



STRATEGIC CHALLENGES AND CHANGE FOR SUPPLY CHAINS

Learning Objectives

After reading this chapter, you should be able to do the following:

- Understand current and future strategic challenges for supply chains.
- Identify principles for supply chain success.
- Appreciate the CEO's viewpoint on and expectations of supply chain management.
- Understand how supply chain management can help to grow revenues, as well as contain costs.

- Appreciate major types of supply chain strategies: differentiation, financial, technology-based, relationship-based, and global.
- Appreciate SCM story of companies which successfully developed and implemented global supply chain strategies that help to differentiate themselves from competition.
- Describe the need for supply chain transformation and some of the steps that are important to accomplish this objective.

Figure 16.1

Principles of Supply Chain Management

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

Source: Anderson, Britt, & Favre, "The seven principles of supply chain management", *Supply Chain Management Review*, (April 2007) 46

Principles of Supply Chain Management

- Principle 1: Segment Customers Based on Service Needs
 - Segments customers based on logistics and supply chain needs.
- Principle 2: Customize the Logistics Network
 - Stresses the need to develop supply chain approaches that are responsive to the needs of individual customer segments..

- **Principle 3: Listen to Signals of Demand and Plan Accordingly**
 - See that demand planning is responsive to and aligned with market signals such as point-of-sale information.
- **Principle 4: Differentiate Products Closer to the Customer**
 - Postponing product differentiation and gaining greater understanding and control of cycle times, supply chain efficiency and effectiveness will be positively impacted.

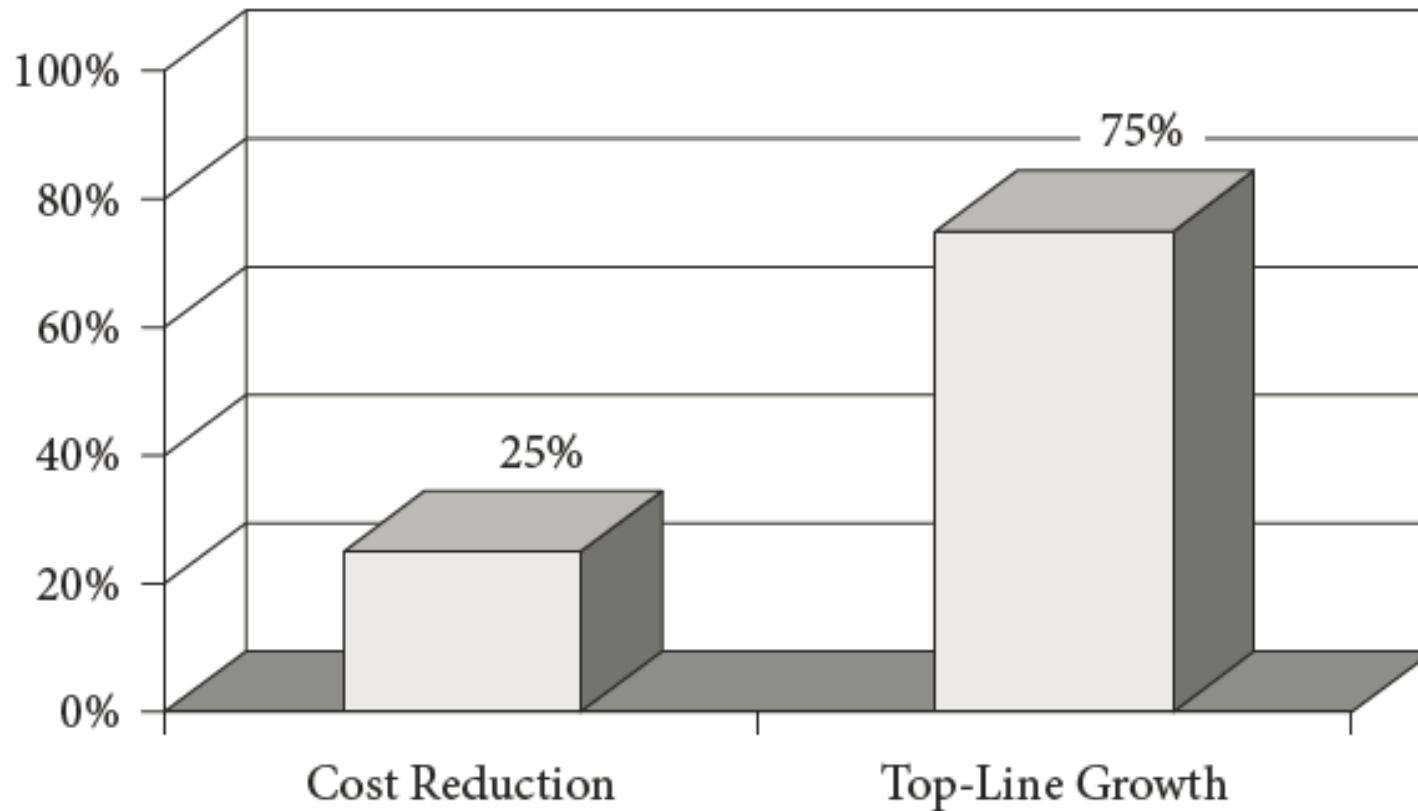
- **Principle 5: Source Strategically**
 - Excellent supply chain management requires customers and suppliers to work together to meet overall supply chain objectives.
- **Principle 6: Develop a Supply Chain wide Technology Strategy**
 - Replace inflexible, poorly integrated transactional systems with enterprise-wide systems.
- **Principle 7: Adopt Channel-Spanning Performance Measures**
 - To make sure the realization of supply chain objectives.

