

Four Cornerstones of Value-Producing Supply Networks

Value X 4

Joseph L. Cavinato, Ph.D.
Director, Center for Strategic Supply Leadership – ISM
November 11, 2002

Value X4

Today's Essentials –

Doing the Familiar Better

- Increase market share
- Drive revenue growth
- Make your mark on the competitive edge
- Nuts and bolts of supplier evaluation
- Successful collaboration
- Continuous benchmarking
- Lean team player
- Hidden value opportunities

*Supply is as Much Internal
as with Suppliers*

Extending the Current Farther

- Making sense of data into knowledge
- Identify and overcome inefficiencies
- Forecasting what's ahead
- Seize key initiatives
- Taking leadership

Positioning Forward

The Growth in How Organizations Acquire Things

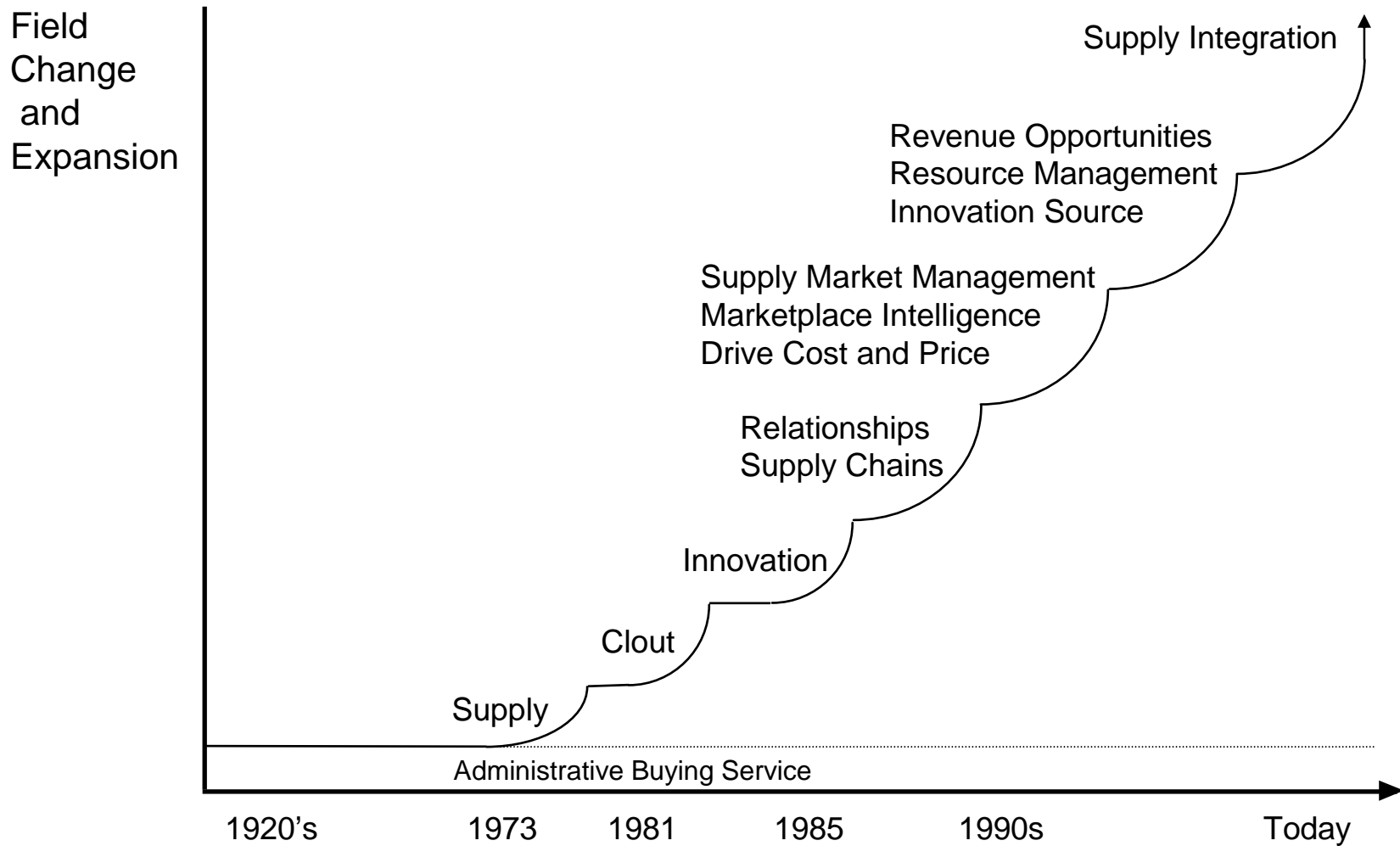


Figure 1

Eras of Purchasing Growth toward Supply

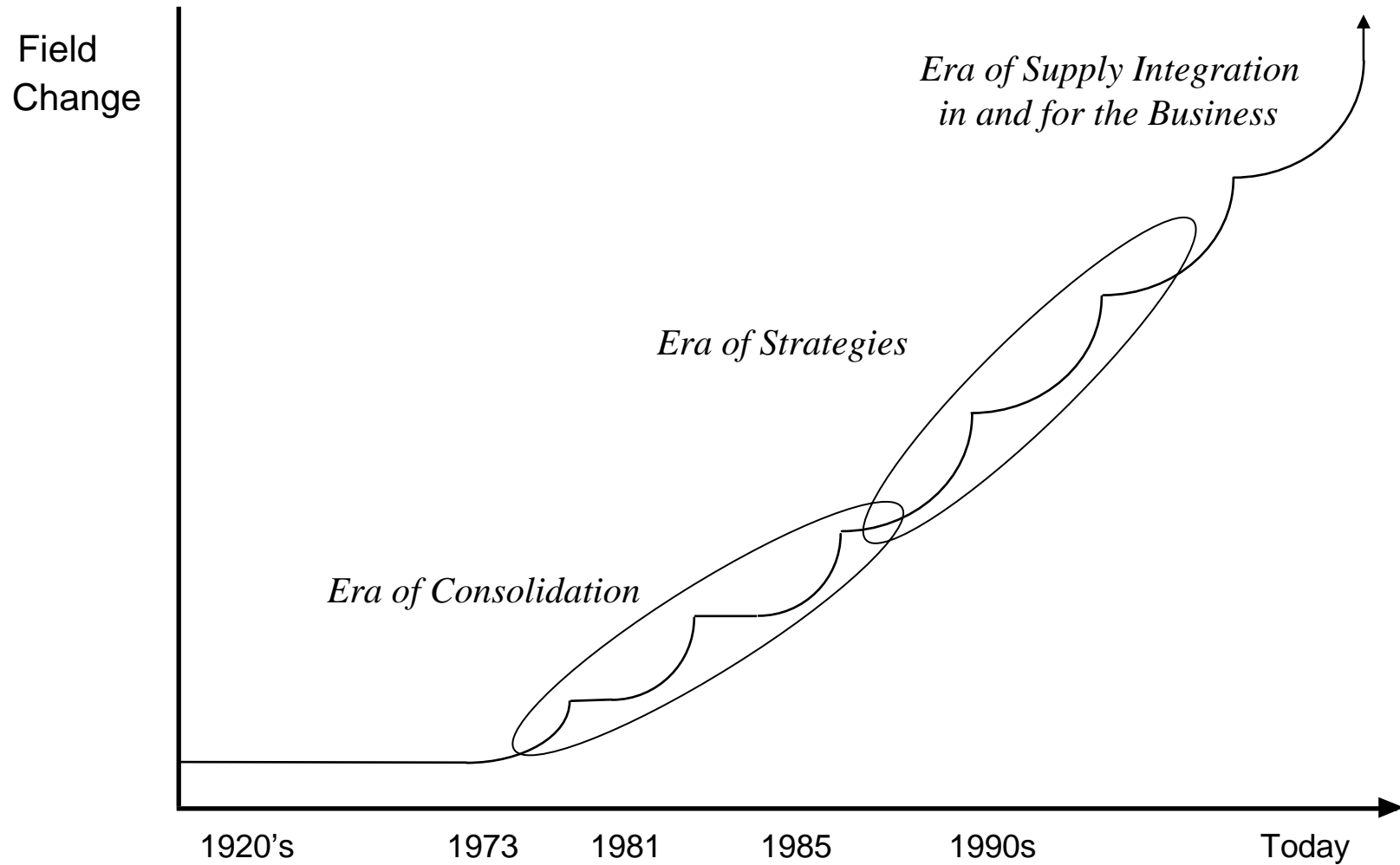


Figure 2

Supply Challenges are Increasingly Complex

The needs of the firm/organization are growing in depth

More is possible from the supply world but the best is only
available with supply leadership and management efforts

