

Supply Chain Management

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Why is supply chain management important?



“Companies are starting to realize that this complexity crisis is crippling them, destroying their profits, and draining their resources.”

**- John Mariotti
(The Enterprise Group)**

Questions to Consider . . .

- o Are a large portion of our products unprofitable, weighing down our profits?
- o Do we have excessively high inventory levels that are consuming working capital and adding costs?
- o Are we experiencing product shortages due to strained capacity that result in lost sales?
- o Do we have product surpluses that are leading to markdowns, waste and additional inventory costs?
- o Are our long lead times frustrating our customers?
- o Are we experiencing frequent product changeovers that erode our production capacity?
- o Are our service levels, customer service scores and quality levels below industry norms?
- o Do our actions seem to always cause negative reactions in other parts of our company?

Questions to Consider . . .

- o Does our organization seem to be overly complex and bloated, with no one having a complete picture of what each group does?
- o Do decisions that should take days take weeks?
- o Do we have difficulties seeing or managing trade-offs across functional boundaries?
- o Do we have lots of activity without much outcome?
- o Are our information systems implemented poorly or too complex to use for decision making?

Questions to Consider . . .

- o Is our physical footprint sprawling with low or declining utilization?
- o Are our efforts diffused over too many products and geographies?
- o Is our supply base overly fragmented?
- o Do you experience resistance to production rationalization efforts?
- o Do information systems grow organically in response to emerging needs without an overlying strategy?
- o Do you experience resistance to network consolidation efforts?

Sources of Supply Chain Complexity

- Network Complexity
- Process Complexity
- Range Complexity
- Product Complexity
- Customer Complexity
- Supplier Complexity
- Organizational Complexity
- Information Complexity

Network Complexity

- Growing numbers of nodes and links
- Outsourcing driving increased complexity
- Lack of visibility, particularly beyond tier 1
- More susceptible to risk

Process Complexity

- Haphazard development of processes
- Additions and modifications over time add to complexity
- Changing requirements

Range Complexity

- SKU proliferation
- Product introductions, new sizes or variants, and brand extensions > elimination of products
- For some companies, 80/20 Rule moving towards 90/10

Product Complexity

- Design of product can have tremendous impact on supply chain complexity
- Choice of materials, components, make or buy, distribution, channels, etc. all influence complexity
- Lack of consistency across products

Customer Complexity

- Non-standard service options
- Customized solutions for customers
- Only complexity that can be justified is that which can deliver real value and which the customer is willing to pay

Supplier Complexity

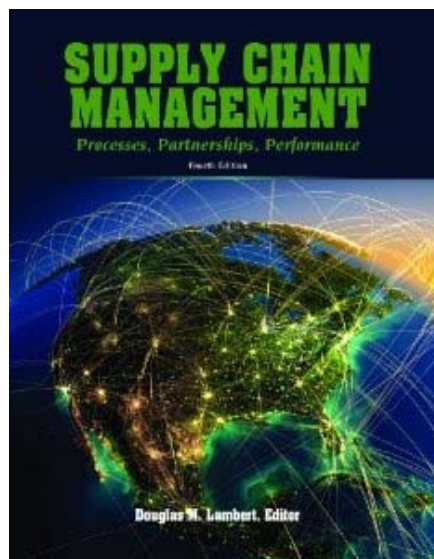
- Increasing number of supplier relationships drives complexity
- Complexity can restrict agility
- Connected to Product, Range and Network Complexity

Organizational Complexity

- Complexity of managing across silos
- Additional layers of management

Information Complexity

- Large amounts of information available
- Information subject to distortion – bullwhip
- Bad information can hurt performance of all processes



What Supply Chain Management Is Not

- It is not another name for logistics.
- It is not another name for purchasing.
- It is not another name for operations.
- It is not a combination of logistics, purchasing and operations.

© Supply Chain Management Institute. Source: *Supply Chain Management: Processes, Partnerships, Performance*.

Logistics Management

... is that part of Supply Chain Management that plans, implements, and controls the efficient, effective forward and reverse flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customers' requirements.

Council of Supply Chain Management Professionals (2010)

The 1990s and 2000s: An Era of Terminology Explosion & Confusion

- Supply Chain is **not** the only term
- We have endured:
 - Demand Chain
 - Supply-Demand Chain
 - Value Chain
 - Value-added Networks
- Each instance claimed to be breakthrough thinking
- The Culprits (most well meaning but some self serving)
 - Consultants who try to differentiate their offering based on what they call it instead of how well they help clients do it
 - Academics who want to appear current by using new terminology
 - Software Vendors

How Could This Happen??

