

# **The Near Future: How Far Can You Leverage Supply?**

Value X 4

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

## Points to Consider --

Much of this program is completely new.

Many of the practices being shared did not exist just a few short years ago. Many of them could not have been predicted as recently as 1995.

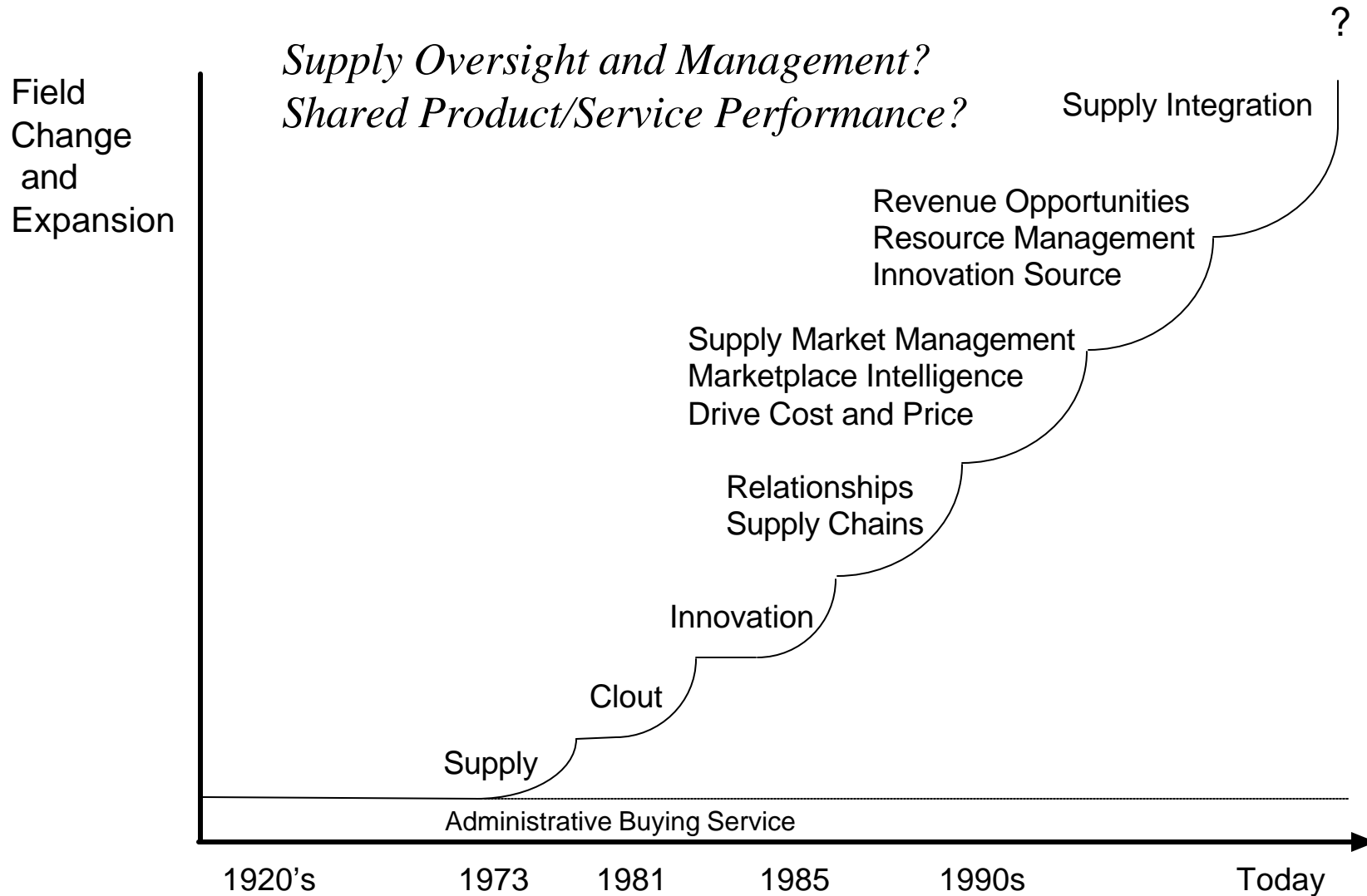
But, what will seven years from now be like? 2009?

---

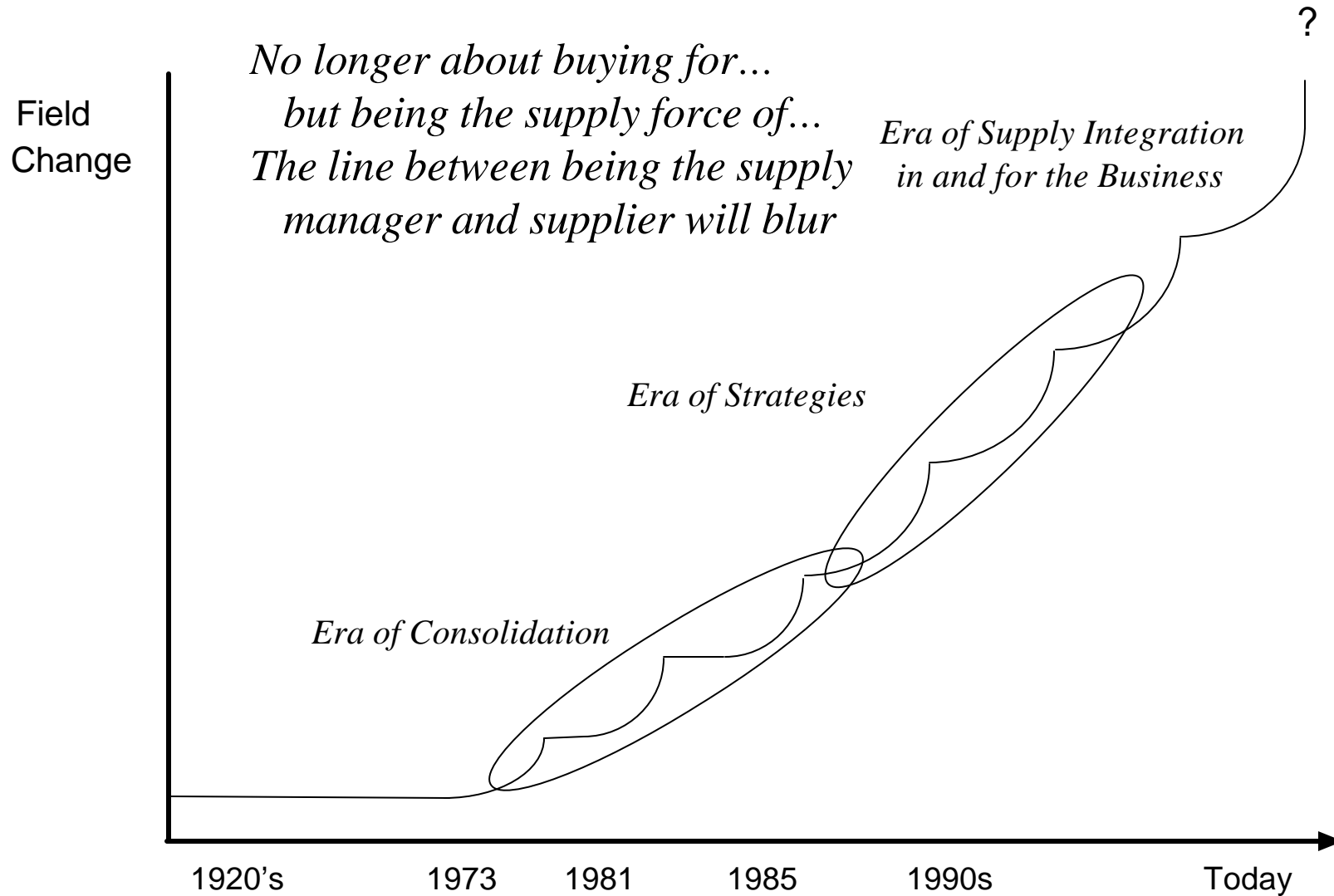
Most industry observers think the absolute amount of change in the last seven years will again occur in only the next three to five years.

