



Chapter 2:

SCM Competencies & Strategic Fit

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E-Business

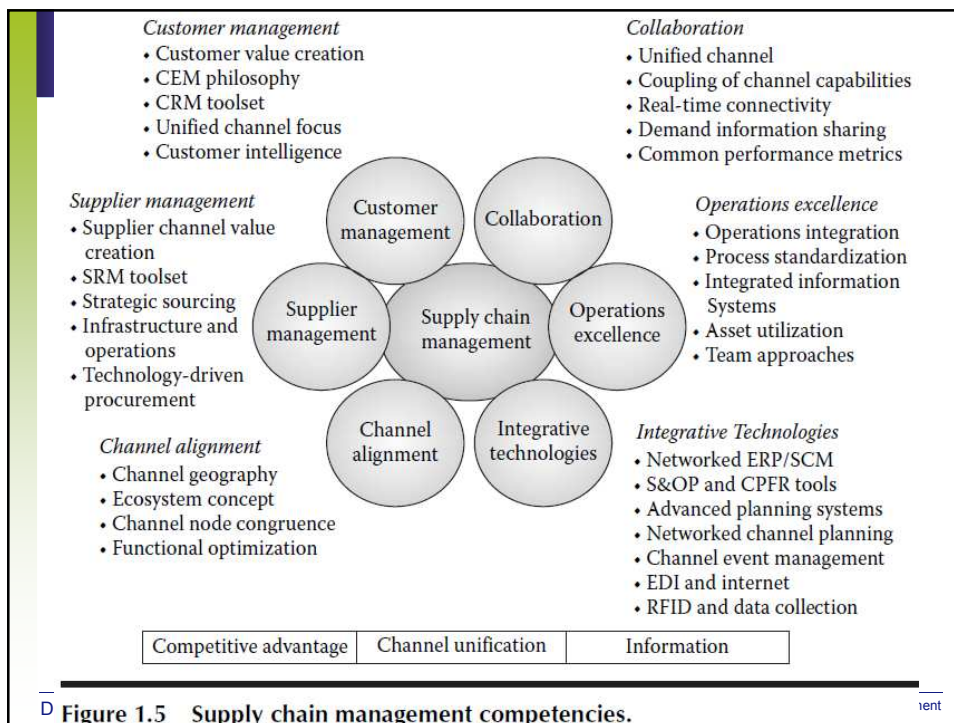
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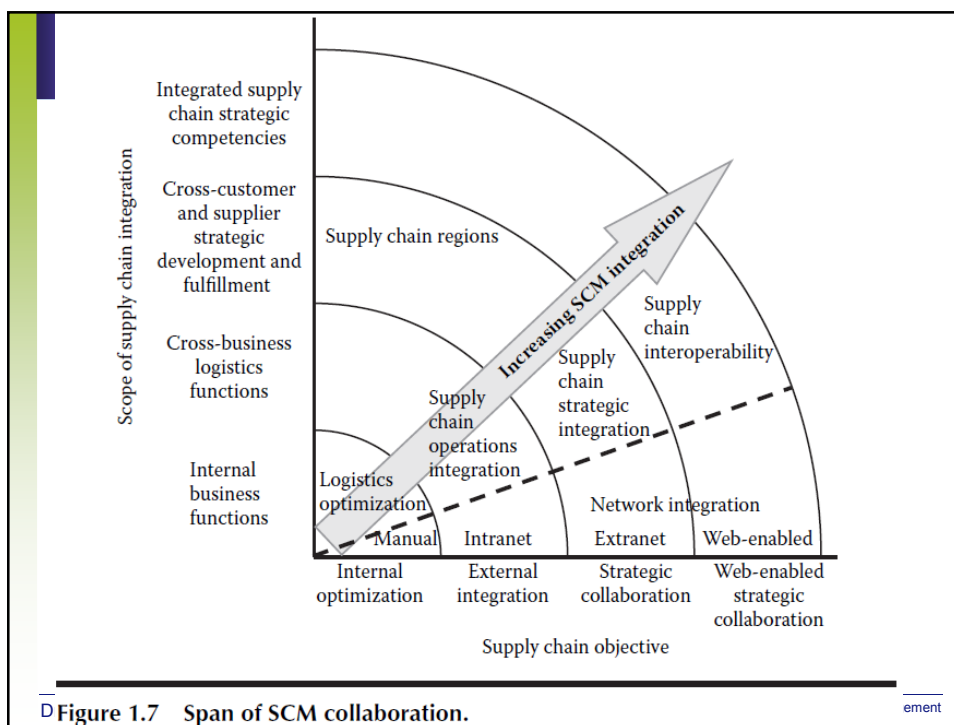
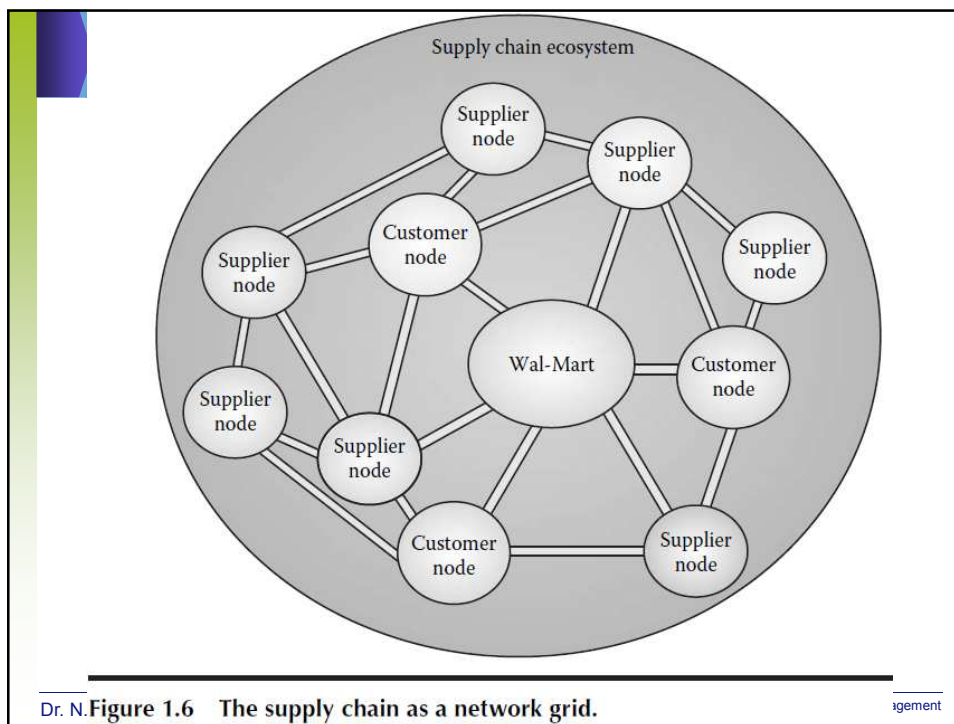
- ◆ Supply Chain Management (3/4 Edition), Chopra and Meindl, Prentice-Hall, 2006-2010 (Chapter 2)
- ◆ ROSS, D. F., Introduction to Supply Chain Management Technologies. 2nd ed. Boca Raton: CRC Press, 2010 (Chapter 1)
- ◆ Wisner, J.D., Tan, K & Leong, G.K, *Principles of Supply Chain Management: A Balanced Approach*. 3rd ed. USA: Cengage Learning. 2012. (Chapter 1)

