

The Value and Challenges of Supply Chain Management

**T. L. Freese, Principal
Freese & Associates, Inc.**

**February 23, 2006
Global Supply Chain & Logistics Conference
Dubai, UAE**



**Council of Supply Chain
Management Professionals**



Agenda

- **Importance of Supply Chain Management**
 - Logistics Cost to GDP
 - The Benefits of SCM
 - The Evolution from Logistics to SCM
- **Supply Chain Management's Value**
- **The Challenge of Change**
- **The Barriers to Supply Chain Management**
- **Supply Chain Management's Challenges**
 - Lack of Trust
 - Lack of Understanding
 - Fear of the Loss of Control
 - Conflicting Objectives
 - Inadequate Information Systems
 - Financial Market Demands
- **Global Supply Interruptions**



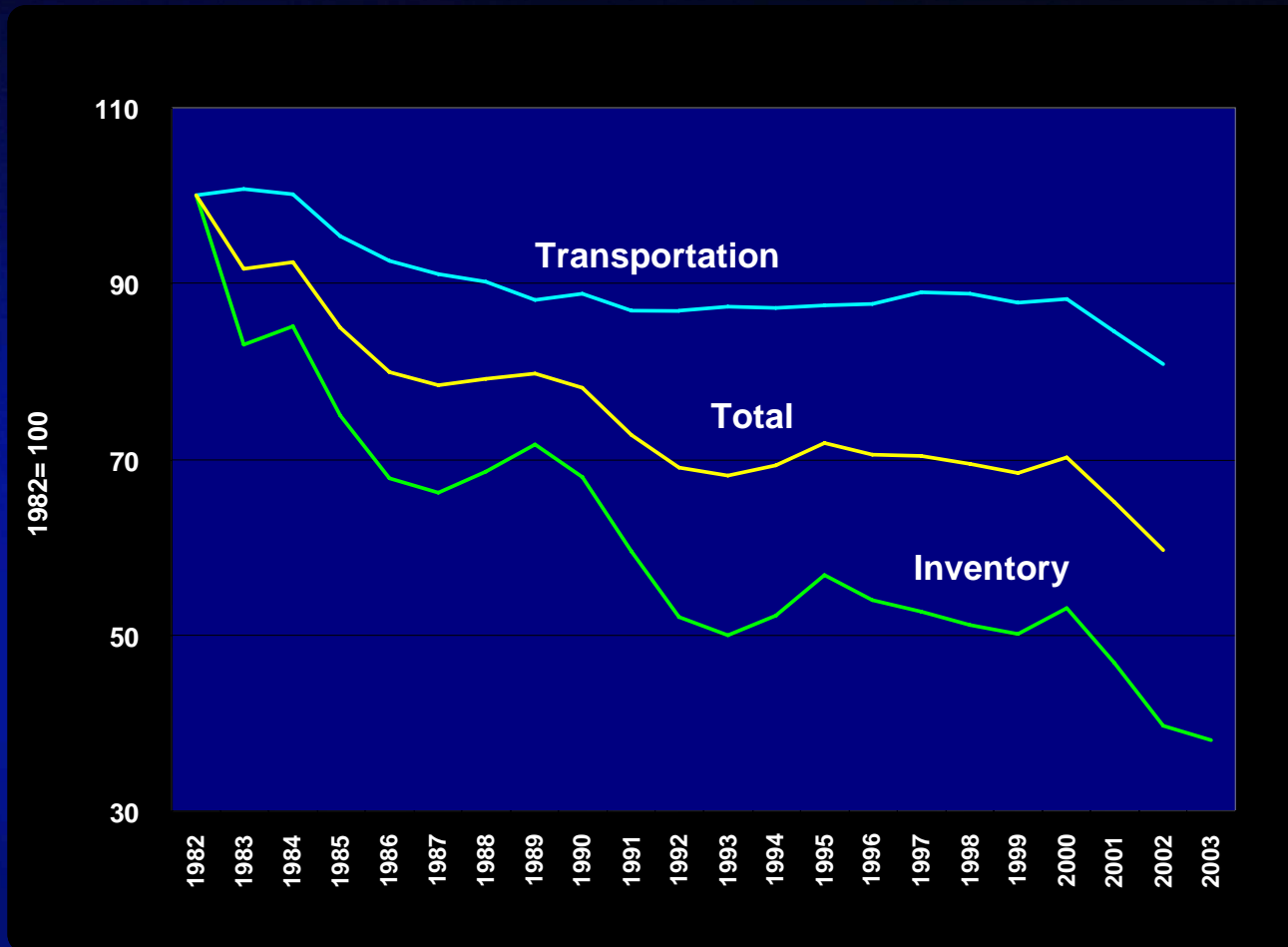
Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