Focus of Supply Chain Management

- Challenge to corporate leaders
 - Appreciate the potential impact that effective supply chain management can have on their businesses.
- Three areas in which supply chain leaders need to focus as a player to the growth agenda:
 - Think strategic challenges and change for supply chains beyond cost.
 - Develop world-class collaboration skills.
 - Aggressively grow your personal leadership capabilities.

Figure 16.2

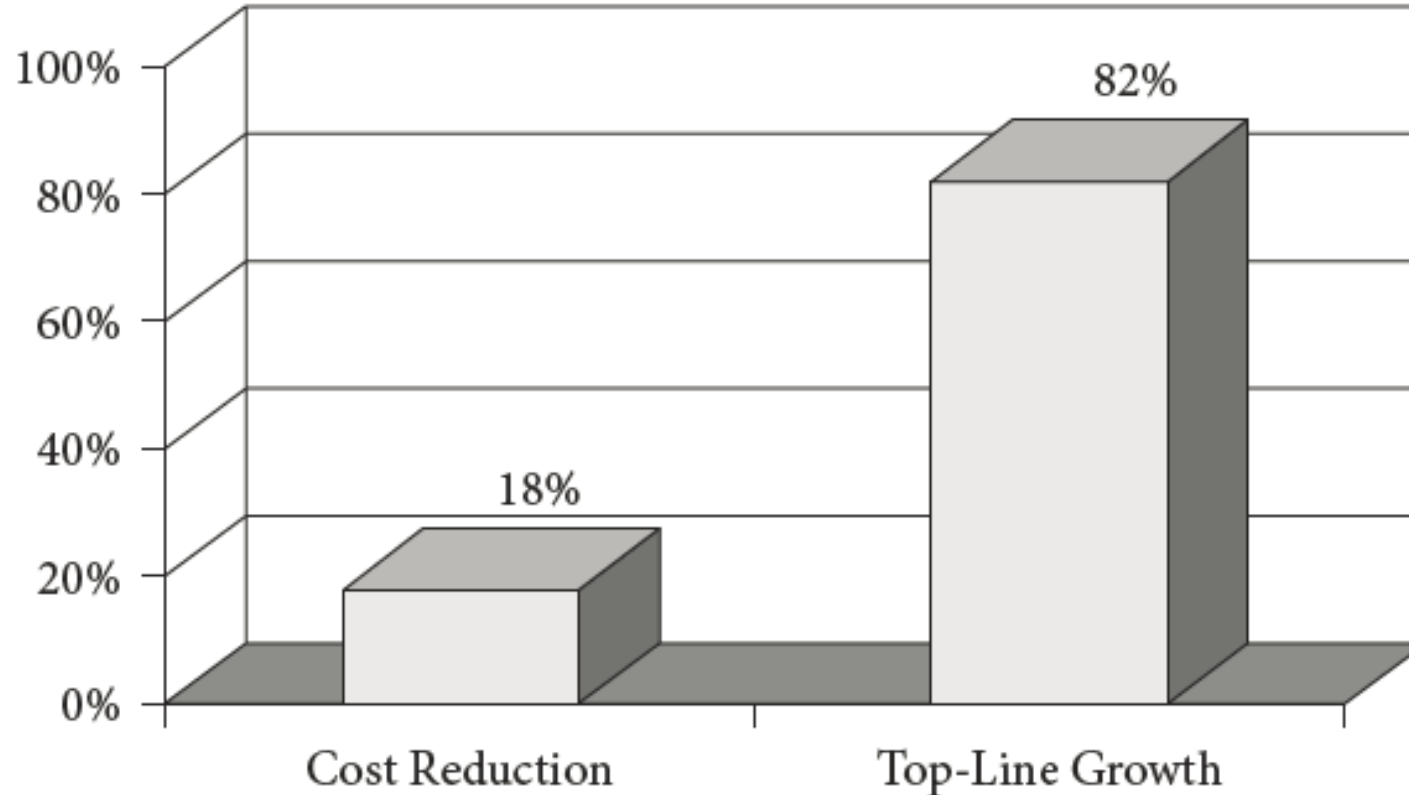
CEO's Stress Growth over Cost Reduction



Source: Thompson, Eisenstein, & Stratman, "Getting supply chain on the CEO's agenda", *Supply Chain Management Review*, (July 2007) 28

Figure 16.3

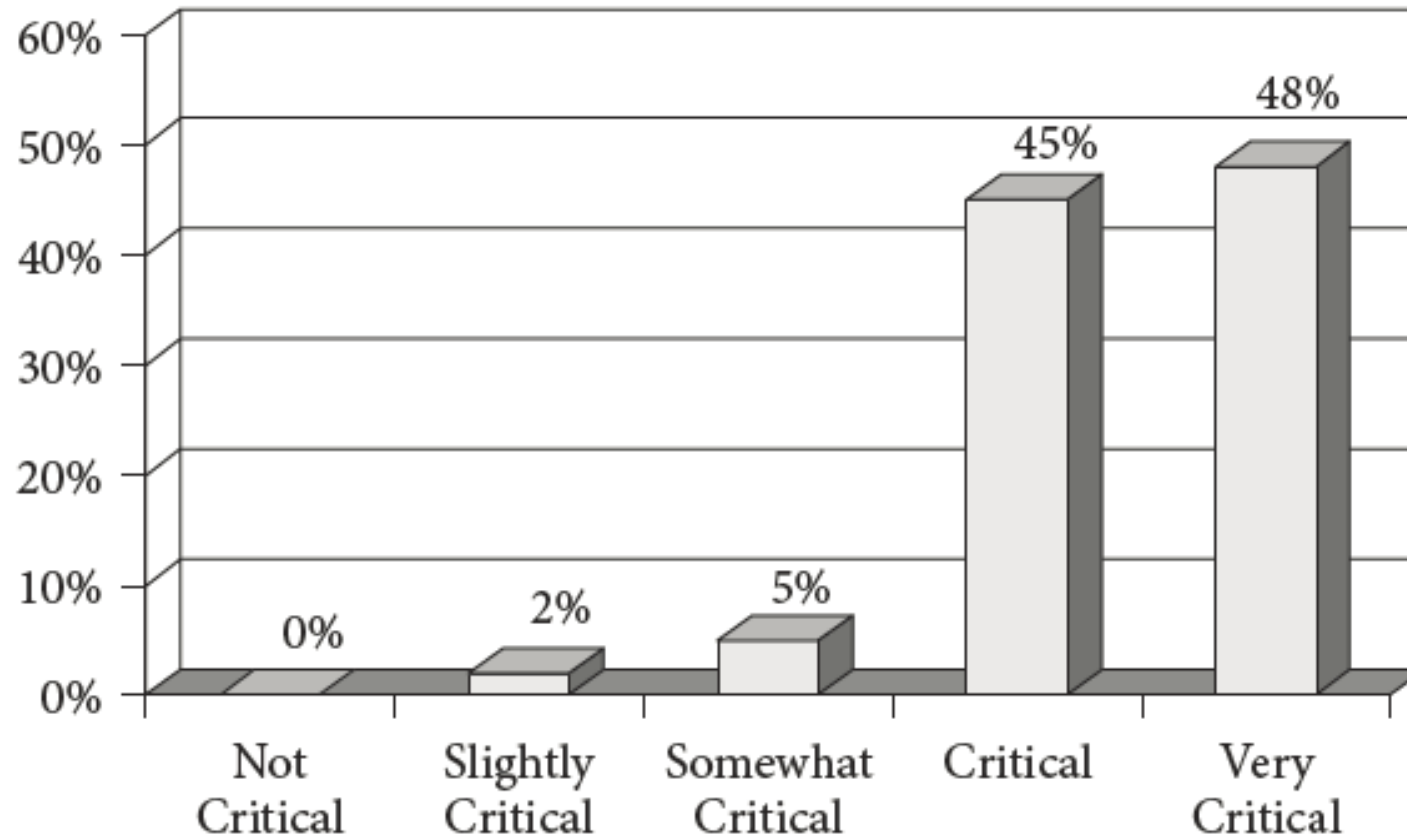
CEO Perspective on Supply Chain Initiatives



