

Supply Chain Management – Co-operating to Compete in a Global Food Industry

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Introduction

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- Forces for change
- Supply chain management - theory
- Supply chain management - practice
- Conclusions

Forces for Change

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- Commoditisation
- Supermarket strategies
- Paradox of Power
- Profits
 - Source
 - Distribution

Commoditisation

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- PLCs shrinking
- Focus on price/cost
- Increased Uncertainty

“Uncertainty is... the mother of inventory and the father of excess capacity and under-utilised resources”(T.McGuffog, Nestle)

- Differentiation increasingly difficult
- Innovation increasingly important
 - sole source of sustainable competitive advantage

COMPETITIVE ADVANTAGE

(Christopher, 1994)

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Consumer/Customer

Needs – seeking benefits at acceptable prices

Value

Assets &
Utilisation

Company

Assets &
Utilisation

Competitor

Cost
Differentials

Supermarket strategies

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- Exclusive products/service replacing location as the USP
- Strategic emphasis on ‘own label’ requires strategic approach to supply chain relationships for ‘destination categories’ (fresh produce, meat, ready-meals)
 - risk management (food safety)
 - crisis management (traceability)
 - establish/restore consumer confidence (assurance schemes):
 - Growing awareness of & concern about food production (safety, welfare and environment) and food composition (diet and health)
 - Diminishing confidence in government, scientists, food processors, farmers and...retailers?
 - Supermarkets are effectively integrating backwards