Index of Logistics US Costs as a Percent of US GDP



Logistics Cost Savings at Best in Class Performance

Industry	Total Revenue Billions	Best in class Logistics Costs/Revenue	Median Logistics Costs/Revenue	Potential Logistics Savings
Chemicals and Pharmaceuticals	\$641b	3.9%	11.2%	\$46.8b
Computers and Electronic Equipment	\$356b	4.0%	8.3%	\$15.3b
Telecommunications	\$470b	3.3%	8.3%	\$23.5b
Consumer Packaged Goods	\$3,231b	4.9%	9.2%	\$138.9b
Defense and Industrial	\$1,991b	4.3%	10.2%	\$117.5b

Source: SRI International



Council of Supply Chain Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



Global Comparison of Logistics Expenditures

Economy

Higher Output--GDP

Better use of resources

Multi-use Infrastructure

Businesses

Market Access

Market Integration

Cost Efficiency

Consumers

More Goods and Services

Wider Availability

Lower Prices/Income

**U.S.
9% GDP**

**Asia 13-15% GDP
Europe 11-14% GDP
Japan 11% GDP
Mexico 14% GDP**

Benefits of SCM

- **Strengthens vendor-customer relations**
- **Facilitates planning at all levels**
- **Allows all partners in the supply chain to monitor shipment progress**
- **Minimizes bottlenecks created by waiting for proper documents**
- **Enables all parties to participate in process improvements**
- **Eliminates duplicate efforts**
- **Enhances supply chain security**



Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



Logistics Evolutionary to SCM

Focus

More Attention
From Senior
Management

**Supply Chain
Management**

Functional Orientation

- **Transportation**
- **Inventory**
- **Warehousing**
- **Manufacturing**
- **etc.**

