



# Supply Chain Strategies

# Definitions



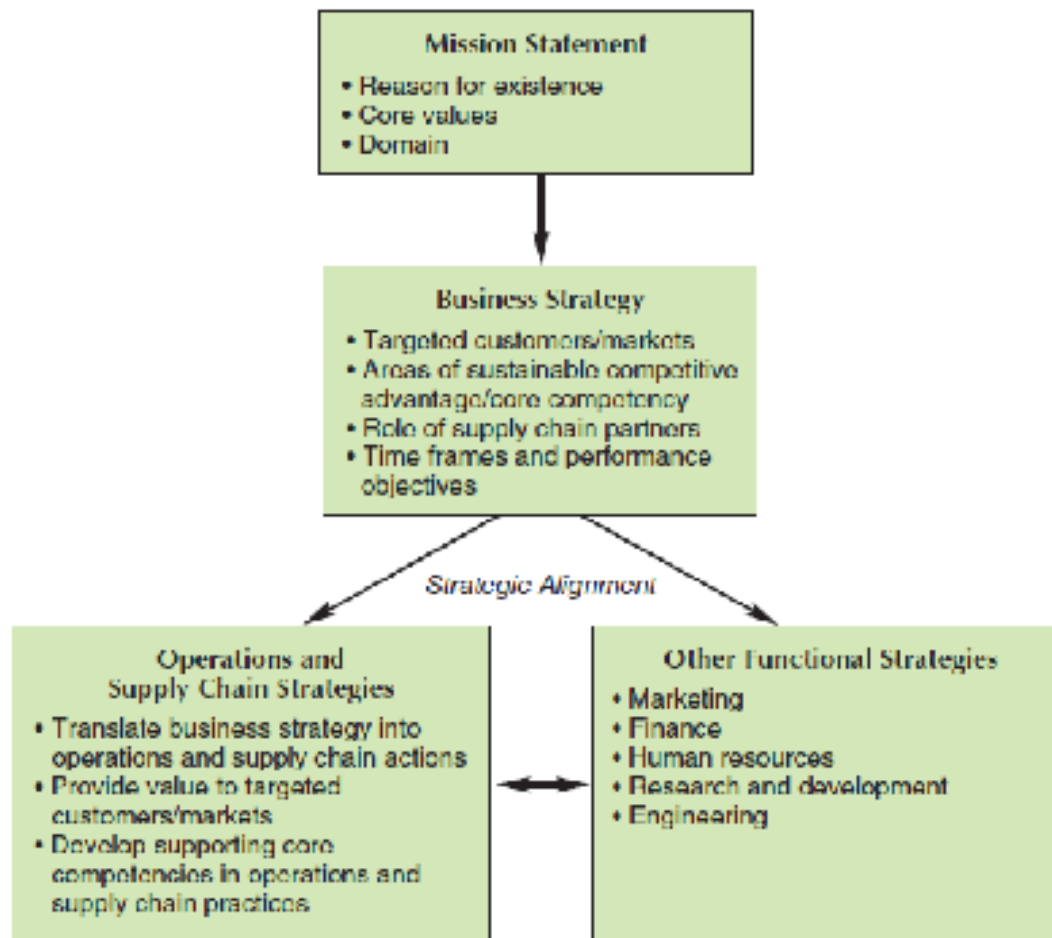
- ▶ Strategies - The mechanisms by which businesses coordinate their decisions regarding their structural and infrastructural elements.
- ▶ Mission Statement - Explains why an organization exists and what is important to the organization (its core values) and identifies the organization's domain.

# Definitions

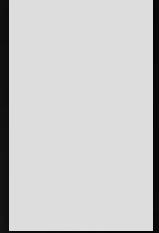


- ▶ Business Strategy - The strategy that identifies a firm's targeted customers and sets time frames and performance objectives for the business.
- ▶ Functional Strategy - A strategy that translates a business strategy into specific functional areas.
- ▶ Core Competency - An organizational strength or ability that customers find valuable and competitors find difficult or impossible to copy.

# A Top-Down Model of Strategy



# Operations and Supply Chain Strategies



The operations and supply chain strategy is a functional strategy that indicates how the structural and infrastructural elements within the operations and supply chain areas will be acquired and developed to support the overall business strategy.

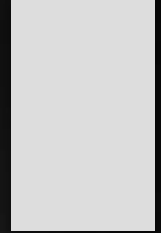
- ▶ What mix of structural and infrastructural elements ?
- ▶ Is the mix aligned with the business strategy?
- ▶ Does it support the development of core competencies?