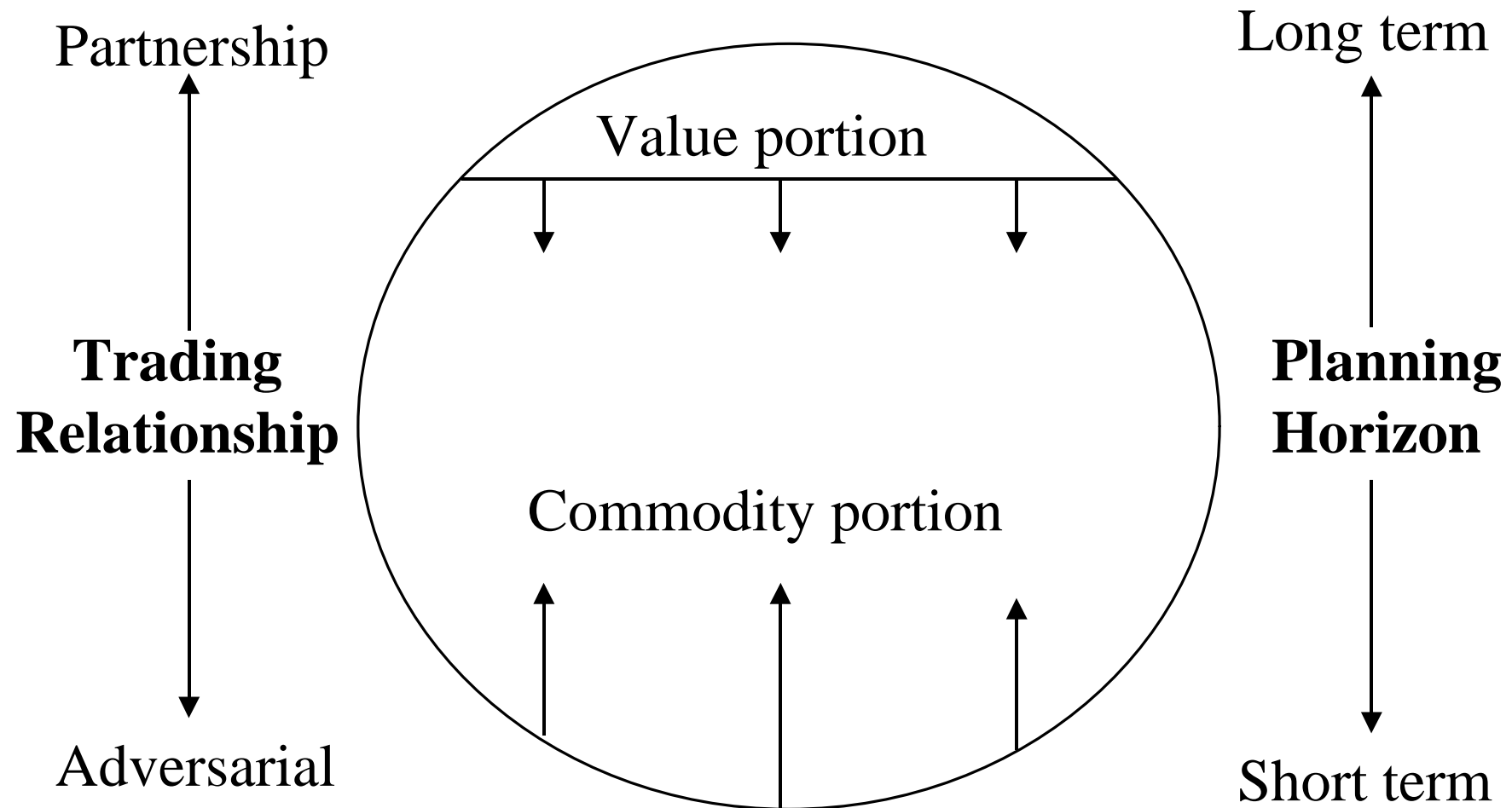
Paradox of Power

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- Supermarkets demanding:
 - consistent high quality (and systems to assure it)
 - diminishing role for spot (wholesale) markets
 - problems with price determination and discovery?
 - behaviour-based contracts replacing outcome-based contracts
 - environmental uncertainty versus task programmability
 - competitive prices
 - premiums must be earned (market research and innovation)
 - large volumes from fewer suppliers
 - reduce transaction costs
 - ‘powerful’ buyers increasingly dependent upon fewer, larger, more sophisticated and dedicated suppliers
 - Investment in specific assets = opportunity not threat

