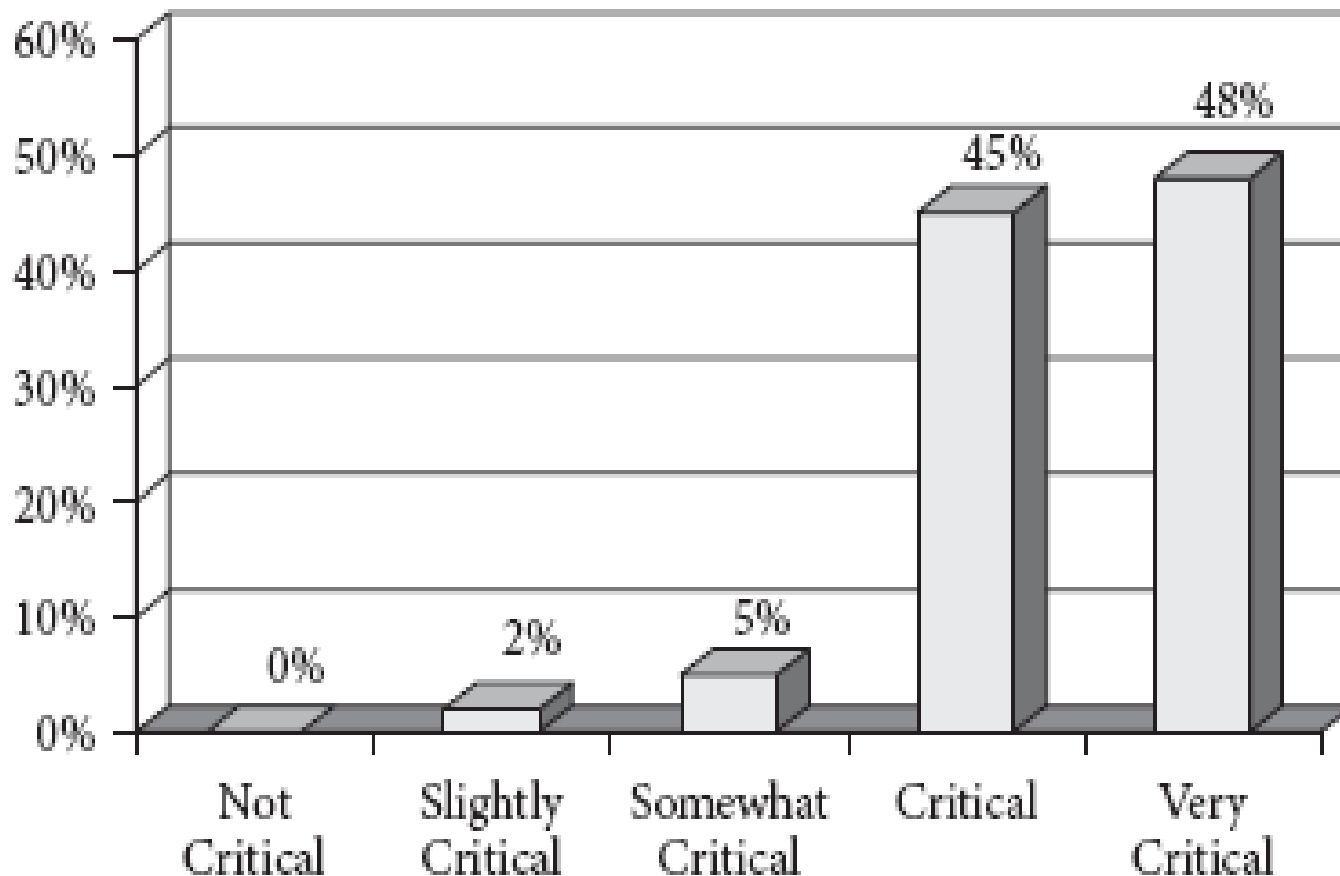
High
 

 Medium
  Low

\*Information technology provides the infrastructure required to capture benefits across the supply chain

**Figure 16-4**

**Importance of SCM to Overall Business Strategy**



Source: Richard H. Thompson, Donald D. Eisenstein, and Timothy M. Stratman, "Getting Supply Chain on the CEO's Agenda," *Supply Chain Management Review* (July 2007): 28 Copyright © 2007 Reed Business, a division of Reed Elsevier. Reproduced by permission.



