

Rounding Out the Supply Chain

SUNY Maritime

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TMGT 7400 The Logistics Channel Within the Supply Chain
Summer 2008

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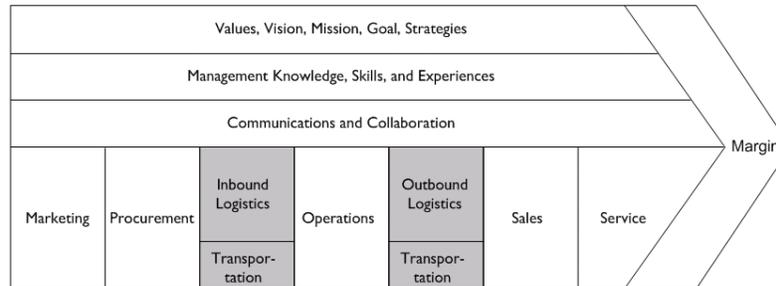
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Figure 1 Introduction to Rounding Out the Supply Chain

We have been focusing very much on the logistics channel. It's time to discuss a bit more about the context – the supply chain – in which the logistics channel operates.

Hopefully, you will recall this figure from the introduction to this course.¹

Our focus so far has implied that there is more to supply chain management than the logistics channel



Adapted from Porter, Michel E. *Competitive Advantage: Creating and Sustaining Superior Performance*. The Free Press, 1985, 0-02-925090-0

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Figure 2 The Context of Interest

My view is that the supply chain comprises all activities performed by a company that directly add value as perceived by the customer.

“The primary difference between world class organizations and those viewed as average is that world class firms allocate scarce resources to those things considered most important by their customers rather than dissipating resources on those things viewed by customers to be relatively unimportant.”²

I include this quote to underscore the importance of understanding value from the point of view of the customer.

¹ James Drogan, *Introduction to the Course and to the Logistics Channel within the Supply Chain*, 2008, Lecture Note, <http://jmsdrgn.squarespace.com/storage/Introduction%20to%20the%20Course%20and%20to%20The%20Logistics%20Channel%20Within%20the%20Supply%20Chain.pdf>, [June 9, 2007]

² Douglas M. Lambert, W. Christine Lewis, James R. Stock, “How Shippers Select and Evaluate General Commodities LTL Motor Carriers” (1991).

The concept of the supply chain brings us to a set of questions we have not yet dealt with.

We have left unanswered question such as...

- Who has money and what do they wish to buy?
- Where do we get the materials and services to create what people want to buy?
- How do we transform the purchased materials and services into the products and services that people want to buy?
- What actions must be take to move our products and services into the marketplace?
- What after-the-sale service is required and how is this to be provided?

Figure 3 Supply Chain Questions

These five questions correspond with the meta-processes of marketing, procurement, operations, sales, and service. Let me define in a simple manner each of these meta-processes.

Marketing, the vetting of values and vision by reality

$Customer_Needs_and_Wants + Money_to_Spend + Propensity_to_Buy = Opportunity$

$Your_Capacity_and_Capability \div Competitive_Capability_and_Capacity = Success$

$Revenue_from_Success - Cost_of_Success = Profit$



Figure 4 Marketing

Marketing is about figuring out what people are willing to pay for and the manner in which their needs and wants can be satisfied at a profit.

Amazon.com³ is one of the premier examples of understanding the market and knowing how to satisfy that market.

Several things set Amazon.com apart from the competition. There is a broad array of products that representing those categories in which consumers spend the most.



Figure 5 Amazon.com Categories

Second, Amazon.com learns about you as a customer and makes recommendations.

³ For more on amazon.com see <http://en.wikipedia.org/wiki/Amazon.com>.