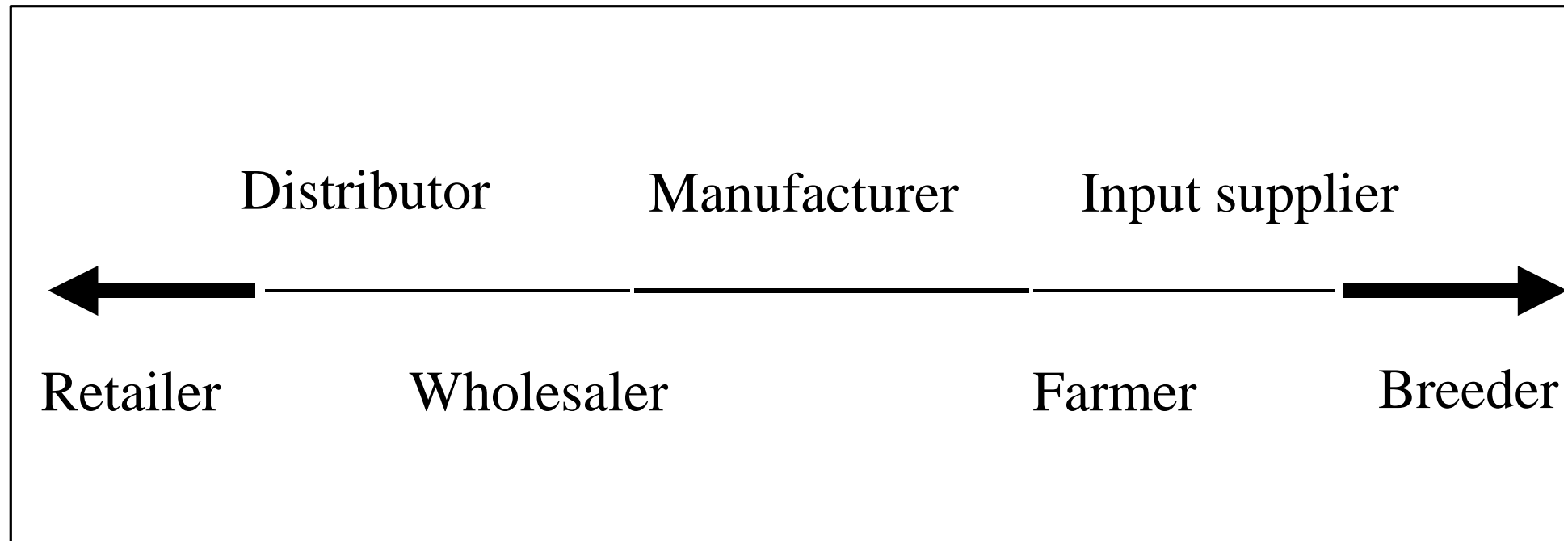
The Food Industry Profit Pie

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Polarisation of Profits

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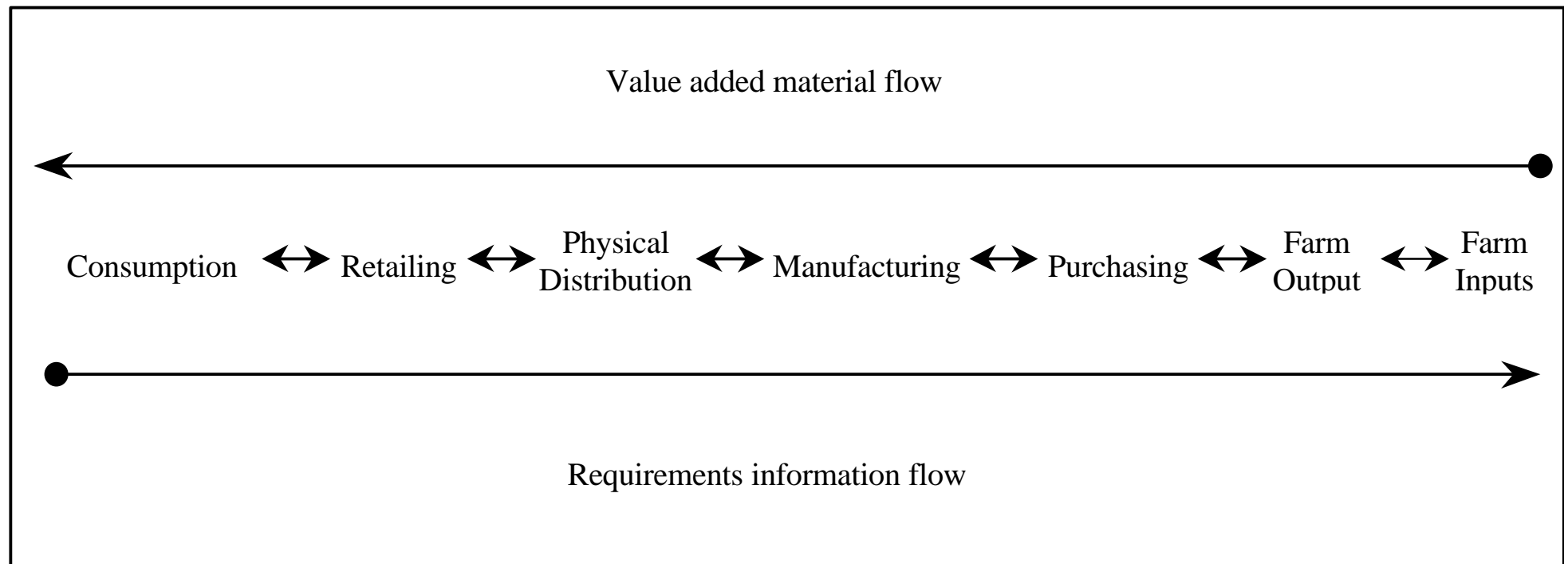
Supply chain management - theory

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- Contemporary concept of supply chain owes much to systems theory and the notion of holism (Cavinato 1992)
- behaviour of complex system cannot be understood completely by the segregated analysis of its constituent parts (Boulding 1956)
- Commercial momentum 1980s - logistics catching up with strategy (Oliver & Webber, 1982)
- First ‘theoretical’ contributions 1990s - distinction between material flows and information flows (Ellram & Cooper, 1990)