Imperative: alignment with focus of the firm/organization

The Four Value Constructs of Supply Chain/Networks

The four value constructs:

1. Physical

- *the actual movements and flows within and between firms, transportation, service mobilization, delivery movement, storage, and inventories*

2. Financial

- *the flows of cash between organizations, incurrence of expenses, and use of investments for the entire chain/network, settlements, A/R and A/P processes and systems*

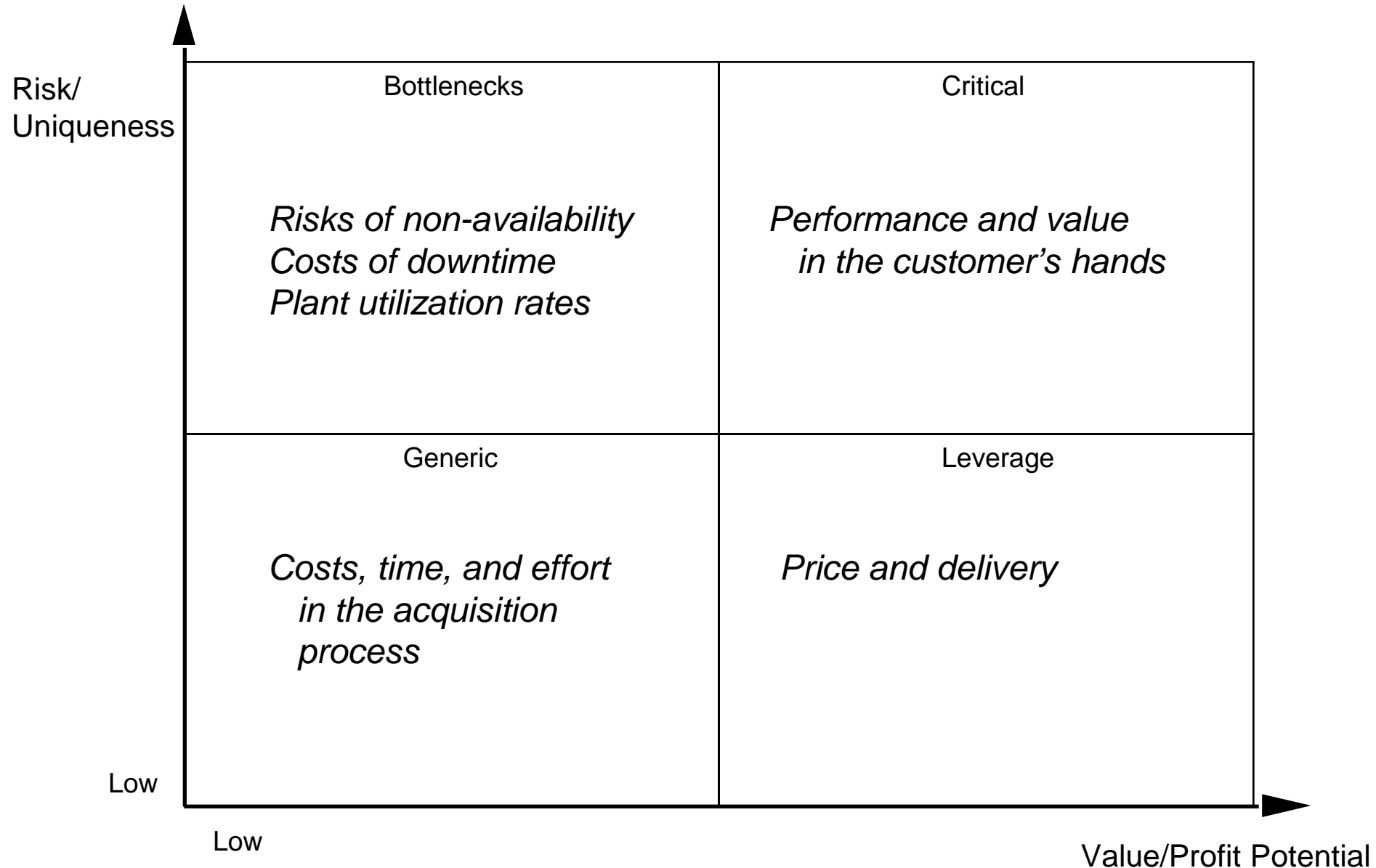
3. Informational

- *the processes and electronic systems, data movement triggers, access to key information, capture and use of data, enabling processes, market intelligence*