Recommendations by Category

- [Apparel & Accessories](#)
- [Baby](#)
- [Beauty](#)
- [Books](#)
- [Camera & Photo](#)
- [Computers & PC](#)
- [Hardware](#)
- [Electronics](#)
- [Gourmet Food](#)
- [Grocery](#)
- [Health & Personal Care](#)
- [Home Improvement](#)
- [Industrial & Scientific](#)
- [Jewelry](#)
- [Kindle Store](#)
- [Kitchen & Dining](#)
- [MP3 Downloads](#)
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- [Software](#)
- [Sports & Outdoors](#)
- [Toys & Games](#)
- [Video](#)
- [Video Games](#)

These recommendations are based on [items you own](#) and more.

view: **All** | [New Releases](#) | [Coming Soon](#) [More results](#)

1.  **Essentials of Supply Chain Management, 2nd Edition**
 by Michael Hugos (Mar 10, 2006)
 Average Customer Review: **★★★★★** (19)
 In Stock
List Price: \$34.95
Price: \$23.07 [Add to cart](#) [Add to Wish List](#)
 54 used & new from \$18.97

I own it Not interested ☆☆☆☆☆ Rate it
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2.  **Harvard Business Review on Supply Chain Management (Harvard Business Review Paperback Series)**
 by Harvard Business School Press (Aug 28, 2006)
 Average Customer Review: **★★★★★** (4)
 In Stock
List Price: \$49.95
Price: \$13.57 [Add to cart](#) [Add to Wish List](#)
 45 used & new from \$3.65

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3.  **Strategic Supply Chain Management**
 by Shoshanah Cohen (Aug 1, 2004)
 Average Customer Review: **★★★★★** (2)

Figure 6 Amazon.com Personalization

It's as if I walked into my favorite restaurant where the owner knows I like seafood and he says, "We have some particularly nice salmon this evening, Mr. Drogan. Shall I set some aside for you?"

Third, with One Click, Amazon.com makes it easy to buy.



Figure 7 Amazon.com One Click

Amazon.com offers a broad range of offerings tailored to my likings and easy to buy.

I speculate that Amazon.com arrived at its product selection, the means of offering these for purchase, and the actual purchase process through an excellent understanding of the marketplace it chose to serve. Of course, all this excellent marketing would be for naught if Amazon.com did not follow through with a superb logistics channel to get the product to the consumer.

This is in contrast to webvan.com.

'Webvan was an online "credit and delivery" grocery business that went bankrupt in 2001. It was headquartered in Foster City, California, USA, near Silicon Valley. It delivered products to customers' homes within a 30-minute window of their choosing. At its peak, it offered service in ten U.S. markets: San Francisco Bay Area, Dallas, San Diego, Los Angeles, Chicago, Seattle, Portland, Atlanta, Sacramento, and Orange County. The company had originally hoped to expand to 26 cities.

In June 2008, CNET hailed Webvan as one of the greatest dotcom disasters in history.

Webvan tried to embrace a total customer satisfaction model involving a 30 minute window delivery without considering that many working customers would like their groceries delivered at home at night.⁴

Customers want the right product delivered at the right price and at the right place and time. Webvan missed on a critical element of understanding the marketplace – timing.⁵

The reference to the Kevin Costner movie is to remind us that market research must be more than simply “If you build it, they will come.”

Marketing tells where the money is and what we need to do to get it. Part of what we need to do is to procure the necessary ingredients for what we intend to deliver to the marketplace.

Procurement, getting what you need in order to produce what you can sell

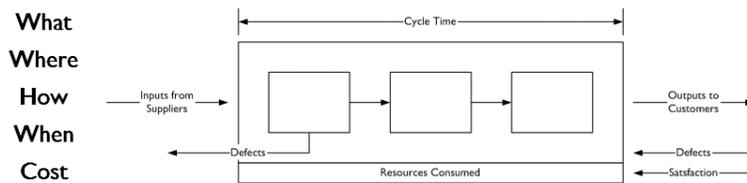


Figure 8 Procurement

Procurement acquires the feed stock for the operations process. The feed stock could be raw material, sub-assemblies, knowledge and skills; anything that is required for the operations process that produces what the customer wants.

Procurement is increasingly done on a global basis (aka global sourcing) and trades off high quality of the required feed stock with the cost required to deliver that feed stock to the right place at the right time.

⁴ Webvan, <http://en.wikipedia.org/wiki/Webvan.com> [June 9, 2008]

⁵ You might find it an interesting exercise to compare the approaches to business taken by Amazon.com and Webvan. At a certain level of abstraction they both set out to do the same thing. What were the differences and what can we learn from them?