# Focus of Supply Chain Management

- Significant challenge to get corporate leaders to appreciate the potential of effective supply chain management
  
- To contribute to growth, supply chain leaders need to focus on:
  - (1) think beyond cost reduction, use supply chain excellence to drive revenue and earnings growth
  
  - (2) develop world-class collaboration skills
  
  - (3) aggressively grow personal leadership capabilities

# Getting to Growth: Think Beyond Cost

- CEOs view SCM as being primarily cost reduction, not top-line growth
- Communicate the relationship between supply chain competency and growth
- Move from a mindset focused on delivering the “right product, at the right place, at the right time and at the lowest cost” to one oriented towards growth
- Modify traditional mindset from an “inside-out” perspective to an “outside-in” approach





# Develop World-Class Collaboration Skills

- Define the benefits of collaboration
- Make the investment
- Earn trust and create mutual ownership
- Dedicate “A” players to SCM

Business people are trained to maximize self-interest.  
This must be avoided for collaboration to be successful.

# Differentiation Strategies

*Concept is that supply chain capabilities are viewed by customers as being sufficiently effective and unique to distinguish an organization in the marketplace*

## ■ Time-Based Strategies

- effective strategy based on tradeoffs between transportation, inventory, and warehousing costs as an example

## ■ Reducing Cycle Time

- three factors:
  - processes
  - information
  - decision making

## ■ Change from the traditional push approach to a pull approach

# Time-Based Strategies

- Tradeoffs between speed, transit time variability, transportation cost and inventory carrying costs
- Reduce Cycle Time
  - process
  - Information sharing
  - decision making
- Change from the traditional push approach to a pull approach



# Financial Strategies

- Pursuit of operational efficiency to drive increase in ROA
  
- Inventory Productivity
  - reduce inventory levels without diminishing customer service (e.g. JIT, VMI, continuous replenishment)
  
- Facility Utilization
  - Effectively utilize the capacity of various types of supply chain facilities



# Financial Strategies

## □ Equipment Utilization

- logistics-related equipment such as materials-handling equipment used in warehouses and transportation equipment that is leased or owned by a company

## □ Outsourcing

- has grown in popularity and now has grown into areas that are both strategic and customer focused

## □ 4PL providers

- provision of competencies relating to knowledge availability, information technology, and skills in forming and sustaining successful supply chain relationships