Chapter Outline

- ◆ Competitive and supply chain strategies
- ◆ Achieving strategic fit

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Effective SCM relationships

- ◆ *Trust.*
- ◆ *Reliability.*
- ◆ *Competence.*
- ◆ *Risk Sharing*
- ◆ *Loyalty.*

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Achieving Strategic Fit

- ◆ Introduction
- ◆ How is strategic fit achieved?
- ◆ Other issues affecting strategic fit

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Achieving Strategic Fit

- ◆ Strategic fit:
 - Consistency between customer priorities of competitive strategy and supply chain capabilities specified by the supply chain strategy
 - Competitive and supply chain strategies have the same goals
- ◆ A company may fail because of a lack of strategic fit or because its processes and resources do not provide the capabilities to execute the desired strategy
- ◆ Example of strategic fit -- Dell

DELL example for strategic fit

- ◆ Competitive strategy; Customization and variety
- ◆ Supply chain strategy;
 - Two extreme options;
 - Efficient supply chain for low cost products (consolidated production and distribution, dedicated production capacity, limited variety, slow modes of distribution, standard products etc.)
 - Responsive supply chain; Flexible production capacity, fast distribution options, product variety, designing easily customizable products with as many as possible common components)
 - Second option of course better fits with competitive strategy of Dell.

How is Strategic Fit Achieved?

- ◆ Step 1: Understanding the customer and supply chain uncertainty
- ◆ Step 2: Understanding the supply chain
- ◆ Step 3: Achieving strategic fit

Step 1: Understanding the Customer and Supply Chain Uncertainty

- ◆ Identify the needs of the customer segment being served
- ◆ Quantity of product needed in each lot
 - An emergency order for material needed to repair a production line is likely to be small.
 - An order for material to construct a new production line is likely to be large.
- ◆ Response time customers will tolerate
- ◆ Variety of products needed
- ◆ Service level required
- ◆ Price of the product
- ◆ Desired rate of innovation in the product

Understanding the customer and supply chain uncertainty

◆ Understanding the Customer

- Lot size
- Response time
- Service level
- Product variety
- Price
- Innovation

Implied Demand Uncertainty

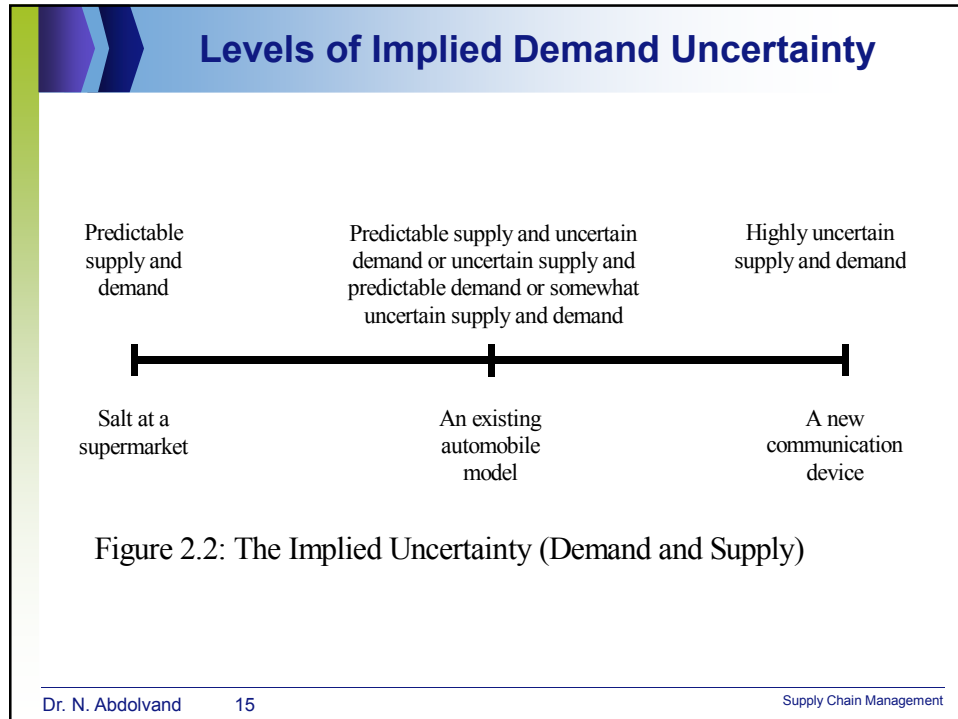
Implied demand uncertainty: resulting uncertainty for the supply chain given the portion of the demand the supply chain must handle and attributes the customer desires

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Impact of Customer Needs on Implied Demand Uncertainty (Table 2.1)