Logistics

1940 1950 1960 1970 1980 1990 2000 Beyond



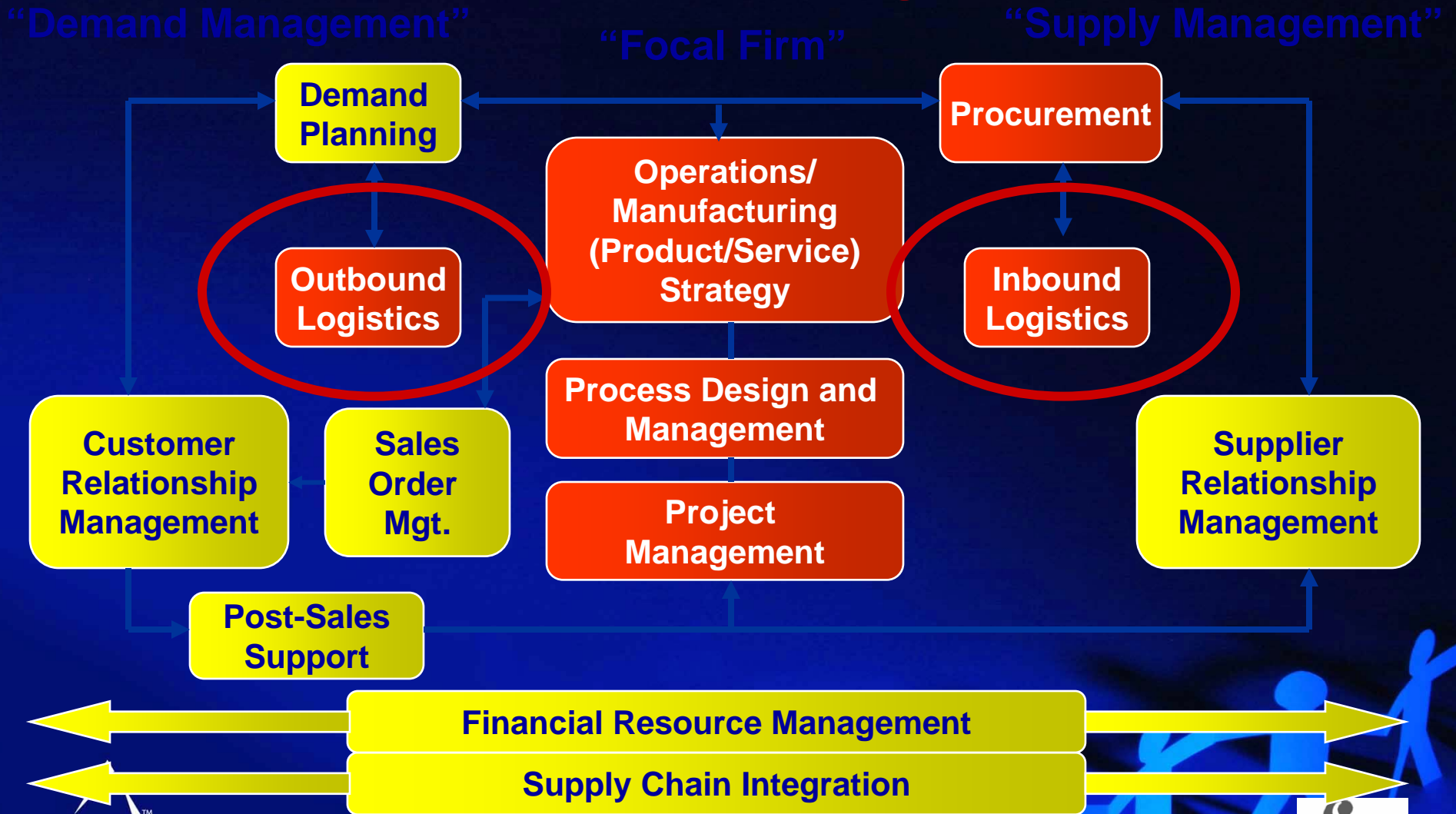
Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006

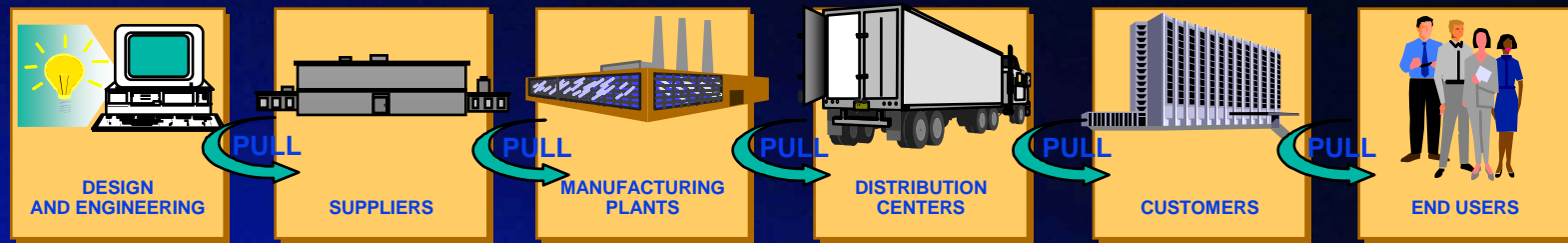


“Supply Chain Management” is More Than Just “Logistics” !



The SCM Proposition

This offers an economic and strategic solution for improving services, growth, and controlling costs.