# The Growth of How Organizations Acquire Things

## - What's Next? -



## Eras of Purchasing Growth toward Supply What's Next?



*“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 those many possible values.”*

Interview with Fortune 10 CEO, February 2002

## Seven Years Ago versus Today

Many new tools, options, and insights were in the field in 1995.

Today, the number of these is even greater. Compound that with the fact that our own organizations are looking at so many more strategic directions than ever before.

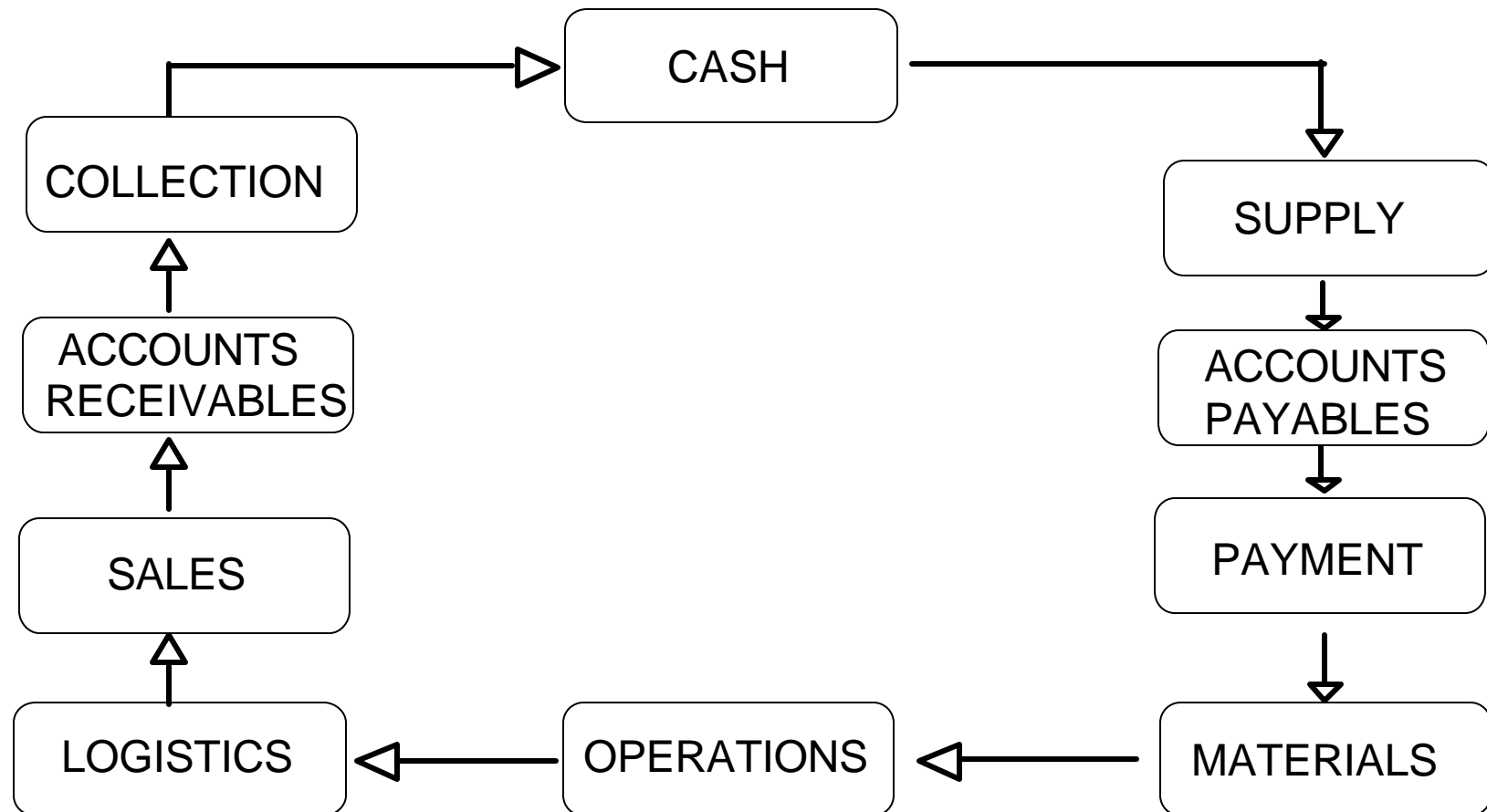
Nothing is sacred.

Nothing is to be ignored.