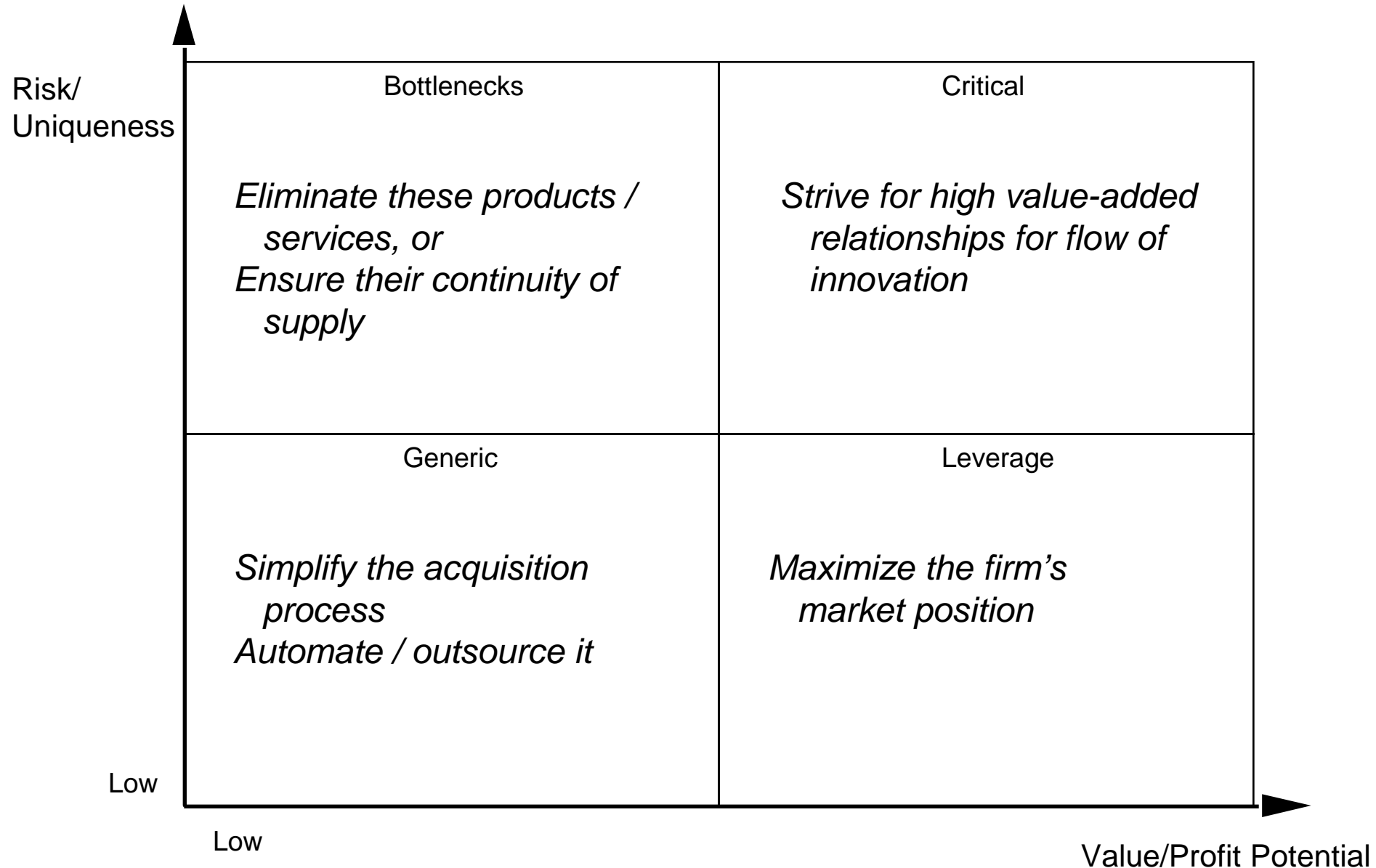
4. Relational

- *the appropriate linkage between a supplier, the organization and its customers for maximum benefit; includes internal supply matter relationships throughout the organization*

What are the Relevant Costs of Each?