**Unfortunately,
common sense is not common.**

Supply Chain Management Is As Good As Any Name: WHY??

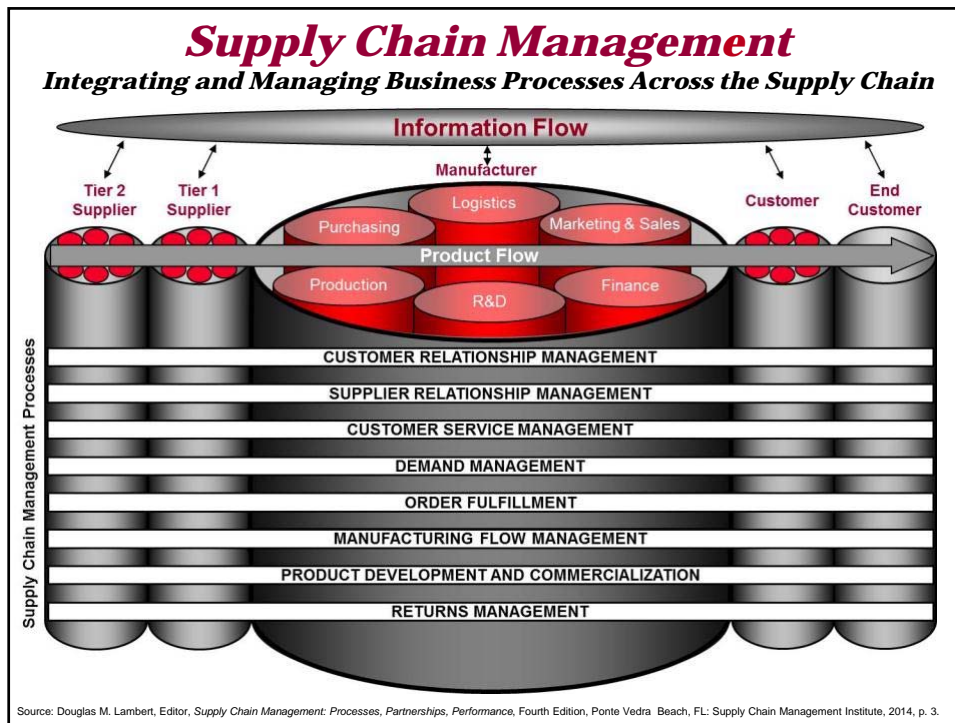
- A supply chain is a network of companies.
- Every company in the network gains its revenue based on demand at the points of consumption.
- Thus, every organization in the network is a supplier to the end points of consumption and for this reason, supply chain management is as good a name as any other.
- The network can focus on demand without changing the name to demand chain.
- The network can focus on value co-creation without changing the name to value chain or value-adding network.
- It is time to pick a name and get on with implementation.

Supply Chain Management

**... is the management of relationships
in the network of organizations,
from end customers through original suppliers,
using key cross-functional business processes
to create value for customers
and other stakeholders.**

The Global Supply Chain Forum

Source: Douglas M. Lambert, Editor, *Supply Chain Management: Processes, Partnerships, Performance*, Fourth Edition, Ponte Vedra Beach, FL: Supply Chain Management Institute, 2014, p. 2.



Keys to this View of SCM

- Processes are led by cross-functional teams.
- Each process integrates suppliers and customers.
- CRM and SRM are the key linkages in the supply chain.
- Relationships with customers and suppliers are tailored to the specific needs of the parties involved. The impact of actions on either side of the relationship can be measured and traced to bottom-line performance.
- SCM is a “team sport” and there is equity in relationships.

The SCM Processes - Briefly

- The **Customer Relationship Management** process provides the structure for how relationships with customers will be developed and maintained.
- The **Supplier Relationship Management** process provides the structure for how relationships with suppliers will be developed and maintained.
- **Customer Service Management** is the process that deals with the administration of the PSAs developed by customer teams as part of the CRM process.
- **Demand Management** is the process that balances the customers' requirements with the capabilities of the supply chain.