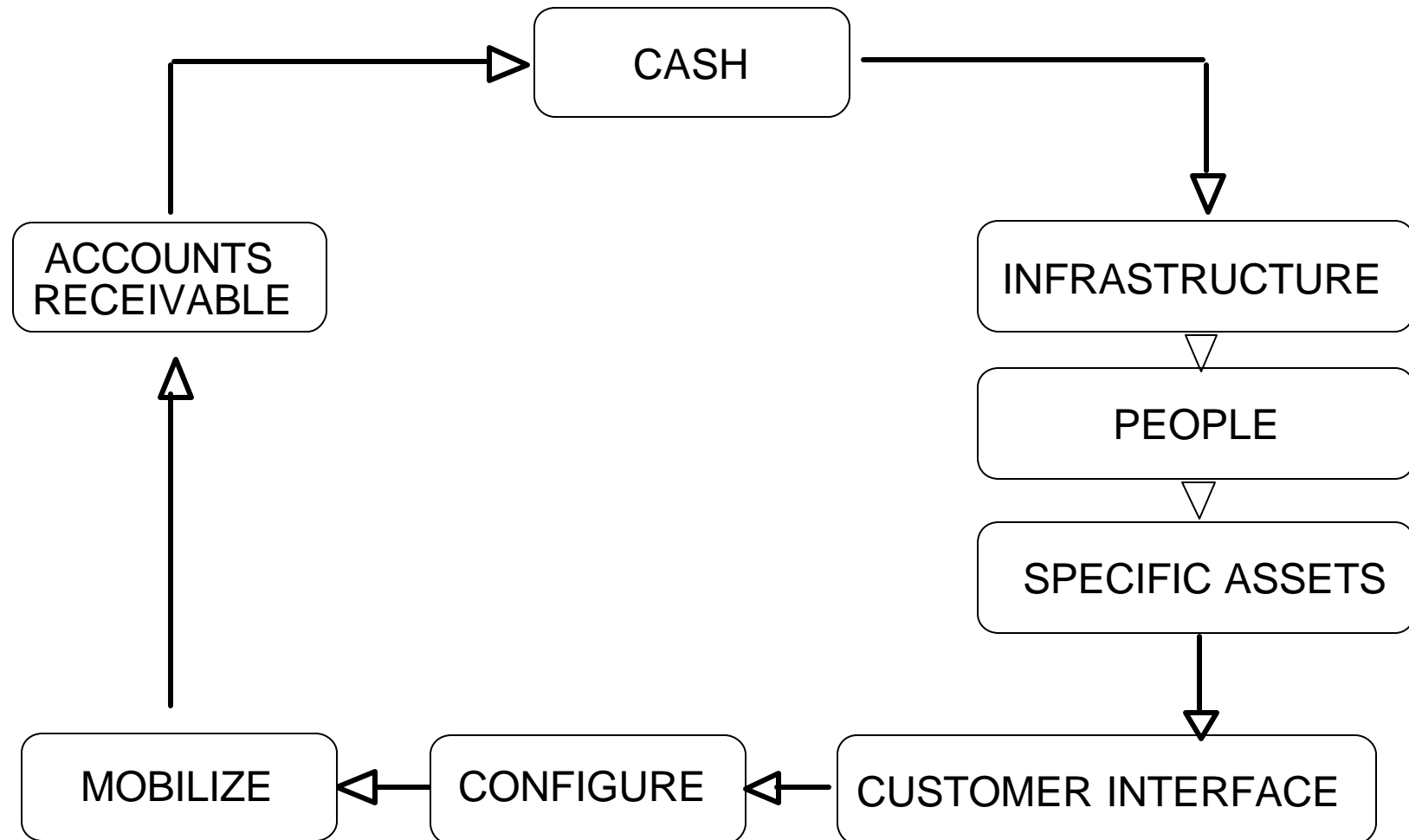
Nothing is to be overlooked.

Nothing is out of bounds for consideration.