Customer Need	Causes implied demand uncertainty to increase because ...
Range of quantity required increases	Wider range of quantity required implies greater variance in demand
Lead time decreases	Less time to react to orders
Variety of products required increases	Demand per product becomes more disaggregated
Number of channels through which product may be acquired increases	Total customer demand is now disaggregated over more channels
Rate of innovation increases	New products tend to have more uncertain demand
Required service level increases	Firm now has to handle unusual surges in demand

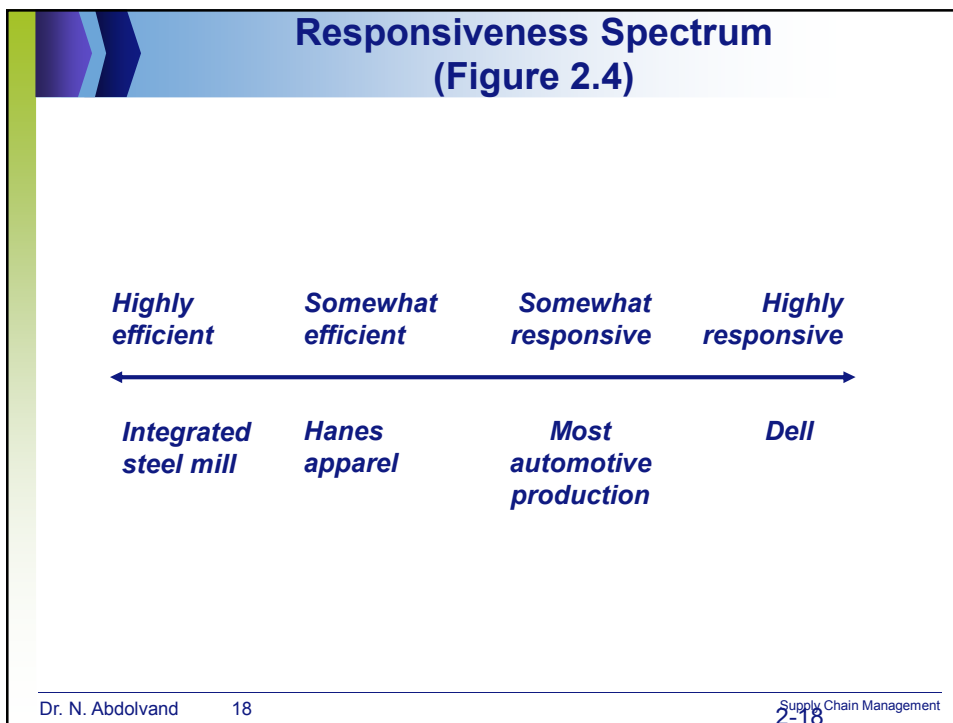
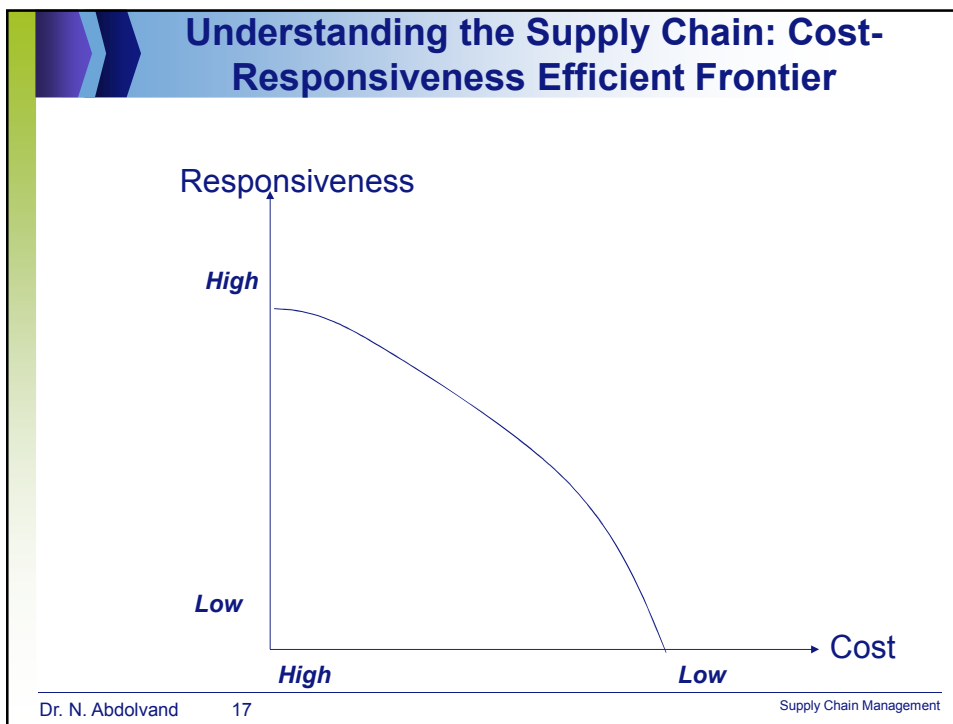
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Step 2: Understanding the Supply Chain