Procurement, the source of “Everyday Low Prices”

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Our Company People Community Environment Search: For: Go

Proposal Packet
Supplier Diversity
Global Procurement
Electronic Product Codes
Global Ethics Office
Meet our Suppliers
Supplier Summit 2008

Global Procurement

In February 2002, Wal-Mart Stores, Inc., created Wal-Mart Global Procurement Services to manage the company's direct import business and factory direct purchasing. Wal-Mart's Global Procurement team is responsible for identifying new suppliers, sourcing new products, building partnerships with existing suppliers and managing the global supply chain of Wal-Mart's direct imports.

This dedicated team of more than 1,600 associates sources products from more than 70 countries around the world, working from 27 offices located in 23 countries including:

Bangladesh	Brazil	Chile	China
Guatemala	Honduras	India	Indonesia
Italy	Mexico	Nicaragua	Pakistan
Philippines	Singapore	Spain	Sri Lanka
Taiwan	Thailand	Turkey	United Kingdom
United States	United Arab Emirates		

With offices around the globe, our associates quickly identify new trends and are able to bring new products to our buyers in all of Wal-Mart's retail markets. There are a number of teams and components that make our Global Procurement efforts successful.

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Figure 9 Wal-Mart Procurement

Low cost has always been the dominant criteria in the acquisition of feed stock, but that may not always continue to be true.⁶

“There is much about the world economic scene that is changing due to globalization. Work is becoming packaged in units that can be performed anywhere in the world. Outsourcing and distance learning are examples. Where this work is performed is a function of the economics associated with the required capability and capacity.⁷

In the past, the economics of work was largely cost driven. This is becoming less and less the case. The value delivered is dictated by capability and capacity. It may well be, therefore, that the net benefit may not be found at that point where the costs are least.⁸

What this means is that investment decisions for global firms become more complicated by the flux in global economics, capability and capacity. This implies more attention being given to issues related to country risk.⁹”

⁶ James Drogan, *Managing the Business*, 2007, Paper, SUNY Maritime College, <http://jmsdrngn.squarespace.com/storage/Managing%20the%20Business.pdf>, [February 19, 2008]

⁷ Capability represents the collection of knowledge, skills, and experience required to satisfactorily perform the task at hand. Capacity represents the amount of capability available to perform the task at hand.

⁸ Dell drops some tech calls to India, http://www.news.com/Dell-drops-some-tech-calls-to-India/2100-1022_3-5110933.html [September 26, 2007].

⁹ “Country risk refers to the likelihood that changes in the business environment adversely affects operating profits or the value of assets in a specific country. For example, financial factors such as currency controls, devaluation or regulatory changes or stability factors such as mass riots, civil war and other potential events contributing to companies' operational risks. This term is also sometimes referred to as political risk, however country risk is a more narrow term, which generally only refers to risks affecting all companies operating within a particular country.

Political risk analysis providers and credit rating agencies use different methodologies to assess and rate countries' comparative risk exposure. Credit rating agencies tend to use quantitative econometric models and focus on financial analysis, whereas political risk providers tend to use qualitative methods, focusing on political analysis. However, there is no consensus on methodology in assessing credit and political risks.”

Procurement has become a sophisticated business.

Operations, connecting the as-is with the to-be



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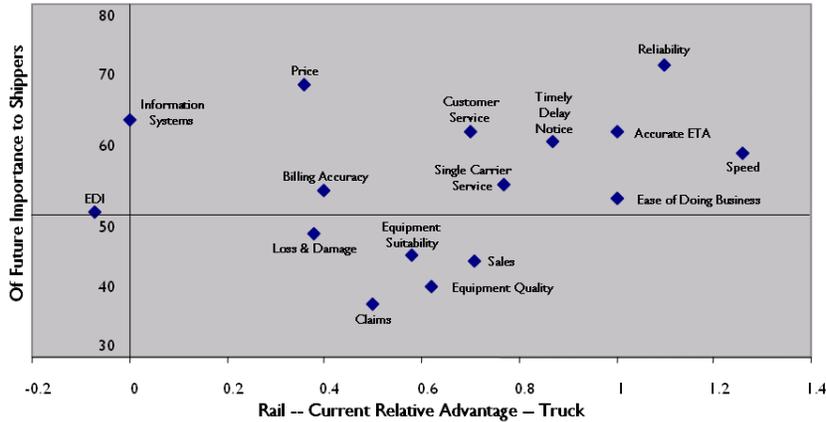
Figure 10 Operations

Operation is that combination of people, process, and information that transforms the feed stock into the products desired by the consumer. Here are two examples that have caught my eye – the iPhone and a Toyota Supra. The ability to merge ideas and material into something desired by the consumers is a function of such processes as research and development, manufacturing, and management.