Source: Thompson, Eisenstein, & Stratman, "Getting supply chain on the CEO's agenda", *Supply Chain Management Review*, (July 2007) 28

Figure 16.4

Importance of SCM to Overall Business Strategy



Source: Thompson, Eisenstein, & Stratman, "Getting supply chain on the CEO's agenda", *Supply Chain Management Review*, (July 2007) 28

● 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 beyond a mindset of focusing primarily on delivering the 4 R's (right product, place, time, and cost).
- Modify traditional mindset from an “inside-out” perspective to an “outside-in” approach (i.e., from customers and demand signals).

● Develop World-Class Collaboration Skills

- Define the benefits of collaboration.
- Make the investment.
- Earn trust and create mutual ownership.
- Dedicate “A” players (have the best people get involved).

Supply Chain Strategies

- Differentiation Strategies

- Time-Based Strategies

- *Effective strategy based on tradeoffs between transportation, inventory, and warehousing costs as an example*
 - *Delay product differentiation*
 - *Reduce cycle Time*
 - Three factors:
 - processes
 - Information
 - decision making

- Financial Strategies

- *Reduce inventory*
 - *Pull based production techniques*

- **Financial Strategies, *continued***

- Facility utilization.
 - *Operate at near optimal efficiency*
- Equipment utilization
 - *Maximize the use of materials-handling equipment in warehouses and transportation*
- Outsourcing
 - *Be strategic and customer focused*

- **Collaboration strategies**

- Identify and work toward realizing mutual benefits
- Leverage each other on an operational basis so that together they perform better than they did separately

Supply Chain Strategies, continued

- Technology based strategies
 - Use of SCM technologies
 - *Use of software, hardware, and infrastructure as the springboard for progress and innovation.*
 - Demand signal depositories
 - *A collaboration solution between consumer goods manufacturers and retailers using POS data*
 - Warehouse technology
 - *Use automatic material handling (ASRS)*
 - SaaS, GPS, and cloud computing
 - *Will facilitate network based solutions*
 - RFID
 - *A disappointment for now, but has created awareness of importance of supply chain visibility*
 - ERP
 - *Improved business intelligence capabilities*

Elements of successful supply chain collaborations

- **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 a sharing of vision, goals, objectives, and cultures*
- **Communication**
 - *Communication and sharing/use of information are central to an effective collaborative relationship*
- **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*

- **Elements of successful supply chain collaborations, *continued***
 - **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*
 - **Effective Measurements and Measurement Strategies**
 - *All involved participants agree to the development of measurement strategies*

- **Elements of successful supply chain collaborations, continued**
 - **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*
 - **Financial vs. Non-financial Benefits of Collaboration**
 - *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.*

Global Strategies

- Global rebalancing
 - Capture growth of emerging markets
- Productivity imperative
 - Will be engine of growth for developed economies
- Global grid
 - Flows will be ever more connected
- Pricing the planet
 - Focus on resource productivity
- Market state
 - Conflict between industrial and social policy

Summary

- Several principles of supply chain management are able to retain their relevance over time.
- It is essential to expect that effective supply chain management will be able to help grow revenues as well as contain costs. Among the skills needed for success in this endeavor are supply chain leadership skills.
- Several types of strategy are imperative to the success of supply chain management including differentiation, financial, technology-based, relationship-based, and global strategies.
- The strategy of differentiation is needed to establish a particular company and its supply chain as being different and unique.

Summary, continued

- Financial strategies not only help improve the efficiency of supply chain operations, but they also help managers understand and document the financial value created by supply chain management. Included as an example financial strategy, but which is also an operational strategy, is outsourcing of logistics and supply chain activities.
- The emergence of new and innovative technology-based strategies will result in dramatic changes to the ways we manage logistics and supply chain activities.
- Supply chain success will be facilitated by the development of effective, collaborative relationships between supply chain participants.

Summary, continued

- The ability of organizations to develop and implement effective global supply chain strategies will be of great importance. Also, a growing number of organizations have achieved excellence in this area.
- Perhaps the most important area is that of supply chain transformation—how an organization can transform itself into one that meets and exceeds future goals and objectives.