Who am I?

The AFIT of Today is the Air Force of Tomorrow.

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What is a ‘supply chain’?

• Network of organizations:
  • Raw materials providers
  • Manufacturers
  • Wholesalers and distributors and
  • Retailers
  • Service Providers

• Connected by forward and reverse flows of goods, information, and enabling resources

• All interested in creating value for the ultimate customer
What Supply Chain Management Is Not

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- 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

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

[The International Center for Competitive Excellence, 1994]
[The Global Supply Chain Forum, 1998]
Types of Inter-company Business Process Links

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Aim High...Fly - Fight - Win
The SCM Processes - Briefly

- The **Customer Relationship Management** process provides the structure for how the relationship with customers will be developed and maintained.

- The **Supplier Relationship Management** process provides the structure for how the 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.
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 minimizing the total delivered cost.

- 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.
Processes Need to Be Standardized to Avoid Disconnects

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Information Flow

Tier 2 Supplier

Tier 1 Supplier

Manufacturer

Logistics

Purchasing

Production

R&D

Finance

Marketing & Sales

Customer

Consumer/End user

CUSTOMER RELATIONSHIP MANAGEMENT

SUPPLIER RELATIONSHIP MANAGEMENT

CUSTOMER SERVICE MANAGEMENT

DEMAND MANAGEMENT

ORDER FULFILLMENT

MANUFACTURING FLOW MANAGEMENT

PRODUCT DEVELOPMENT AND COMMERCIALIZATION

RETURNS MANAGEMENT

PRODUCT FLOW
All Functions Need to Be Involved

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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.

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Supply Chain Performance = Increase in Profit for A, B, C, and D
It Is Critical to Measure the Financial Impact

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• The development of customer profitability reports enables the CRM process teams to track performance over time.

• More profitable customers will be allocated more resources.

• Similarly, wholesalers and retailers should use profitability reports to evaluate suppliers, but manufacturers should use total cost reports to evaluate suppliers.

• The performance of each process should be measured in terms of its impact on EVA®.
How CRM Affects EVA®

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ECONOMIC VALUE ADDED

= NET PROFIT

SALES

– TOTAL EXPENSES

GROSS MARGIN

– CGS

NET PROFIT

NET SALES

– CAPITAL CHARGE

ECONOMIC VALUE ADDED

NET PROFIT

MARGIN

SALES

– TOTAL ASSETS

CURRENT ASSETS

– FIXED ASSETS

INVENTORY

– OTHER CURRENT ASSETS

COST OF CAPITAL

% × TOTAL ASSETS

Strengthen relationships with profitable customers
Sell higher margin products
Improve “share of customer”
Improve mix (e.g. align services and costs to serve)

Improve plant productivity

Targeted marketing
Improve trade spending
Eliminate or reduce services provided to low-profit customers
Optimize physical network/facilities
Leverage new or alternative distribution channels
Reduce customer service & order management costs
Reduce HR costs / improve effectiveness
Reduce overhead / management / admin. costs

Improve demand planning

Reduce safety stock
Make to order, mass customization of inventories

Reduce accounts receivable

Improve asset utilization and rationalization
Improve product development and asset investment
Improve investment planning and deployment

Supply Chain Management: Processes, Partnerships, Performance, p. 18.
• Supply chain management is all about *relationship* management.

• Partnerships require significant investment, so the goal is to fit the type of relationship to the business situation.

• Management Tools:
  • The partnership model assists with determining the right level of partnership between two organizations.
  • The collaboration framework assists with structuring of relationships when symmetry and/or working history are lacking between organizations.
Supply Chain Management: Elements and Key Decisions

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Supply Chain Management Processes

2) What processes should be linked with each of these key supply chain members?

Supply Chain Components

3) What level of integration and management should be applied for each process link?

Supply Chain Network Structure

1) Who are the key supply chain members with whom to link processes?
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

The partnership model helps firms manage the most important business relationships with customers and suppliers.