Growth Opportunities

- Quicker Products to market
- Less investment
- Increased volume
- Strong relationships
- Integrated stock holder
- Capacity for sales
- Capacity for new products
- Customer Focus
- Stocking Rationalization
- Customer Integration
- POS data use
- New Products
- Fresh Products

Cost Opportunities

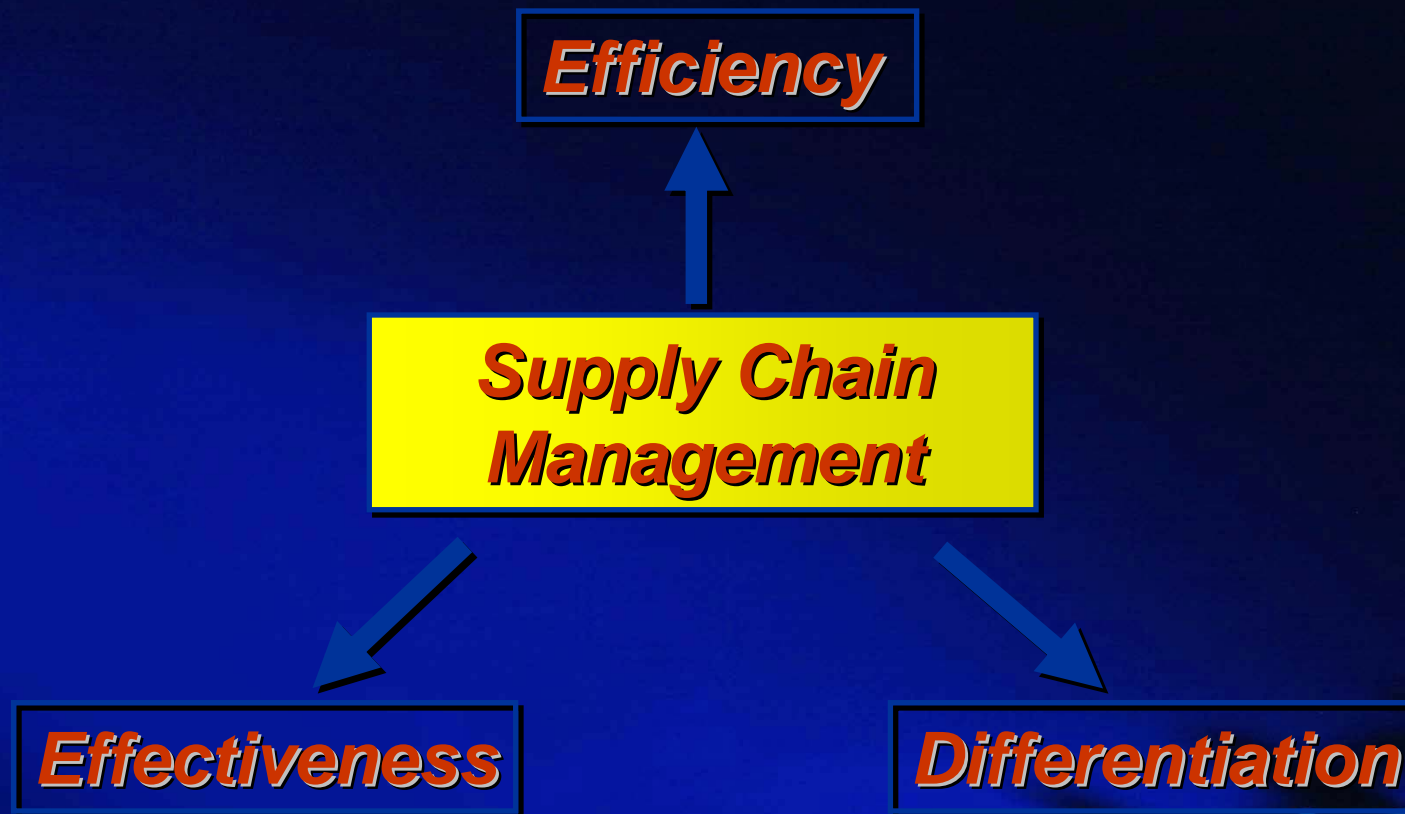
- Lower Cost of Failure
- Lower cost of design
- Lower cost to manufacture
- Rationalize suppliers
- Supplier reduction
- Parts and materials reduction
- Plant rationalization
- Lower cost risks
- Lower asset base
- DC consolidation
- SKU reduction
- Lower asset base
- Continual replenishment
- Low returns
- Low damage
- High Returns