- ◆ How does the firm best meet demand?
 - Dimension describing the supply chain is “supply chain responsiveness”
- ◆ Supply chain responsiveness -- ability to
 - respond to wide ranges of quantities demanded
 - meet short lead times
 - handle a large variety of products
 - build highly innovative products
 - meet a very high service level

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Examples

- ◆ Responsive supply chains;
 - 7 Eleven- Japan; ,
 - variety of products; replenishes stores three times a day, with breakfast items, lunch items, and dinner items, provide different services.
 - Short lead times; a store is replenished in less then 12 hours after the store manager gives an order.
 - Dell
 - Variety of products; customers designs their own PCs.
 - Short lead times; uses parcel carriers for transportation to deliver a PC to the customer in a week on the average.
- ◆ Efficient supply chain;
 - B1M stores
 - Less workers at stores, less promotional costs, displaying products in boxes rather than stacking them on shelves, limited variety (about 600), reasonable quality products, stores not on main streets but in secondary places to keep the costs down.

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Responsiveness Spectrum (Figure 2.4)

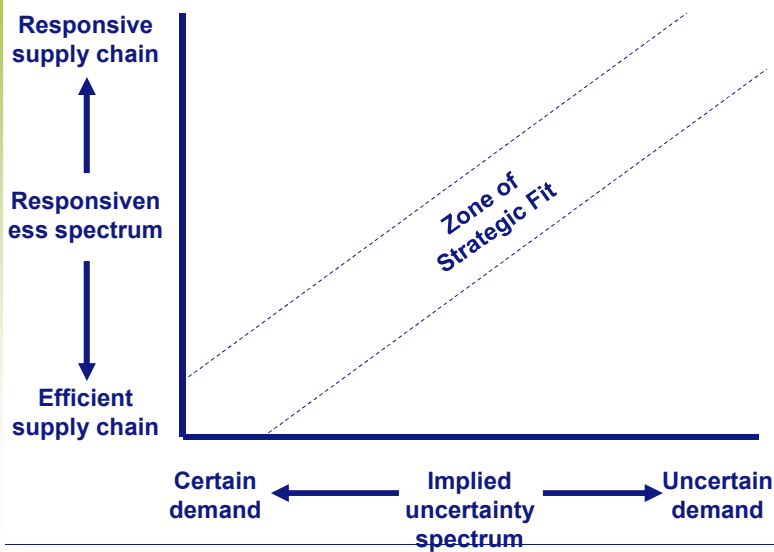
<i>Highly efficient</i>	<i>Somewhat efficient</i>	<i>Somewhat responsive</i>	<i>Highly responsive</i>
<p>←</p> <p><i>Integrated steel mill Advance Production Schedules, Less variety and flexibility</i></p>	<p><i>Hanes Apparel Make to stock manufacturer with a lead time in weeks</i></p>	<p><i>Most automotive Production Variety of products delivered in weeks</i></p>	<p><i>Seven-Eleven Japan Variety of products by locaiton and by the time of the day, quick replenishments</i></p> <p>→</p>

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Step 3: Achieving Strategic Fit

