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You Need to Think Supply Chain Management!

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You Need to Think Supply Chain Management!

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Agenda

• What is SCM?
• New Paradigms in SCM Thinking
• SCM in Ireland
• Challenges: the future
Customer Service ‘Sets the Spec for Integrated SCM’

Market Driven Customer Service Strategy

Performance Specification for Integrated Supply Chain Management
What is Supply Chain Management?

Traditionally these functions are managed in isolation and often operate at cross purposes.
What is Supply Chain Management?

Supply chain management integrates these functions by holistically managing the information, material and financial flows.

Information and Money

Buy Make Store Move Sell

Information and Materials

nitl
A product reaches the final consumer through a chain of companies which will typically include suppliers, processors, distributors and retailers.
The Weakest Link

- Without the right companies across the supply chain to work with, a company will never achieve true competitive advantage. In other words........
- The supply chain is only as strong as its weakest link.
Key Characteristics of Excellent SCM

- Integration of supply chain activities
  - sales forecasting; procurement; inbound transportation; production planning; inventory management; warehousing; outbound transport; customer service; sales order processing
- SCM a senior management function
- Identification and measurement of customer service
  - customer service ‘sets the spec’ for SC design
- Integration of supply chain information
- Establishment and measurement of supply chain KPI’s
Impact of SCM on Cash Earnings

Shareholder Value

Profitability

Revenue
Greater Customer Service
Greater Product Availability

Costs
Lower Cost of Goods sold
(transportation, warehousing, materials handling, distribution management costs)

Invested Capital

Working Capital
Lower raw materials and finished goods inventory
Shorter ‘order-to-cash’ cycles

Fixed Capital
Fewer physical assets
(e.g. trucks, warehouses, materials handling equipment)

Sources of competitive advantage from SCM
Improved Financial Performance Measures the Success of SCM

Optimum Supply Chain Cost & Investment

Financial Impact of Effective Supply Chain Management
New Paradigms in SCM Thinking

Functions to Processes
Inventory to Information
Fragmentation to Integration
Functional to Market Focus
Insourcing to Management of Alliances
Fully Controlled to ‘Arm’s length’ via third parties

(Source: Martin Christopher 1998)
## “Stage Four” SCM

<table>
<thead>
<tr>
<th>Management Focus and Priorities</th>
<th>Information Systems Characteristics</th>
<th>Organisation Structure</th>
<th>Relationship Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Creation</td>
<td>Use of Internet/Extranet/XML/Browser-accessible applications</td>
<td>Multiple Enterprise</td>
<td>Command Responsibilities</td>
</tr>
<tr>
<td>Innovation</td>
<td>Linked ERP for transaction</td>
<td>Connected</td>
<td>Emphasis on trust</td>
</tr>
<tr>
<td>Agility/Responsiveness</td>
<td>CPFRRs for planning and control</td>
<td>De-centralised</td>
<td>Actively collaborative</td>
</tr>
<tr>
<td>Demand-driven</td>
<td></td>
<td>Complementary Contributors</td>
<td>Framework/Agreement/Rules of membership</td>
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<td></td>
<td></td>
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<td>Appointed leaders/administrators</td>
</tr>
</tbody>
</table>

(Source: Fred Hewitt, 2002)
The Strategic Alignment Framework

Elements

- Strategy
- Competitive Situation

“Rules”

- Business Processes
- Strategy

“Playing the Game”

- Technology/Infrastructure
- Culture

“Internal Capabilities”

- People
- Leadership

“Shaping & Creating”

(Source: John Gattorna, 2002)
There are four main elements involved in being competitive:

- Innovation capacity
- Flexibility of business culture
- Engaging in strategic partnerships
- Improved business practice through the integration of supply chain systems and lean production.

(Source: Deborah Wince-Smith, US Council on Competitiveness, 2003)
SCM in Ireland: importance

- Potential operational benefits (supply chain economics and customer service)
- Open economy (imports/exports proportion of GDP)
- Transport only one, and not most important cost, therefore location not a significant disadvantage
- Relatively small companies can be a part of a global supply chain
- Can manage ‘virtual’ supply chains from Ireland
SCM in Ireland: current situation

- Less than 20% have a formal logistics position and in less than 4% is it at Board Level
- Less than 50% measure customer service formally and those have very limited measurements
- Companies score low in relation to having the latest supply chain IT and having them integrated across the supply chain
- Few companies had clearly defined SCM KPI’s
  - 35% did not know their total supply chain costs
  - 60% had not reviewed their transport costs in the last 6 months
  - over 40% admitted holding obsolete inventory

(Source: NITL Logistics Capabilities Study, 2001)
Some Underlying Causes

- Inefficiencies are often built into the supply chain
- Communication structures ineffective
- Exchange of information poor
- Culture inappropriate
- Excessive reliance on forecasting and stockholding
- Managing problems, rather than eliminating their causes
Future Challenges

• Ireland moving into 2nd Generation SCM
• SCM moving “up the value hierarchy”
• Knowledge and skills implications
• IT decision making
• Ireland: a pan-European supply chain hub?
Please contact us for all your SCM queries

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