# The four elements of supply chain strategy

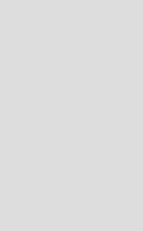
# Industry framework

Within this framework are four main drivers affecting supply chain design, all of them interrelated:




*1. Demand variation, or demand profile, influences the stability and consistency of the manufacturing assets' workload, and consequently is a main driver of production efficiency and product cost*

## 2. *Market mediation costs*



3. *Product lifecycle*, which is continually getting shorter in response to the speed of change in technology, fashion, and consumer product trends, affects the predictability of demand and market mediation costs. Consequently, it pushes companies to increase the speed of product development and to continuously renew their product portfolios



# 4. Relevance of the cost of assets to total cost

# Unique value proposal



- ▶ The second element, the unique value proposal, requires a clear understanding of the organization's competitive positioning in terms of its supply chain

# Managerial focus

- ▶ Before discussing the fourth element—internal processes—it is important to explain the linkage and alignment between an organization's competitive positioning and its supply chain processes. The connection between these two areas is governed by the decision-making process and is driven by the supply chain's managerial focus.

# Internal processes



## Six generic supply chain models

Once a company understands the factors driving its business, then it can determine which of six common supply chain models identified by the Supply Chain Roadmap best matches those criteria. These six are grouped in two categories: supply chain models that are oriented to efficiency, and those that are oriented to responsiveness.

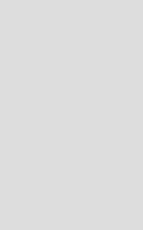
# Supply chains oriented to efficiency

In industries where the value proposal is oriented toward low cost and/or high relevance of asset utilization to total cost, end-to-end efficiency is a must. Examples of such industries include cement, steel, paper, commodities, and low-cost fashion, among others. They are best suited to one of three supply chain types—"efficient," "fast," and "continuous-flow"—that are best able to maximize asset utilization:

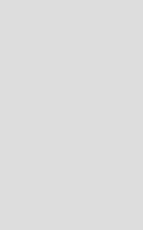
*The "efficient" supply chain model*

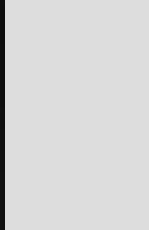
For this supply chain model to be successful, the following factors should be in place

1. There should be extra capacity in outbound logistics, to absorb demand peaks without affecting the ability to meet customers' expected receiving dates.
2. The SKU portfolio should be trimmed back to reduce the number of "high variation, low demand" SKUs, which create complexity in production and service.



3. The production cycle should be scheduled in a logical sequence of SKUs, with the aim of reducing setup time between each pair of adjacent SKUs. The production sequence should be fixed and maintained for long periods of time. This will help to increase the manufacturing line's experience with each setup, reducing the amount of time it takes for changeovers and, consequently, the length of the production cycle.

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4. When transportation cost is highly relevant to the total cost, a minimum order-size policy of a full truckload is recommended. An alternative is a fixed order-cycle policy that allows the company to consolidate certain customers' orders on the same truck. For example, orders for customers in a particular region would be consolidated every Tuesday at 5 p.m. and dispatched the next day.
  5. When market demand evidences seasonal trends, extra warehousing capacity should be available in anticipation of the need to store additional product during high-demand periods.



6. Customers whose buying behavior follows a regular, predictable pattern should be invited to participate in collaborative programs. These are programs where supplier and customer share supply and demand forecasts and schedules in order to reduce demand variability. The purpose is to migrate them to a continuous-replenishment model, and then step-by-step to convert the supply chain model from efficient to continuous-flow (discussed later), which is a more mature model that generates higher levels of customer loyalty.



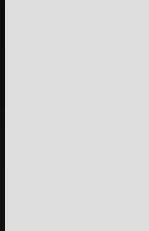
*The "fast" supply chain  
model*



*The "continuous-flow"  
supply chain model*

# Supply chains oriented to responsiveness

- ▶ Industries that face considerable demand uncertainty, where market mediation cost is highly relevant, should employ one of three different supply chain approaches that are oriented toward providing capacity in response to changes in demand. These include the "agile," "custom-configured," and "flexible" models.



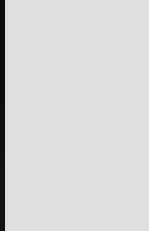
*The "agile" supply chain  
model*



*The "custom-configured"  
supply chain model*



# *The "flexible" supply chain*

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- ▶ A typical example of this type of supply chain can be found in companies that provide metalworking and machining services for the manufacture of spare parts for industrial customers. This type of company may encounter emergency situations such as the need to immediately replace broken parts. Accordingly, they must be able to provide a fast response and sufficient capacity to develop unique parts by combining successive processes, such as turning, reaming, and welding, in a configuration adapted to a specific situation.