A similar transformative process is used to produce value not based on products, but on knowledge, skills, and experience. The educational process is one example. The training received by professionals such as doctors and lawyers is another.

The notion of the supply chain is generally associated with products, but it applies equally well to services.

Sales, understanding and responding to buying behavior



Source: Mercer Management, circa 1994

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Figure 11 Sales

Whereas marketing is about determining what one should provide the consumers, sales is about providing one's products and services to the customers.¹⁰ Sales success rests on understanding the buying behavior of customers.

Figure 11 identifies 16 different characteristics that buyers of transportation service used to select between to modes of transportation, rail and truck. This is an interesting chart in that it informs one on the relative advantage of one mode over the other and the future importance of the characteristics to the customer.

It's clear from this example that the focus should be on the characteristics towards the upper right if one wishes to be successful in this marketplace.

Marketing and sales differ in their time frames of interest. Marketing tends towards the future -- sales is now.¹¹

¹⁰ Early in my IBM career I heard marketing describing as figuring out what to put in the sales manual; sales was figuring out how to get products from the sales manual into the customers' hands.

¹¹ There seems to be a progressive development where the product development cycle (from concept to availability to the customer) is becoming longer than the economic cycle (from availability to the customer to obsolescence). The supply chain takes on a new shape as this becomes a dominant development.

Service, making a product into an experience



* within reason
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Figure 12 Service

We increasingly hear that it is not products that are being sold, but it's the experience that becomes important. Starbucks and Amazon.com come to mind as examples of this notion.

Another, about which I have a number of years of personal experience, is Mitchells of Westport.¹²

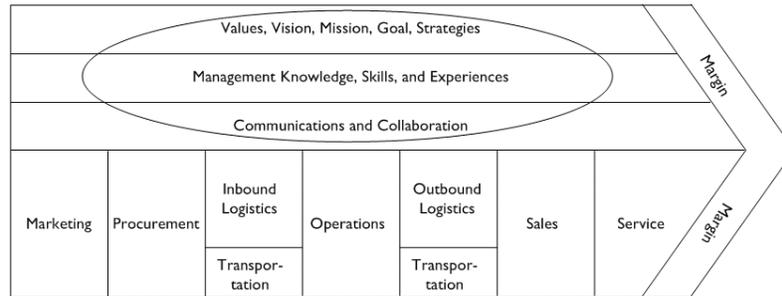
Mitchells has great products and charges commensurate prices, but what sets them apart from almost every other organization I have encountered is the nature of their service. Their service is more than simply quality, it's the manner in which that service is delivered.¹³ This service is also strongly related to their relationships with the communities critical to them; the towns, their suppliers, their ownership and staff.

In a time when there are increasingly small differentiations between competing products, the nature of one's service will often make a difference in the customer's mind.

¹² <http://www.mitchellsonline.com/>, You are also referred to Jack Mitchell, *Hug Your Customers : The Proven Way to Personalize Sales and Achieve Astounding Results*, 1st ed. (New York: Hyperion, 2003) 1401300340 for the reasons why this specialty retailing firm is so successful in its market.

¹³ See their web page at <http://www.mitchellsonline.com/Services.aspx>. I direct your attention to the photographs and the feelings these bring to mind.

Principles of integration



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Figure 13 Integration of the Channel Elements

The nine elements of the supply chain need to be conceived, designed, implemented, and managed as an integrated whole in order to deliver value that the customers will find appealing. This does not happen by chance (revisit Webvan). This integration comes from the boundary-spanning elements in the top half of the diagram.

Without a clear understanding of where the firm is bound and how it expects to get there, without quality leadership (and, for the matter, followership), and open communications and collaboration, it's doubtful that optimum value can be produced.

I have elsewhere argued that very few companies can do all of what's implied in Figure 13. Rather, one must find partners to work with. The integration, therefore, is not just within a firm, but also between firms.

