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Chain Reactions:Management Opportunities Report

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Chain reactions

Lean supply chain management can lead to export-driven growth and economic recovery, writes Edward Sweeney.



Recent months have shown some modest signs of economic recovery and a return of business confidence. However, after the serious contraction of recent years there is still a long way to go before sustainable economic growth becomes a reality. Stabilising the exchequer finances and the creation of a functioning banking sector are important in this regard. However, it is only through a return to successful export-driven growth that the situation can really be turned around. Supply chain management (SCM) has a central role to play in achieving this.

Increasingly competitive markets, more discerning customers, globalisation of markets for inputs and outputs, shortening product life cycles and vertical disintegration have all combined to put SCM at the core of the strategy development process. The SCM concept was first introduced by management consultants in the early 1980s and is now the subject of extensive debate in both commercial and academic circles. In essence, SCM is concerned with the management of supply chain processes with a view to optimising total supply chain investment and cost, and meeting or exceeding customer service requirements in targeted markets or segments.

This is achieved through the 'integrated' management of materials, financial and information flows throughout the chain. This notion of integration is central to SCM and has a profound impact on the nature of relationships between, and within, firms. Every product or service is delivered to the final consumer (the only source of 'real' money in the chain) through a series of often complex movements between companies that comprise the complete chain. Inefficiencies anywhere in the chain will result in the chain as a whole failing to

achieve its true competitive potential. In other words, supply chains are increasingly competing with other supply chains rather than, in the more traditional axiom, companies simply competing with other companies. The phrase 'supply chain' is used to indicate that the chain is only as strong as its weakest link.

A number of key issues are changing the SCM strategic landscape. Arguably, the three

most significant such issues are internationalisation (or globalisation) of supply chains, vertical disintegration and the changing role of the supply chain in strategic differentiation.

Global sourcing of raw materials and other inputs has now become a reality for many organisations as the structure of the international economic and business environment evolves. This evolution, largely based on the reduction of barriers to the movement of capital, goods, services, people and information internationally, has also made access to lower cost manufacturing worldwide possible. Furthermore, as markets have opened up internationally for a range of products and services, international, and in some cases, global selling has become the reality. All of this has implications for the logistics and distribution strategies of companies. In short, as economic globalisation has happened so supply chain architectures have become more global and more complex.

Companies are increasingly focusing on what they regard as their core activities or competencies. The corollary of this is that the potential exists to outsource activities regarded as non-core. Key supply chain activities such as transportation, warehousing and manufacturing are increasingly being outsourced to third-party organisations. This has resulted in a shift away from the traditional model of 'control through ownership' towards models that are based on management and control through effective supply chain relationship management. In short, as this process of vertical disintegration has taken place so supply chain architectures have become more virtual and more complex.

As a significant proportion of the overall cost base of companies is in the supply

chain, any worthwhile improvement initiative needs to focus on the optimisation of total supply chain costs and the elimination of non-value adding activities (NVAs) - a key objective of SCM. Customer service is becoming a key order winning criterion in many sectors. Its importance relative to product quality (largely an order qualifier) and price (determined by the dynamics of supply and demand in the market and subject to downward pressure in many sectors) has increased. Customer service is delivered by the supply chain. In this way, the supply chain itself has become a key determinant of competitive advantage.

SCM is of particular importance in this country as Ireland is one of the most open economies in the world. This, combined with our relative geographical location and the resulting transportation cost disadvantage faced by companies located here, has sharpened the focus of decision makers on the need for robust approaches to supply chain design and management.

So what are the characteristics in evidence in companies that might be regarded as 'world class'? It is impossible to develop an exhaustive list of the characteristics of SCM excellence but NITL's research suggests that the following four elements appear to be of critical importance for most companies in most sectors:

- Identification and measurement of customer service because customer service 'sets the spec' for supply chain design
- Integration of supply chain activities and information because many supply chain NVAs are caused by fragmented supply chain configurations
- SCM and logistics is a senior management function as SCM is a strategic activity
- Establishment and measurement of supply chain key performance indicators (KPI's) because what gets measured gets done.

NITL's ongoing research further indicates there is significant room for improvement in most Irish firms in each of these areas. Successful organisations know that the creation of real value for customers is the critical challenge. The development of appropriate supply chain strategies, as well as their effective implementation, provides the basis for this wealth creation and the return to sustainable export-driven economic growth.

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