Challenges to the Practice of Supply Chain Management

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Context of My Comments

- Perspective of Supply Chain Management (SCM) Practice
  - Flow of Product from Raw Material to Consumption
  - This Flow Involves Multiple Firms and the Consumer
- An Interdependent System that Competes With Other Systems Trying to Serve the Same Consumer
Observation and Hypothesis

- The Unit of Analysis for Competition is Supply Chain vs. Supply Chain, not Firm vs. Firm

- Supply Chains Gain Competitive Advantage Through Coordination and Integration of Functions Performed Within and Across Firms
How Does Competitive Advantage Emerge from Integration?

- Eliminate Non Value-Added Costs
- Reduce Assets Including Inventory
- Improve Customer Service and Reliability
- Differentiate Product/Service Offering by Value-Added Services, e.g., customization
- Be More Responsive to Changing Markets and Break-through Technologies
The General Environment at the End of the Recession?

- High Energy Costs
- Cautious Consumer
  - More Internet Shopping
  - Increased Desire for Customer Service
  - Continued Emphasis on Cost
- Few Geographic Limitations or Protections
The SC Environment at the End of the Recession?

- Supply Chains that are Dominated by Leaner and Smarter Firms
- These in Turn Become More Demanding Trading Partners..... Who Set the Rules
- Backdrop of Reduced Transportation Capacity and...
- Customers’ Desire for Smaller Shipment Sizes
Trends Likely to Continue

- Information Technology Will Continue to Evolve Still More Rapidly
  - Enabling Greater Cost Control
  - Enabling Greater Transparency
- Inventory Will be Squeezed out of the SC
- More Mixing of Shipments and Consolidation → Favoring 3PLs
- Reduced SKU Proliferation?
What’s The Minimum Threshold?

- Information Infrastructure
  - Applications Designed to Make Supply Chains Transparent
  - Ability to Share Cost and Marketing Data
  - Ability to Measure Trade-Offs to Evaluate Costs and Benefits
- Agreement on Goals and Metrics
- A Trusting Environment
Integration is Hard!

- Requires Cooperation and “Sharing.” The Firm Becomes Transparent.
- May be Asked to Invest in Firm Specific Assets, e.g., Rapidly Changing Information Systems
- Mixed Goals and Objectives Across Organizations
- Need to Penetrate Management Silos
- Firms Participate in >1 Supply Chain
What Are the Future Challenges to SCM Practice?

- Design for SCM, e.g., IKEA
- Rapidly Changing Technologies—No Loyalty
- Commit to Continuous Improvement, e.g., Best Practices
- Be Able to Relate Operational Metrics to Financial Performance, e.g., cash to cash
- Operational Specialization → More Intermediaries, e.g., Information Utilities
What’s the Bottom Line for Dominant Firms?

- Continue to Dictate Integration Policies
- Will Set De Facto Standards for Industry
- Increased Focus on Customer Service and Cost
- Metrics Focusing on the Financial Impact of Supply Chain Performance
Bottom Line for Facilitating Firms

- Need to Customize Services—Be Indispensable!
- Focus on Contributing Value Added @ End of the SC
- Beware of Investing in Client Specific Assets
- Be Painfully Aware of Your Trading Partners’ Strengths and Weaknesses = Opportunity
Moral for the Future

It’s Going to Continue be a Dog Eat Dog World and You’ll Be Wearing Milk-Bone Shorts.

Thank you