Levels of integration

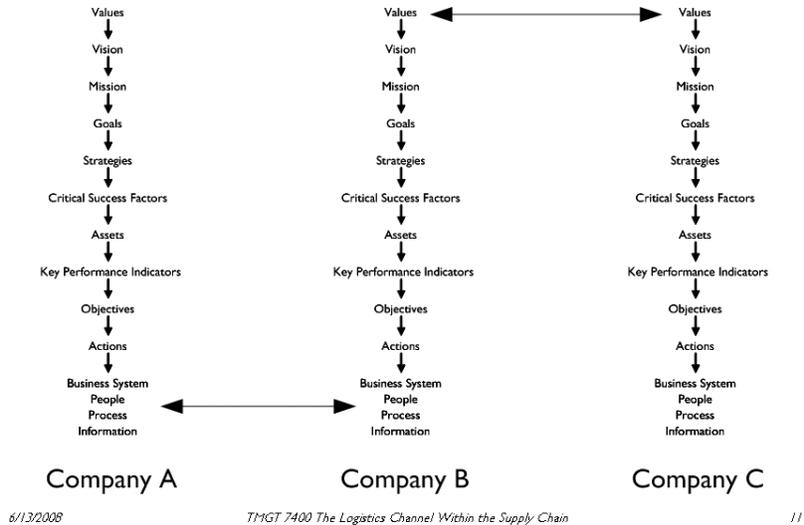


Figure 14 Integration of Companies

I've characterized levels of integration in this figure. The integration between Company A and Company B occurs at a relatively low level and may constitute little more than passing information in an agreeable format. On the other hand the integration between Company B and Company C occurs at a relatively high level where, as intimated here, they have common values upon which their business is built.

I want to make two points regarding integration.

1. Integration within a company is a prerequisite to integration between companies. That is, you can't ask of others that which you do not ask of yourself.
2. Integration is essential to providing optimal value to the customer when multiple parties are in the value chain.

Critical success factors for integration

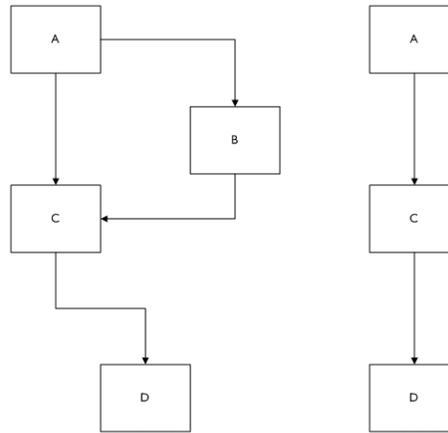
- First, there will be a need in a firm for knowledge, skills, and experience in negotiation. All will be much easier if the firm and the other party can come to agreement on the level of sharing.
- Second, being in a position to negotiate suggests that the firm understands something of the value proposition associated with sharing as seen by the other party. This means the development of an understanding of the other party's business configuration.
- Third, there needs to be a spirit in favor of multi-party integration.

Figure 15 Integration CSFs

Integration requires a different set of knowledge, skills, and experience that reaches beyond the boundaries of the firm. Toyota is one of the premier examples of a company that thinks beyond its own boundaries. It practices integration with its suppliers so that a high quality product is delivered to the consumer at low cost.

Integration, as described here, is mainly the result of a mind set between firms. It is a mind set of collaboration, of compromise as required for the greater good.

Integration could and is likely to mean change



As Is

Could Be

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Figure 16 Integration and Change

Integration, when properly done, may mean significant change.

“There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new.”¹⁴

Many find change difficult and will resist.

Let me wrap up this note by referring to the CLM definition of supply chain.

¹⁴ Machiavelli, Niccolo. The Prince. Trans. David Wootton. Indianapolis/Cambridge: Hackett Publishing Company, Inc., 1995.

“Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all Logistics Management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, Supply Chain Management integrates supply and demand management within and across companies.”

Source: Council of Logistics Management

Figure 17 CLM Definition of Logistics

If you keep this broad view in mind, if you do not apply it as dogma, but rather use it as basis for asking good questions that allow you to truly understand the supply chain under consideration, then you ought to be able to add value to the discussion.

Logistics channel and supply chains are, to be sure, very tangible, but what is most important is how they are seen by the mind's eye of those involved. A good practitioner in these fields has a capability and capacity to see things from the point of view of others.

James Drogan
June 14, 2008

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