Strategic Approaches



The Supply “Chain” is a Financial Entity

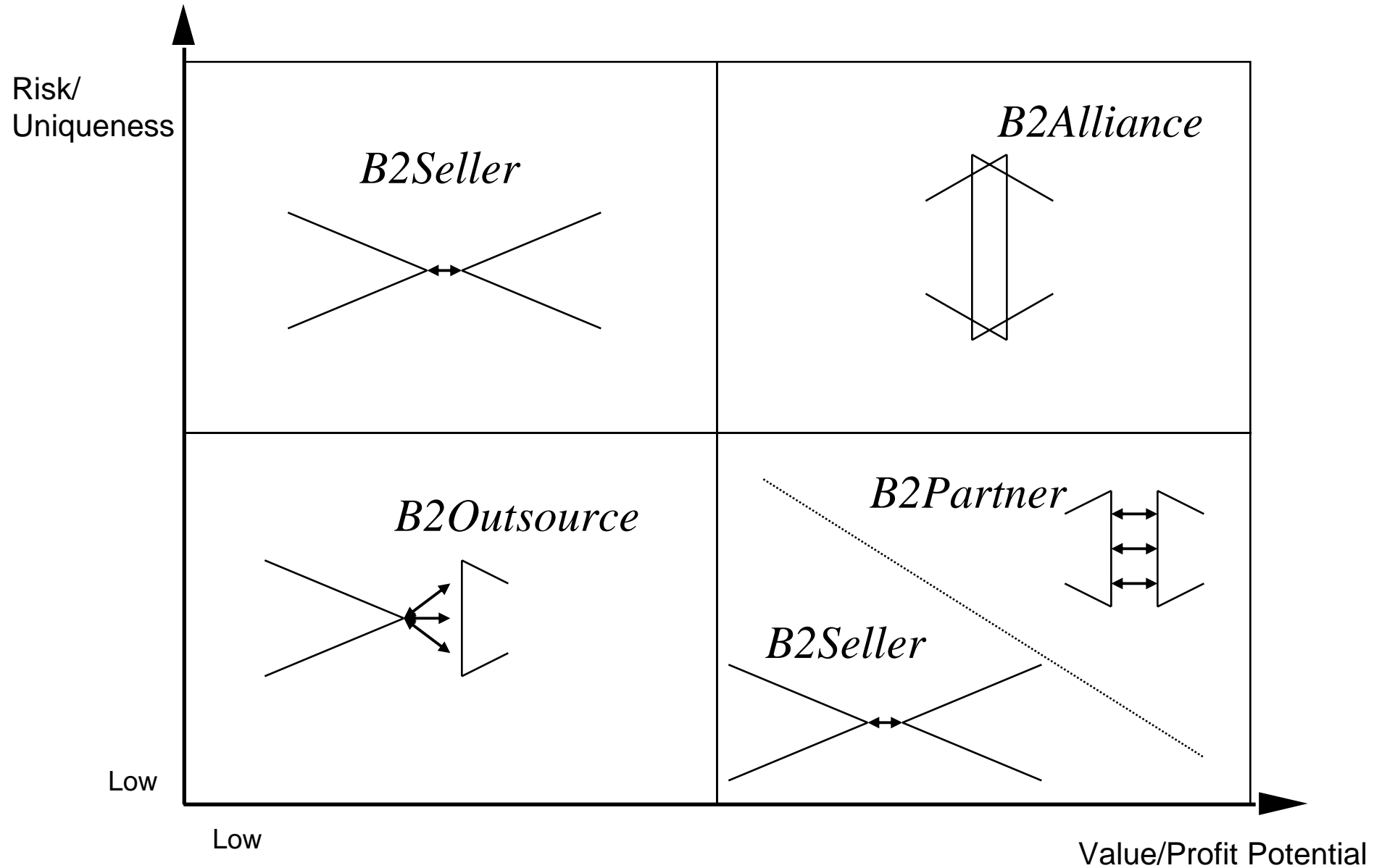
The Firm:	assets invested operating costs incurred process expenses overhead its business model
-----------	---

The Supplier:	assets invested operating costs incurred process expenses overhead its business model
---------------	---

The Next Tier Supplier:	assets invested operating costs incurred process expenses overhead its business model
-------------------------	---

Nature of the Business Informational Linkages

- B2 What? -



Spectrum of Supply Relationships

- 1) Do not know they exist; do not care
- 2) Opportunistic sourcing
- 3) Price relationship
- 4) Price relationship, cooperate when beneficial
- 5) Price relationship, collaborate when beneficial
- 6) Total cost relationship
- 7) Total value relationship
- 8) One invests in the other
- 9) Joint ventures
- 10) One buys the other, separate entity, transfer price
- 11) One buys the other, complete vertical integration

What Happens with Missing or Misaligned Cornerstones?