- ◆ Step is to ensure that what the supply chain does well is consistent with target customer's needs
- ◆ Fig. 2.5: Zone of strategic fit
- ◆ Fig. 2.6: Uncertainty/Responsiveness map

Achieving Strategic Fit Shown on the Uncertainty/Responsiveness Map (Fig. 2.5)

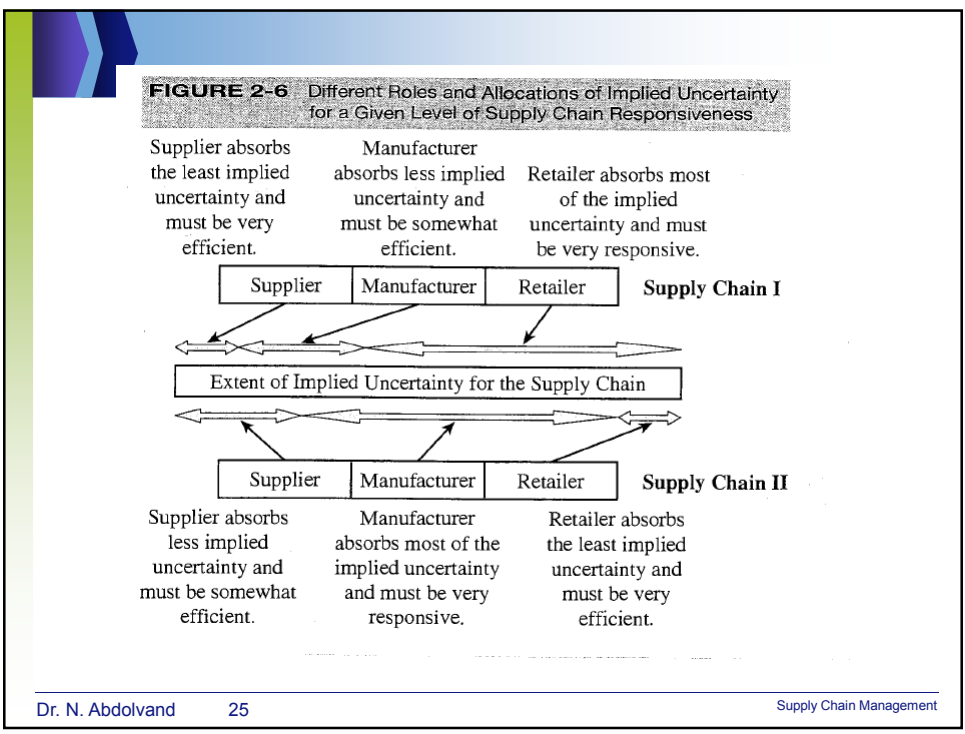


Step 3: Achieving Strategic Fit

- ◆ In achieving strategic fit, different levels in the supply chain can be assigned different responsiveness and efficiency.
- ◆ Examples;
 - IKEA; Swedish furniture retailer
 - Targets customer who wants stylish furniture at reasonable price
 - Limited variety to reduce the supply uncertainty
 - Large stores where all styles are stocked and customer demand is satisfied from stocks.
 - Stable and predictable orders to its manufacturers located in low-cost countries.
 - Responsiveness provided by the stocks in store that absorbs the demand uncertainty.
 - Manufacturers can be efficient because of stable and predictable

Step 3: Achieving Strategic Fit

- ◆ Example;
 - England Inc.; Furniture manufacturer in Tennessee
 - England manufactures and delivers thousand of sofas and chairs to orders with three weeks lead time.
 - England's retailers let customer to select from variety of products with a promise of quick delivery. Retailers carry little inventory
 - All the uncertainty is passed to England Inc. And Retailers can be efficient
 - England Inc. can either hold high levels of raw material inventories to absorb the uncertainty and chose not to be efficient and allows its suppliers to be efficient, or passes all the uncertainty to its suppliers by holding low levels of raw materials and England itself works efficiently.



Other Issues Affecting Strategic Fit

- ◆ Multiple products and customer segments
- ◆ Product life cycle
- ◆ Competitive changes over time

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Questions?