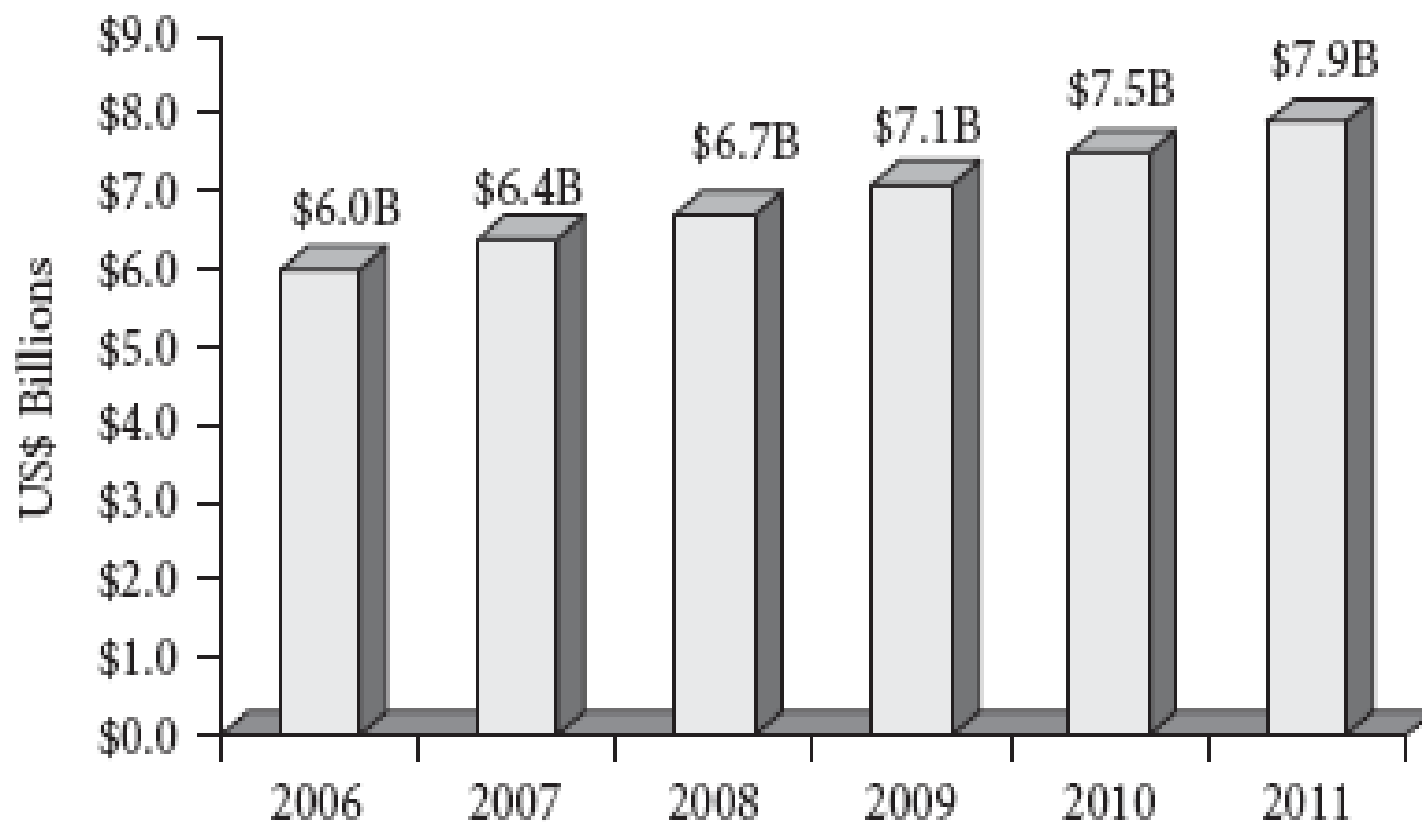


# Technology-Based Strategies

- Using hardware, software, and connectivity, as the springboard for progress and innovation
  
- Supply chain management applications market
  - \$6 billion globally in 2006
  - Forecast to rise to \$8 billion in 2011.

**Figure 16-5**

**SCM Technology Applications Revenue Estimate, 2006–2011**



Source: John Fontanella, Mark Hillman, Marianne D'Aquila, and Karen Carter, *The Supply Chain Management Market Sizing Report, 2006-2011* (AMR Research, July 30, 2007). Reproduced by permission.



# Elements of successful supply chain collaborations

*To be successful, all supply chain organizations must work with each other in a manner that provides the greatest value for themselves, as well as the end-use customer or consumer.*

- Well-Understood Goals and Objective
  - members need to understand their individual objectives and then be willing to share these openly with each other
- Trust and Commitment
  - may be thought of as “reliance on and trust in one’s partner”
- Corporate Compatibility
  - the relationship include sharing of vision, goals, objectives & cultures
- Communication
  - communication and sharing/use of information are central to an effective collaborative relationship





# Elements of successful supply chain collaborations

- Shared Decision Making and Ability to Reach Consensus
  - matters that are related to the success of the relationship should be treated jointly by all involved organizations
  
- Equitable Sharing of Gains, Losses, and Investments
  - successful collaborations require the development of mechanisms to share gains, losses, and investments
  
- Overall Benefits Greater Than Could Be Obtained Alone
  - successful collaborations need to create benefits for the involved parties that exceed what those organizations



# Elements of successful supply chain collaborations

- Effective Measurements as well as Measurement Strategies
  - all involved participants agree to the development of measurement strategies
  
- Strategic Plan for Collaborative Relationship
  - successful collaborations are not without their challenges and difficulties
  
- 3PLS
  - firms might benefit from improved collaboration with 3PLs
  - inventory management, customer order management, customer service, and supplier order management

**Table 16-1****Business Processes That Would Benefit from Improved Collaboration with 3PLs**

BUSINESS PROCESS	ALL REGIONS	NORTH AMERICA	EUROPE	ASIA-PACIFIC	LATIN AMERICA
Inventory management	51%	49%	46%	51%	60%
Customer order management	49	44	55	49	50
Customer service	43	39	44	37	58
Supplier order management	41	45	34	41	40
International trade logistics	38	35	27	44	50
Sales and operations planning	36	25	41	34	52
Supply planning	33	28	29	36	42
Repair/returns management	29	25	28	35	25
Compliance (e.g., Sarbanes-Oxley, customs, etc.)	29	24	25	36	34
Demand planning	26	23	24	28	27
Accounts payable/receivable processes	18	18	18	17	18
Manufacturing scheduling	17	15	14	22	21
Product launch	16	18	11	16	20
Warranty management	12	10	6	17	18

Note: Figures refer to percentages of study respondents indicating business processes would benefit from improved collaboration with 3PLs.

Source: C. John Langley Jr. and Cargemini, LLC, *12th Annual Third-Party Logistics Study (2007)*. Reproduced by permission.

# Joint Performance Measures

Today

Future

**Account's report card**

Increased margins	<input checked="" type="checkbox"/>
Category growth	<input checked="" type="checkbox"/>

- Fosters a "price-driven" environment
- Puts manufacturer in an adversarial position

**Manufacturer's report card**

Volume	<input checked="" type="checkbox"/>
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- Manufacturers driven by growth
- Consistently squeezed on price



**Common report card**

Volume growth	<input checked="" type="checkbox"/>	Increased margins	<input checked="" type="checkbox"/>
Stable or reduced assets	<input checked="" type="checkbox"/>	Increased profits	<input checked="" type="checkbox"/>
Stable or reduced costs	<input checked="" type="checkbox"/>	Improved fill rates	<input checked="" type="checkbox"/>
Increased turns	<input checked="" type="checkbox"/>		

- Joint measures
- Promotes win-win environment