- Physical --
 - Flows are slow, cumbersome, higher in cost than needed
 - Product / services don't get timely delivered or mobilized
 - Buyer and seller incur added inventory or capacity than needed
 - Competitors gain unknown edge in the marketplace

- Financial --
 - Costs of the business are higher
 - Unnecessary investments are made
 - Poor settlement processes add to overhead
 - Costs of one tier impact the others
 - Payment delays are built into supplier pricing

What Happens with Missing or Misaligned Cornerstones?

- Continued -

- Informational -- Inventories and investments build as hedges against needs
Wrong items get produced and/or delivered
Returns grow and customer service suffers
Planning mistakes and inaccuracy of data cause recurring problems
- Relational -- Back door buying grows
Cross-purpose actions by many departments in the organization
Many “clean-up” conversations and meetings
Missed opportunities from suppliers that would otherwise be available
The physical, financial, and informational don’t work to their best
Strategic initiatives don’t produce intended joint results between firms

“Whether purchasing professionals know it or not, most senior managements want someone (and it’s them) to seize value from the chain in more ways than price haggling.

No one is better poised to look across the landscape within our own company silos and those of the suppliers to drive and tap those many possible values.”

Interview with Fortune 10 CEO, February 2002

The Program

Monday --

Four Cornerstones	Joe Cavinato	All chains/networks
Driving More Value at Lower Cost	Christine Breves	Info and Financial
Supply Chain Optimization	Mike Griswold Mike Lech	Physical
Earning the Right to Lead by Adding Value	James Cebula Mark Steele	Informational
Value of Lean Management Practices to Strategic Supply Chain Management	Kenneth Copeland	Relational
Competitive Supply Chain	Kent Brittan	All chains/networks

The Program

Improve Your Competitive
Edge

Robert Hayes
Neil Mac Ivor

All Chains / Networks

The Next Step in E-Procurement

Brook Foust

Informational

Can You See the Elephant?

Peter Van Houten
Philip Lang

Physical and Financial

Tuesday --

Workforce Services Procurement

Jai Shekhawat
Bob Stellato

All Chains / Networks

High Velocity, Low Variability
Supply Networks

William Walker

Physical and
Relational

Managing the Supply Chain at
Subway

Janet Risi

All Chains / Networks

Transforming the Chemical
Supply Chain into a Service
Chain

Jill Kauffman Johnson
Lynn Mueller

All Chains / Networks

The Program

Developing and Selling a Strategic Plan for SM	Timothy Larson	Relational (internal)
Ten Commandments of Networking	Mark McGregor	Relational
Strategic Negotiation	Karl Busch Brian Menzies	Relational
Wednesday --		
The Near Future	Joe Cavinato	All chains / networks
Beyond Auctions	Robert Harlan Avner Schneur	Informational
Controlling and Leveraging Your Print Spend with E-Procurement	Andrew Schaer Peter Monaco Rick Roach	Informational

The Four Value Constructs of Supply Chain/Networks

The four value constructs:

1. Physical

- *the actual movements and flows within and between firms, transportation, service mobilization, delivery movement, storage, and inventories*

2. Financial

- *the flows of cash between organizations, incurrence of expenses, and use of investments for the entire chain/network, settlements, A/R and A/P processes and systems*

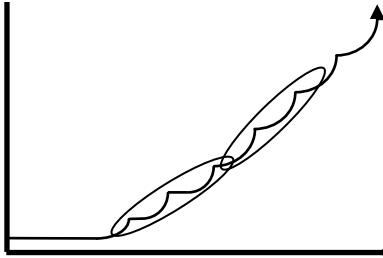
3. Informational

- *the processes and electronic systems, data movement triggers, access to key information, capture and use of data, enabling processes, market intelligence*

4. Relational

- *the appropriate linkage between a supplier, the organization and its customers for maximum benefit; includes internal supply matter relationships throughout the organization*

Value X 4



The field is no longer linear and of single purpose.

In the on-going and expanding quest to obtain the many forms of value that are possible, supply has grown to

- use many constructs of chains/networks, and
- in need of multi-dimensional talents