# Business Cash to Cash Cycle

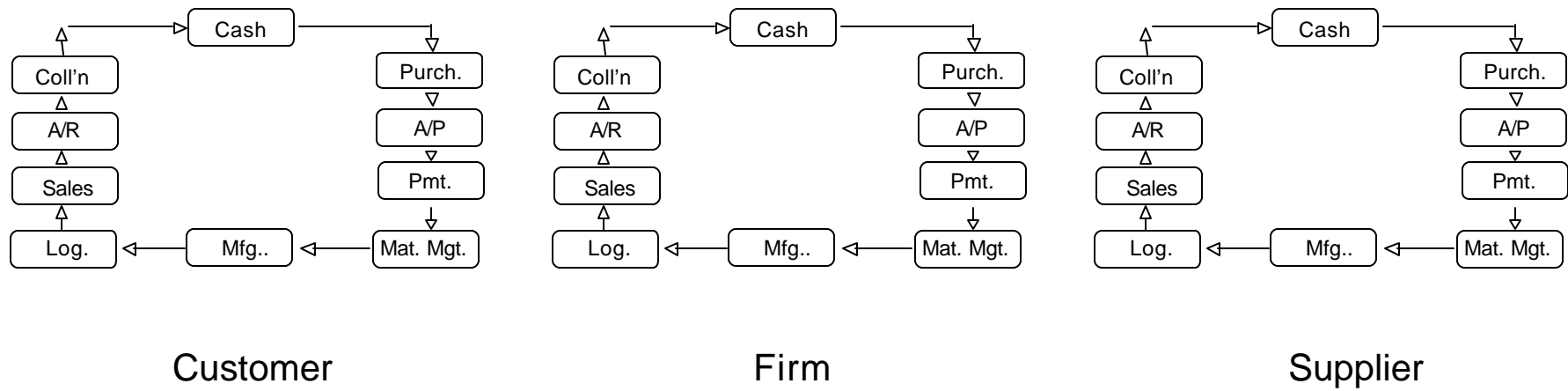


# TIME: Service Cash Cycle

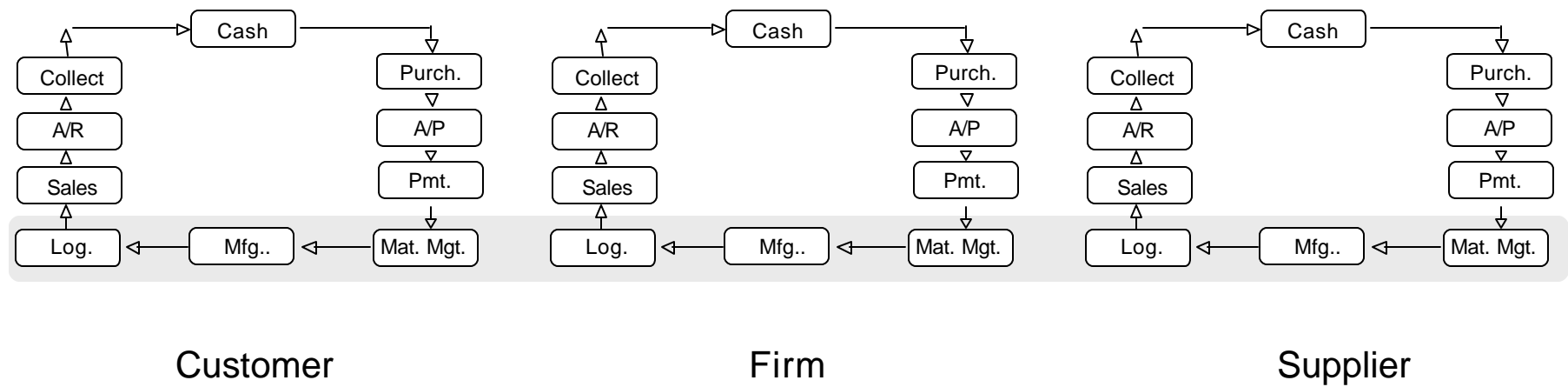




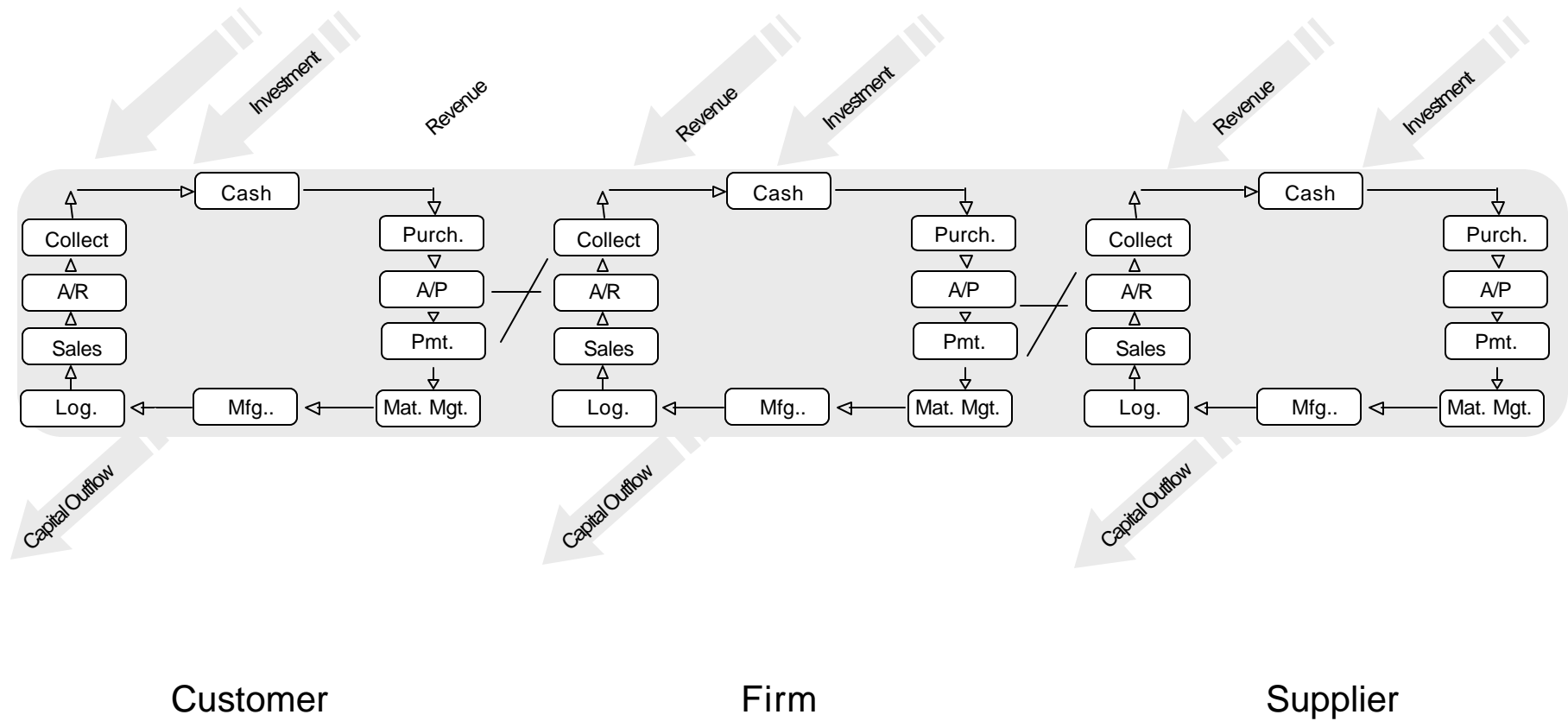
## A Manufacturing Company in a Chain



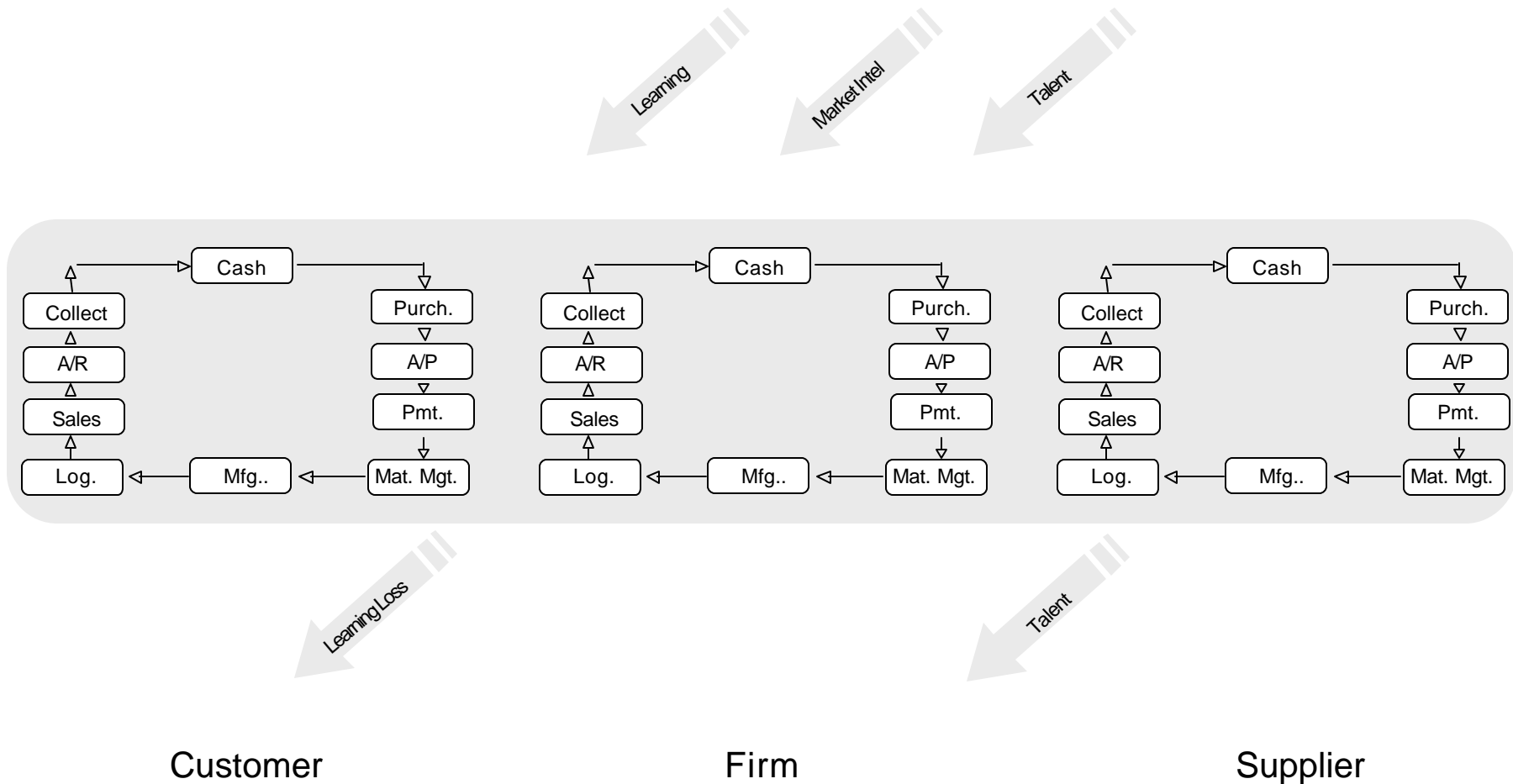