Value For The Customer

The focus must be on the creation of value

- Value for whom?
- How to create value through supply chain management?
- How to measure and quantify the value that is created?

The Keys to Creation of Value



Supply-Demand Misalignment: The Need for Demand Management



- ① True end customer demand
- ② Production cannot meet initial projected demand, resulting in real shortages
- ③ Channel partners over-order in an attempt to meet demand and stock their shelves
- ④ As supply catches up with demand, orders are canceled or returned
- ⑤ Financial and production planning are not aligned with real demand; therefore, production continues
- ⑥ As demand declines, all parties attempt to drain inventory to prevent write-down

Source: Adapted from Accenture



Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006

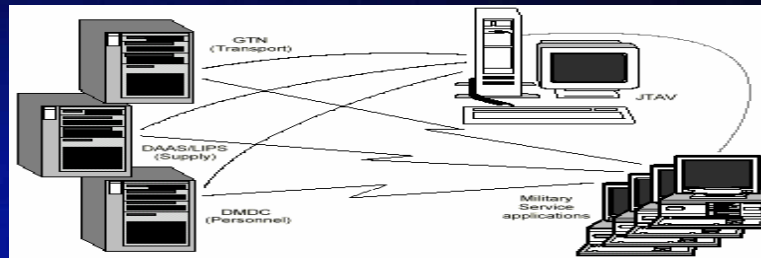


The Use of Supply Chain Information Technologies

- Achieve Enhanced Visibility and Event Management



- Control “Total Cost” of Information Technology



- Capable Supply Chain Partners Can Be Excellent Sources of Needed Information Technology



Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



Business Collaboration

(Dr. Michael Hammer)

- **Business Collaboration:** “Multiple companies working together for mutual benefit”



Sharing information, knowledge, risk, and profits
to reduce costs, cycle times, and inventories



Collaborative
Marketplace

Why Isn't It So?

- Why haven't more companies picked up this banner and marched with it to overwhelming success?
- I constantly hear “our business is different”. Yet the similarities are greater than the differences.
- Regardless of how different each may be, six principles are roadblocks.



Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



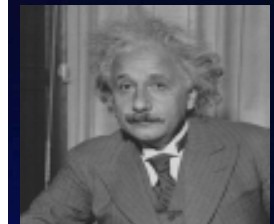
The Challenge of “Change”:



“It is not the strongest of the species that survive, nor the most intelligent, but those most responsive to change” (Charles Darwin)



“Consider how hard it is to change yourself, and you’ll understand what little chance you have of changing others.” (Albert Einstein)



Council of Supply Chain
Management Professionals

7/11/2008 2:14:00 PM



Why Isn't It So?

- Leadership
- Culture
- Trickle Down Mentality
- Trust
- Partnership
- Payback



The Rules Must Change

- Supply chain management has come of age.
- The concepts are good, execution is possible, and the ideas implemental.
- But the rules must be change.
- Supply chain management between organizations or within organizations faces the same hurdles.



Trust

- Companies have maintained an arm's length relationship with their suppliers and customers.
- With this type of culture, it is no surprise that mistrust exists among supply chain members.



Control

- No one wants to feel responsible for results of another.
- Because SCM outcomes involve joint efforts and cooperation, it is easy to feel at the mercy of others.
- Thus, the feeling that the manager does not totally control his area's or firm's destiny is a serious barrier to fully embracing a collaborative approach necessary for supply chain success.



Goals & Objectives

- It is nice to think that we all march to the same drummer, such is usually not the case.
- The goals of each partner may differ significantly.
- If the goals associated with the supply chain are not the same, the likelihood of agreeing on joint supply chain initiatives is slim at best.



Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



Inadequate Information Systems

- Most firms still struggle to use and comprehend all the traditional data they gather in their own activities.
- To impose a new set of information requirements between company boundaries may be beyond the capacity of their imagination.
- Yet just such systems must be present if any type of effective collaboration is to take place.



The Investment Community

- A crucial blow to many supply chain efforts is the investment community demands for short term performance.
- This focus on the short-term results is a huge barrier to supply chain implementation.
- The integration of the supply chain often requires considerable time and resource investments.
- To a top management that is constantly besieged by the investment community may have little opportunity to do what is necessary to achieve true supply chain integration.



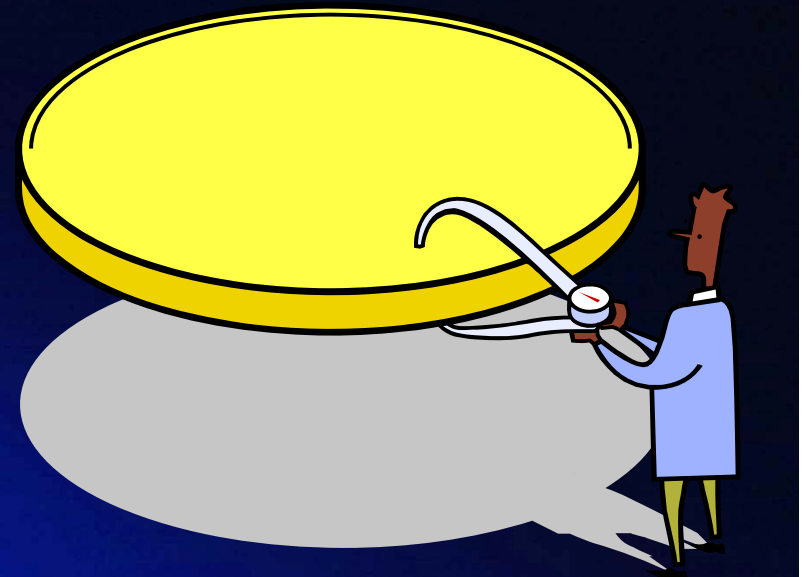
Web of Multiple Supply Chains

- Another barrier to successful supply chain implementation is that most organizations are involved in multiple supply chains.
- Some of those partners end up as competitors in another supply chain.
- One way to successfully implement supply chain management is to work with just a few supply chains, and in the remaining situations, simply work in an arms-length arrangement.



Measurement

- Despite its popularity and perceived importance, few examples of truly seamless, integrated supply chains exist.
- SCM success is tied to measurement and the ownership of results.
- SCM can not succeed unless there is commitment and acceptance of the success of the entire supply chains.



Global Supply Interruptions

- Global sourcing and pressures to lower inventories have made today's supply chains more vulnerable to supply interruptions.
- “With the shift to global sourcing and the pressure for lower inventory levels but faster order fulfillment cycles, supply chains are more fragile, more extended and more time-sensitive than ever before. As a result, supplier failures can ripple through a supply chain, creating havoc.”*

*Based upon an Aberdeen Group Study on Supplier Performance by Beth Enslow



Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



Global Supply Interruptions

- Buyers, material managers and purchasing agents spend more than half of their time resolving supply chain disruptions.
- The majority of last-minute supply resolution is based upon “habit” and “gut feel” not business objectives.
- Organizations that employ technology to minimize the frequency and cost of such disruptions are 2 to 3 times more likely to achieve success.*

*Based upon an Aberdeen Group Study on Supplier Performance by Beth Enslow



Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



The Future is up to YOU



- Cooperation
- Collaboration
- Shared Goals
- Shared Visions & Values
- True Partnerships
- Communications

Communications



Council of Supply Chain
Management Professionals

Global Supply Chain Conference
Dubai, UAE

February 23, 2006



Thank You



Council of Supply Chain
Management Professionals