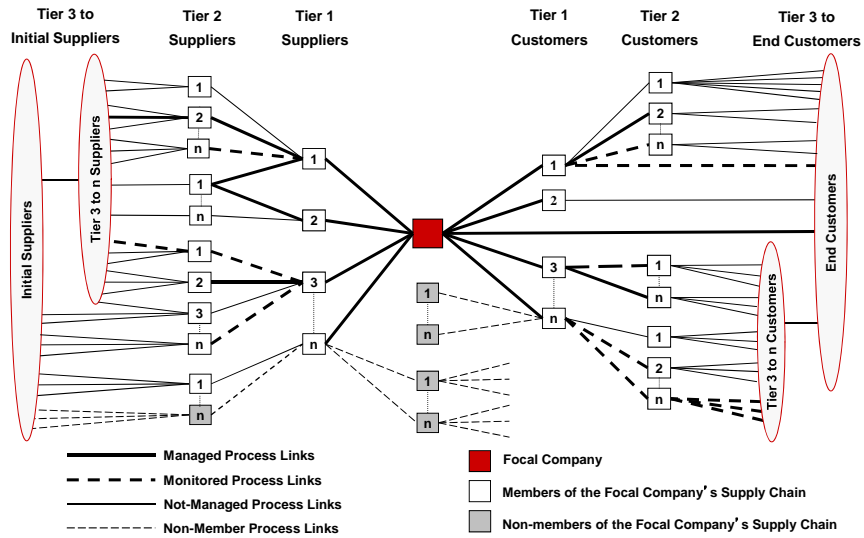
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The SCM Processes - Briefly

- The **Order Fulfillment** process includes all activities necessary to design a network and enable a firm to meet customer requests while maximizing the total profitability.
- The **Manufacturing Flow Management** process includes all activities necessary to obtain, implement and manage manufacturing flexibility in the supply chain and to move products through plants.
- The **Product Development and Commercialization** process provides the structure for developing and bringing to market products jointly with customers and suppliers.
- **Returns Management** is the process by which activities associated with returns, reverse logistics, gatekeeping and avoidance are managed within the firm and across key members of the supply chain.

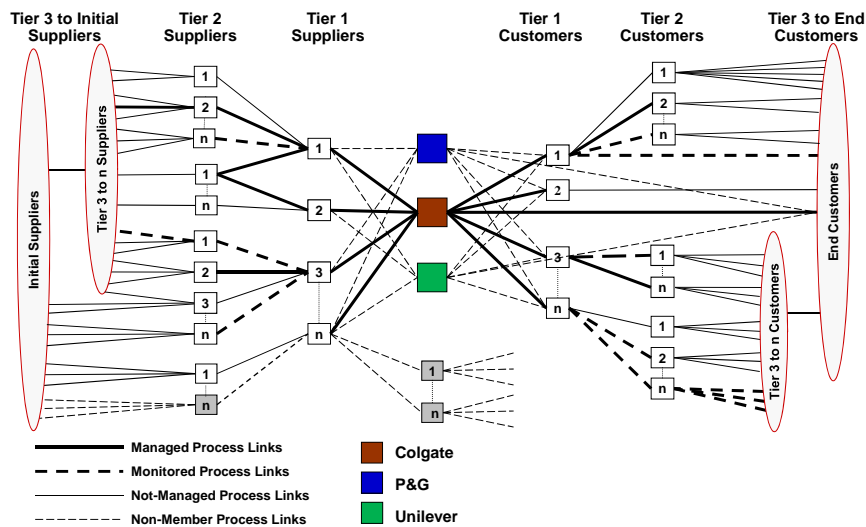
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Types of Inter-company Business Process Links



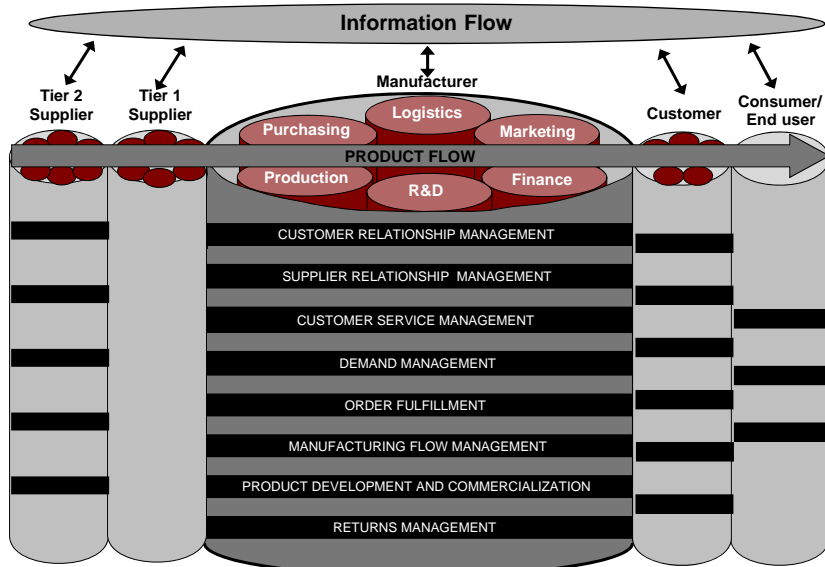
Source: Douglas M. Lambert, Editor, *Supply Chain Management: Processes, Partnerships, Performance*, Fourth Edition, Ponte Vedra Beach, FL: Supply Chain Management Institute, 2014, p. 264.