## Physical Supply Chain



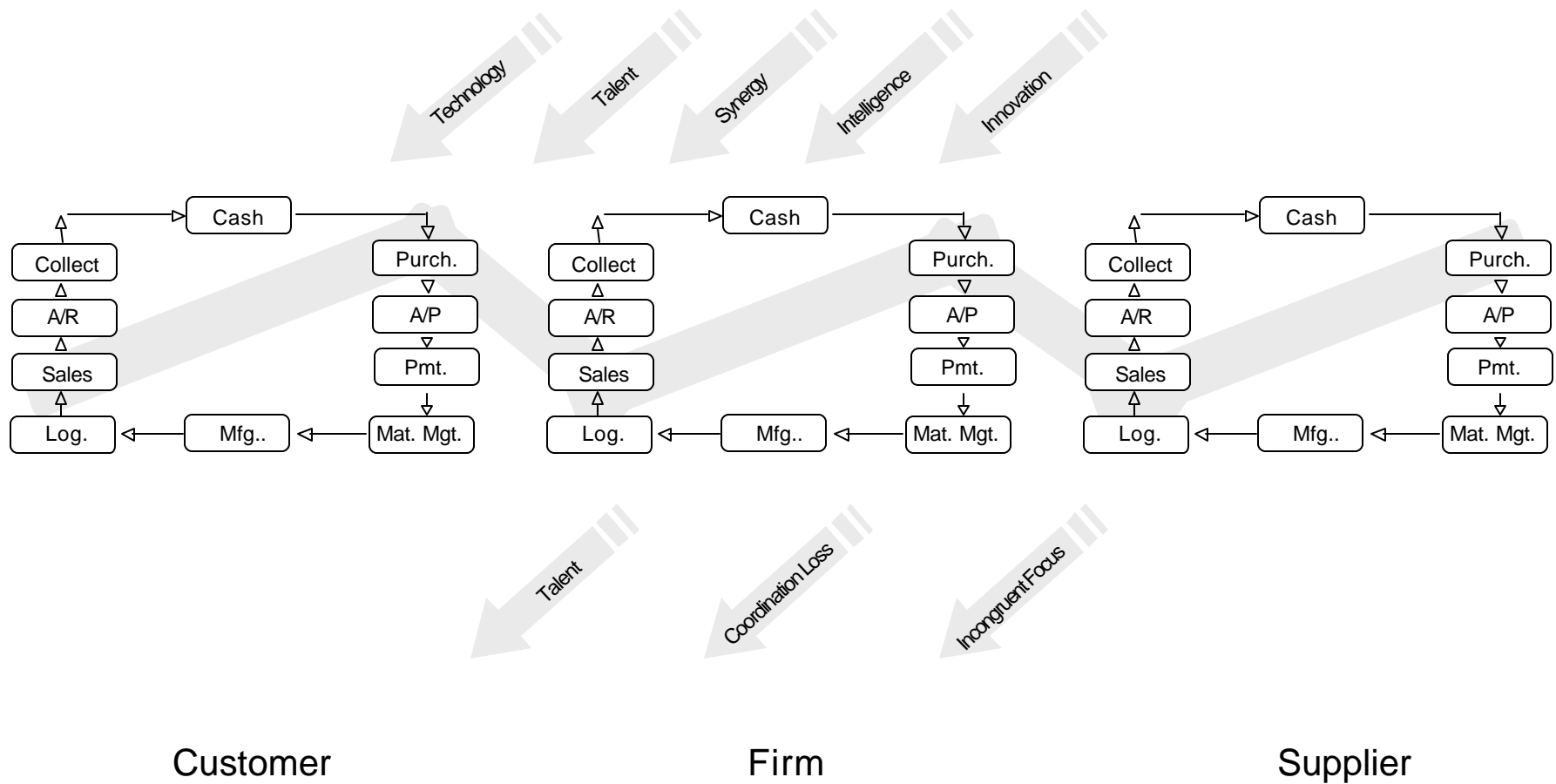
# Financial Supply Chain



# Informational Supply Chain



# Relational Supply Chain



*But, the key thing is how is your organization competing?*

*What is its business model?*

*What value does it try to produce, and obtain from others  
in order to succeed?*

# Chain / Network Emphases

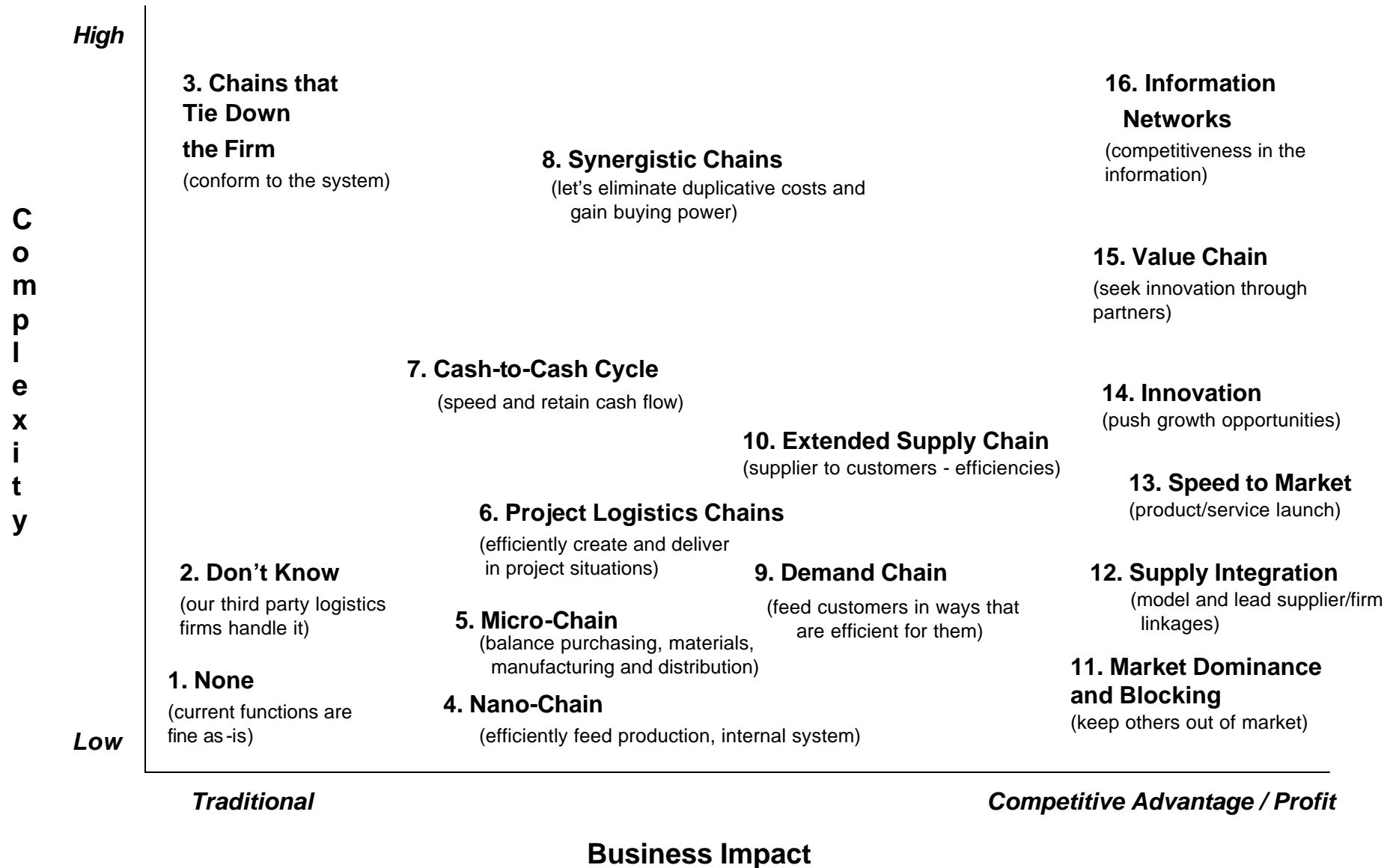
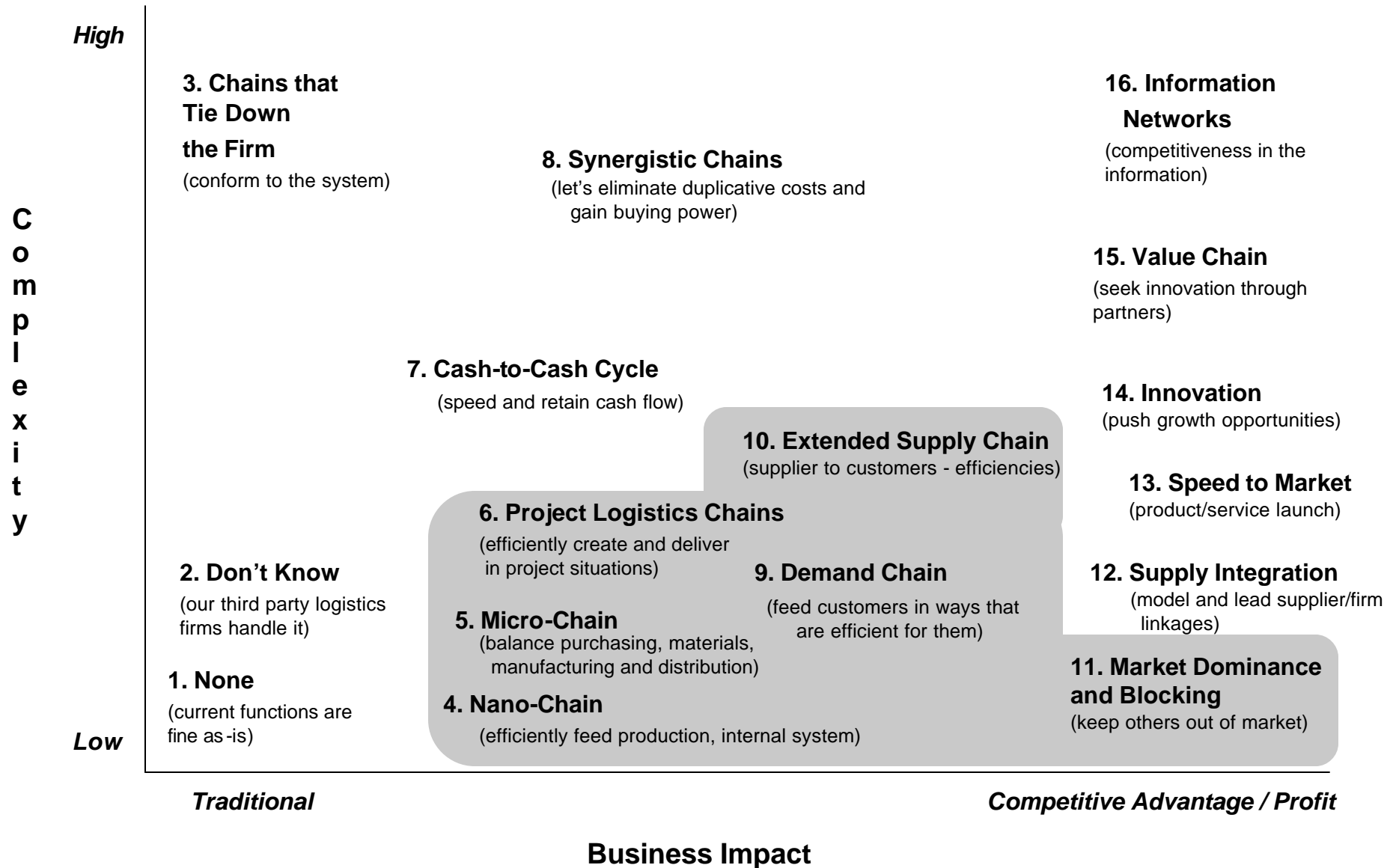