Typically Competitors Buy from the Same Suppliers and Sell to the Same Customers



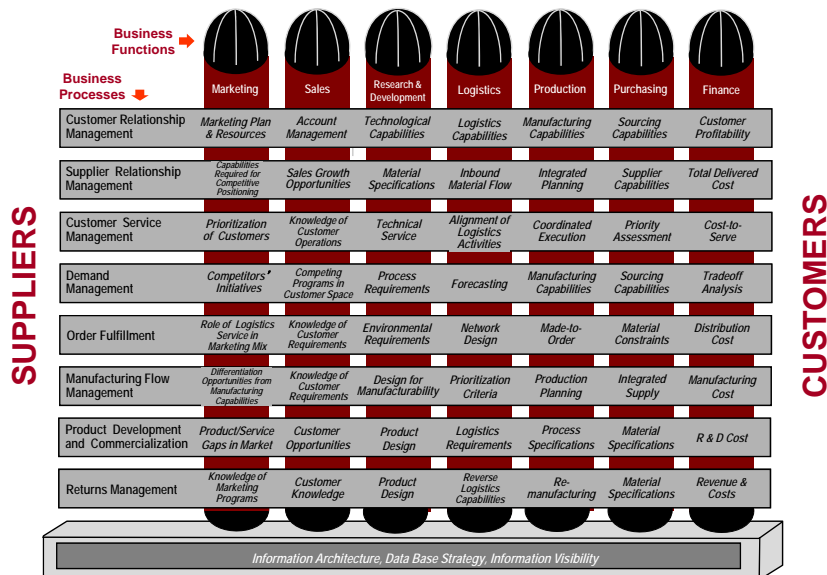
Source: Douglas M. Lambert, Editor, *Supply Chain Management: Processes, Partnerships, Performance*, Fourth Edition, Ponte Vedra Beach, FL: Supply Chain Management Institute, 2014, p. 7.

Processes Need to Be Standardized to Avoid Disconnects



Source: Douglas M. Lambert, Editor, *Supply Chain Management: Processes, Partnerships, Performance*, Fourth Edition, Ponte Vedra Beach, FL: Supply Chain Management Institute, 2014, p. 14.

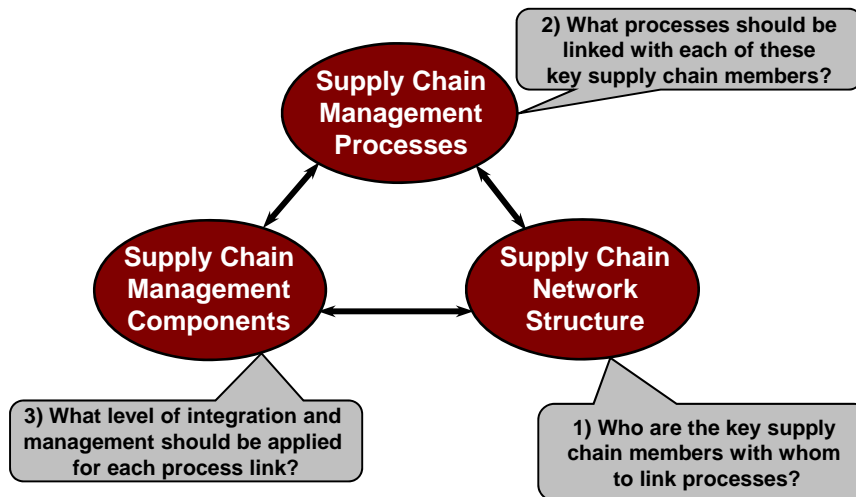
Functional Involvement in the Supply Chain Management Processes



Note: Process sponsorship and ownership must be established to drive the attainment of the supply chain vision and eliminate the functional barriers that artificially separate the process flows.

Source: Douglas M. Lambert, Editor, *Supply Chain Management: Processes, Partnerships, Performance*, Fourth Edition, Ponte Vedra Beach, FL: Supply Chain Management Institute, 2014, p. 15.

Supply Chain Management: Elements and Key Decisions



Source: Douglas M. Lambert, Editor, *Supply Chain Management: Processes, Partnerships, Performance*, Fourth Edition, Ponte Vedra Beach, FL: Supply Chain Management Institute, 2014, p. 21.

Conclusions

- Supply chain management is not just another name for logistics, nor a combination of logistics, purchasing and operations.
- It is a way of doing business that is:
 - Process-oriented
 - Cross-functional
 - Cross-firm
- Use these two weeks to learn from each other.

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Questions?