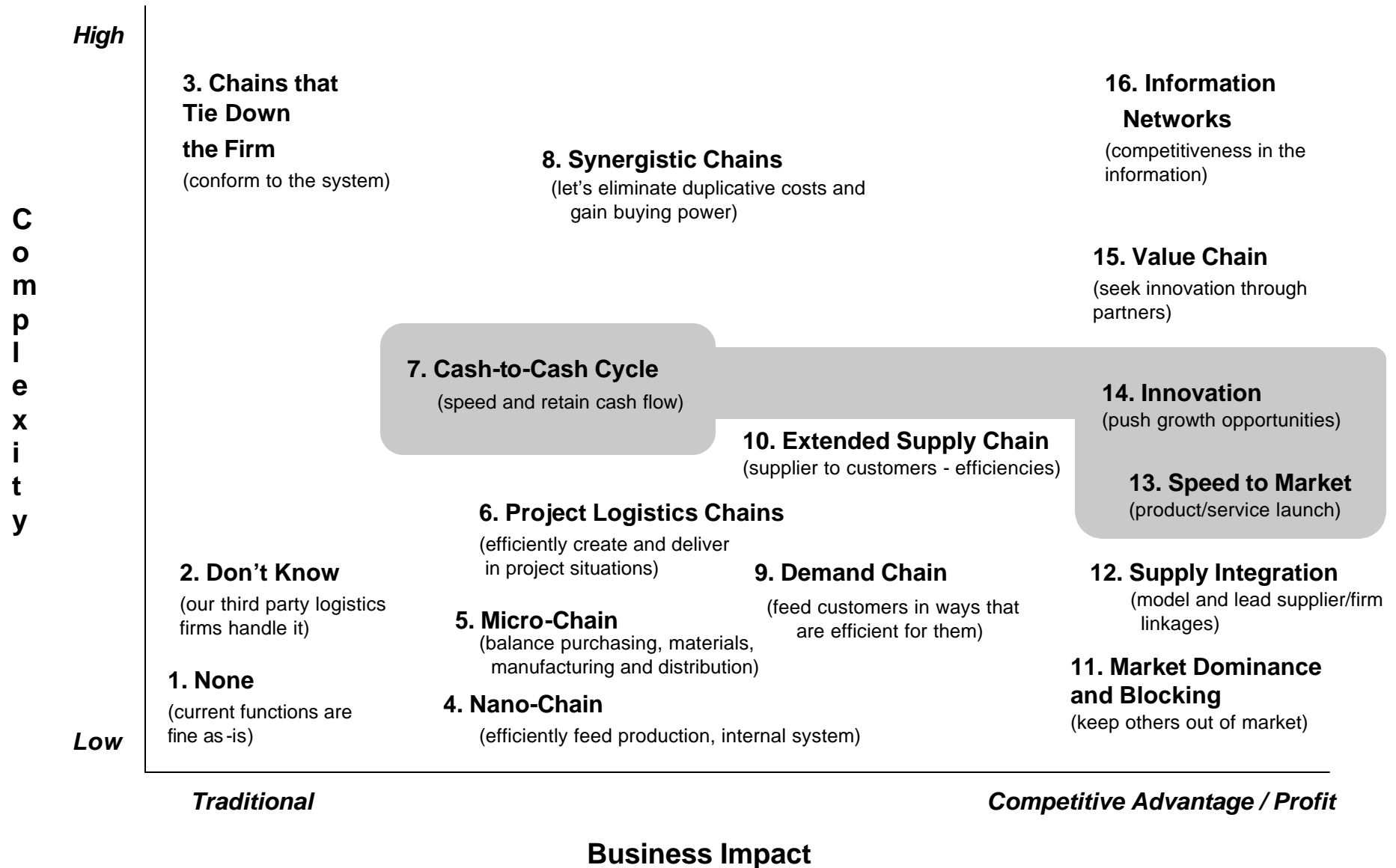
Figure 1

# Physical Chain / Network Emphasis

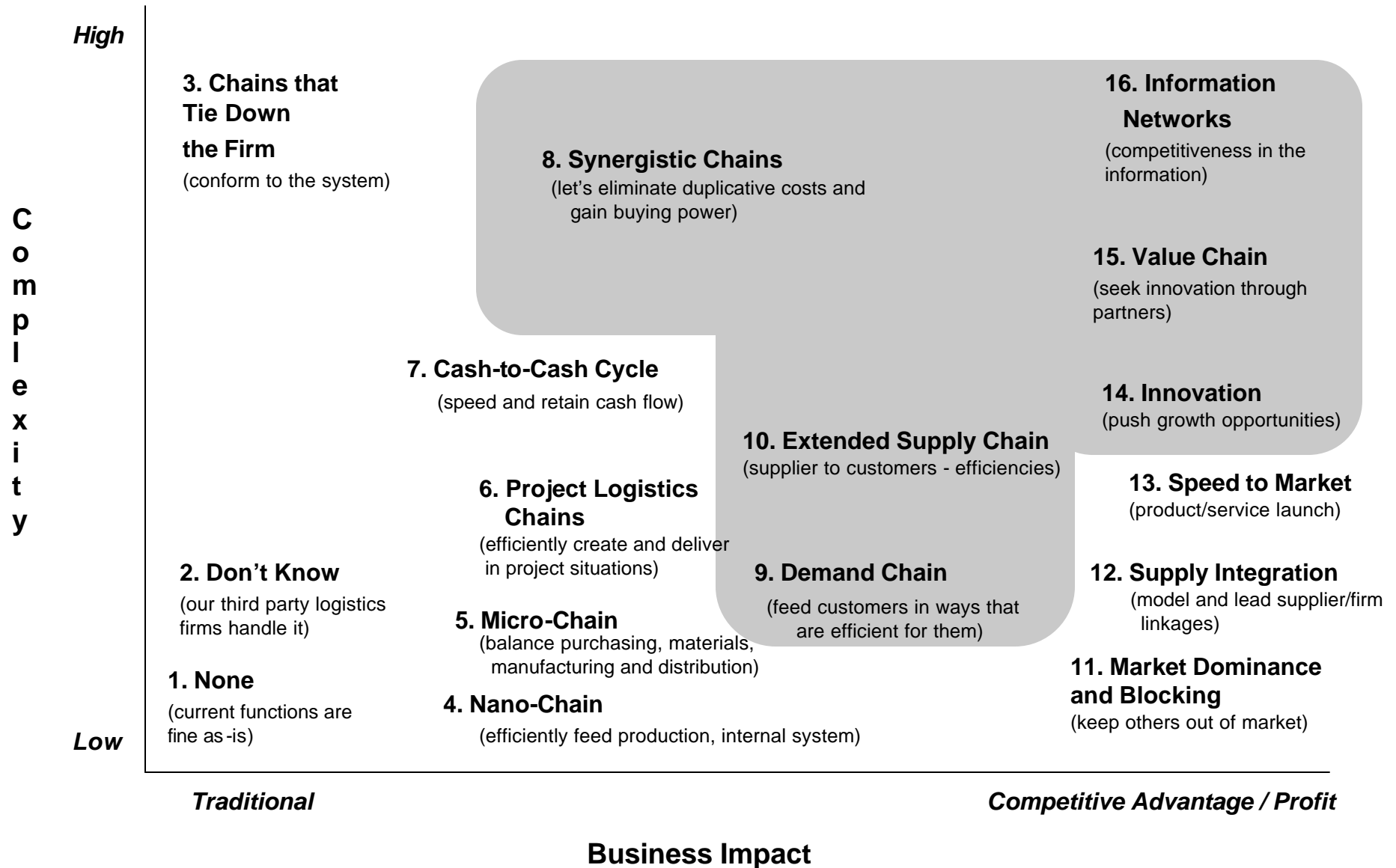




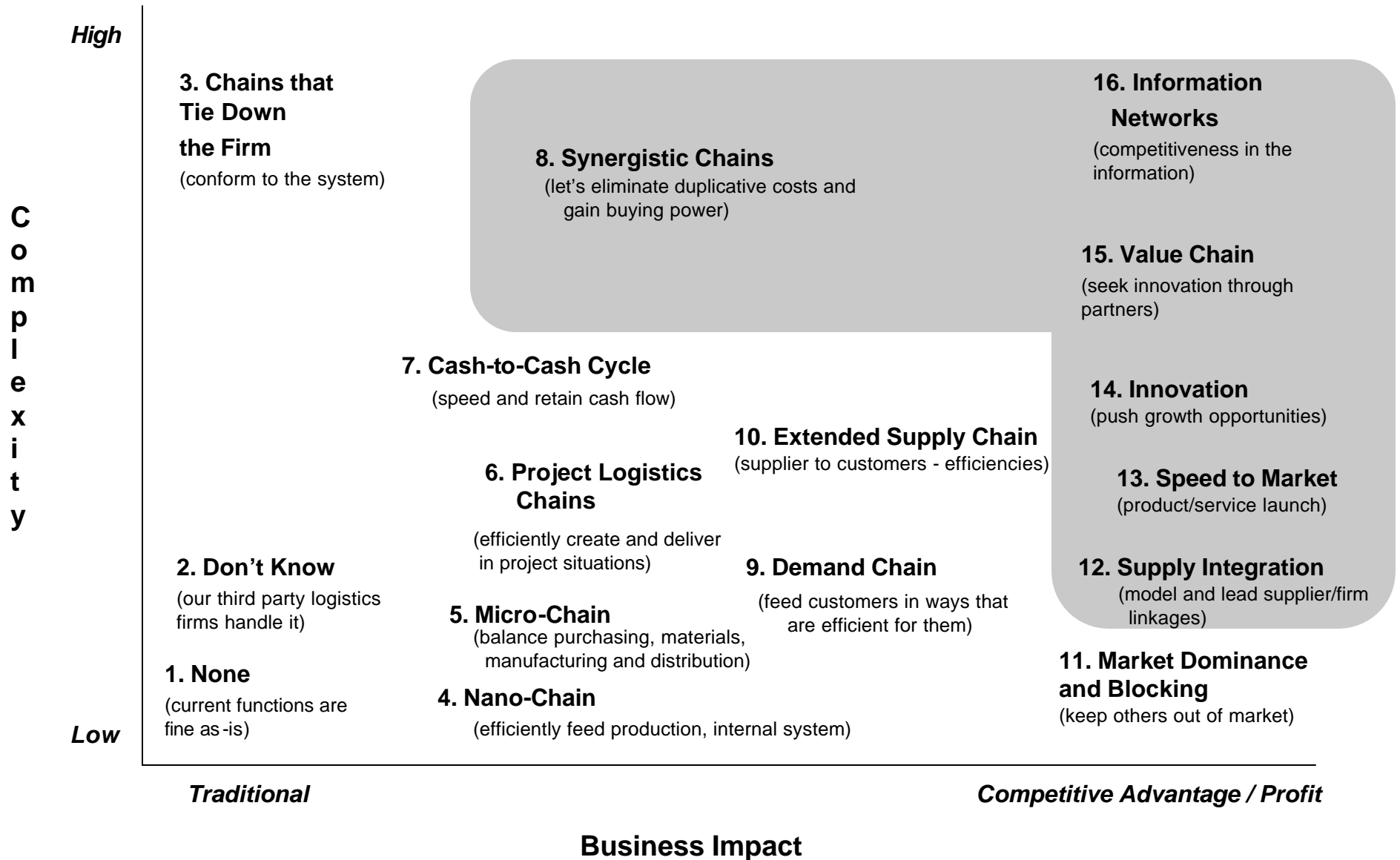
# Financial Chain / Network Emphasis



# Informational Chain / Network Emphasis



# Relational Chain / Network Emphasis



# Chain Types: Their Behavior and Business Impacts

## Type of Chain

## Emphasis and Business Performance Impact

### 1. None

*current functions are fine as-is*

Firm does not know what competitiveness it could attain through logistics/supply chain/networks

No competitive advantage; in fact, disadvantage  
Entire set of functions at higher cost and more inefficient than could otherwise be  
Competitive and financial vulnerability

### 2. Don't Know

*our third party logistics firms handle it*

Simply handed outsource firm a cost-plus arrangement

Commodity-like logistics services  
No competitive advantage  
Difficult to create and apply distinctive services  
Competitive and financial vulnerability

### 3. Chains that Tie Down the Firm

*conform to the system*

With quest of supply chain efficiency and costs, customer side of the business generally lags competitors

Inordinate emphasis upon an internal aspect of the firm to the detriment of customers and suppliers  
Competitive and financial vulnerability

## Type of Chain

4. Nano-Chain  
*efficiently feed production, internal system*

5. Micro-Chain  
*balance purchasing, materials, production and distribution*

6. Project Logistics Chain  
*efficient project set up and implementation*

## Emphasis and Business Performance Impact

Traditional in asset-intensive, produce-to-stock industries  
Maximize manufacturing efficiencies, costs  
Can sub-optimize inbound and outbound processes  
Can divert corporate strategic emphasis and energies toward mostly internal activities and processes  
Product innovation and customer service are often secondary in corporate mindset  
Purchasing serves manufacturing with only minor contribution to the rest of the firm

Classic logistics model  
Integrate the physical and information flows of product or service creation and delivery  
Optimize inbound and outbound in the company

Create and set up supply, flow and logistics to specific projects  
Set up capable integrated suppliers to perform full service component work wherever you need it

## Type of Chain

7. Cash-to-Cash Cycle Chain  
*cash take-out is the key*

8. Synergistic Chains  
*eliminate duplicate costs; gain buying power*

9. Demand Chain  
*feed customers in ways that are efficient for them*

## Emphasis and Business Performance Impact

Maximizes cash spin-off and availability  
Can negatively impact suppliers to your own firm's detriment  
Customer practicing it can negatively impact your costs and profits

Capture all-enterprise buying, logistics, and manufacturing economies and buying power  
Can be useful in breaking supplier industry structures that undermine buying power  
Difficult to apply with strong, traditional lines of business senior management  
Centralization/decentralization issues arise

Reaction mode, ECR, and CPFR emphases  
Close collaboration with customer; can gain some customer "stickiness"  
Customers might demand all savings benefits  
They can foist uneconomic practices onto you  
Requires flexibility in serving many customers differently

## Type of Chain

## Emphasis and Business Performance Impact

10. Extended Supply Chain  
*supplier-to-customer efficiencies*

In most industries, good for overall cost and flow analysis of all resources for product creation and value-add creation  
Supply chain managers often responsible for make-buy and outsource/insource decisions involving internal and external processes  
SCM seen as manager development area

11. Market Dominance and Blocking  
*keep others out of the market*

Can build/enjoy monopolistic pricing and market  
Not legal in most developed countries

12. Supply Integration  
*model and lead supplier/firm linkages*

Complete customer-to-suppliers'-suppliers view, analysis, and value-add  
Very good for price and total cost reduction  
Discover hidden costs, business impediments  
Useful for many competitive initiatives  
Highly inter-disciplinary  
Valuable in developing high-potential people

13. Speed-to-Market  
*product/service launch*

Emphasis upon product development and launch  
Flexible manufacturing and/or nimble outsources required for immediate integration with each new launch  
Time is a major metric throughout the firm  
Selective market distribution at first

## Type of Chain

### 14. Innovation *push growth opportunities*

## Emphasis and Business Performance Impact

Company focuses upon creation, launch, and growth phases of life cycles  
Purchasing emphasis upon opportunity sourcing, championing new ideas/launches  
Manufacturing flexibility is stressed  
Supplier partners used for idea generation  
Manufacturing either emphasizes the “new”, outsourcing, or existing high volume mature products  
Firm is generally comfortable with outside logistics and manufacturing partners  
Purchasing has top-line responsibility and finding new products in addition to bottom line

### 15. Value Chain *seek innovation through partners*

Focus is upon competing *with* chain partners *against* another chain  
Emphasis is upon innovation, speed-to-market by the firm and its closely aligned partners  
Purchasing and supply emphasis is upon relationship and system management  
Shared outcome relationships are common



## Type of Chain

## Emphasis and Business Performance Impact

### 16. Information Networks *competitiveness in the information*

Knowledge and learning emphasis throughout the firm  
Innovation ideas can arise from sales, consumer, customer, distribution, manufacturing, services, engineering, purchasing, data-mining, etc.  
Emphasis upon having core of efficient and agile processes that can flex and flux with product/service opportunities and life cycles  
Purchasing and supply as well as supply chain managers are often seen as creators and leader/managers of networks where needed

# Value X 4 Brought Many of the Critical Pieces Together

It's more than buying.

It's more than supplier management

Supply is about leading and managing the supply

- the sources
- the ways in which things are acquired, brought in, and sold/used

The physical, financial, informational, and relational must all fit for better performance

# Value X 4 Challenge

*Today's emerging supply managers are at the core of this new way of doing business. Firms / organizations that do not apply these capabilities at play will weaken.*

*The waters are uncharted. But, compared to seven years ago there are more buoys in the water with which to chart and navigate the supply of what our organizations need to compete.*

# How Far Can Supply Be Leveraged?

There are no boundaries to Supply