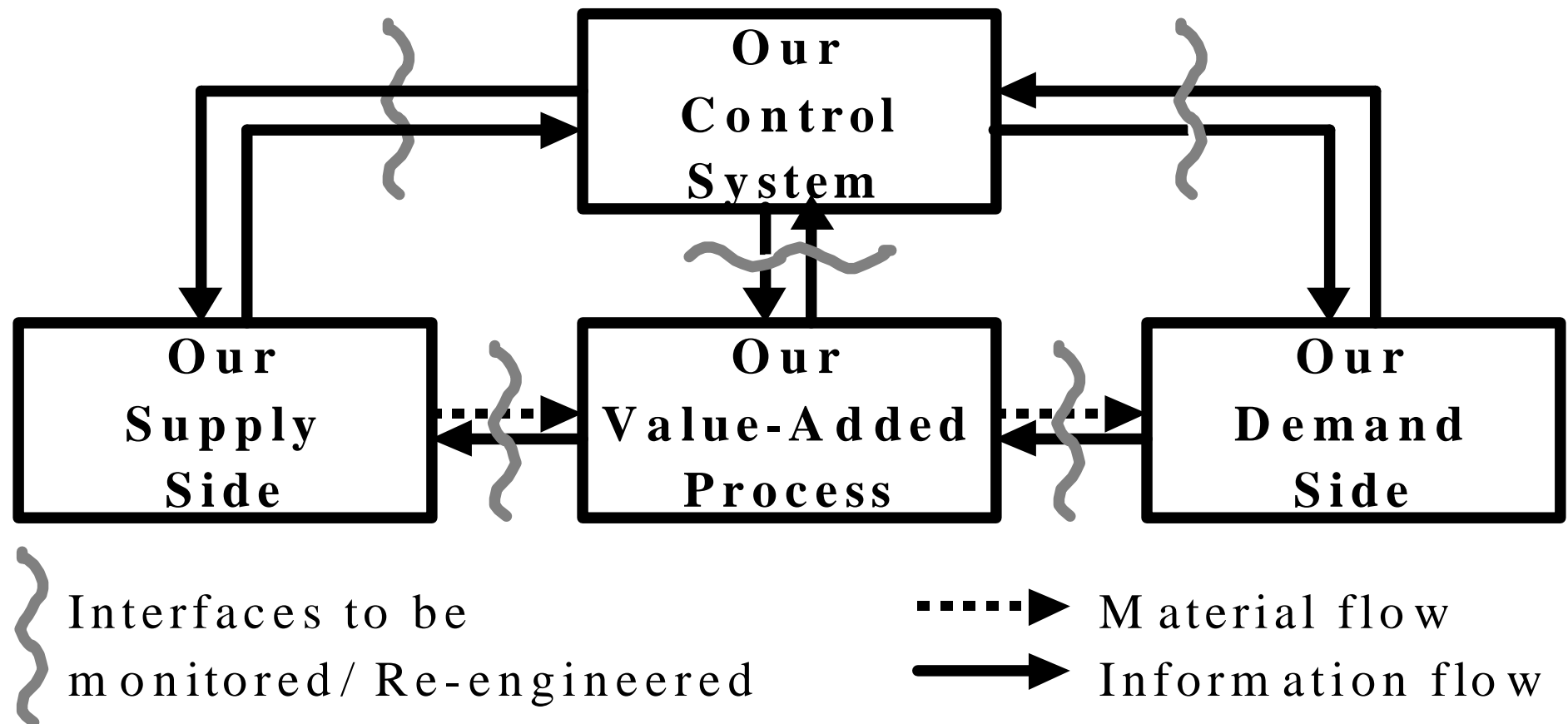
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Supply chain management - theory

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- Sharing information, in order to:
 - Reduce uncertainty (inputs and outputs)
 - Reduce costs (e.g.inventory, waste, postponement)
 - Increase effectiveness (e.g. promotional spend)
 - Increase responsiveness (e.g. lead times, agility)
 - Add value (e.g.innovation and NPD)
- Business philosophy (similarities with marketing)
- Integration of key business processes replacing ‘functional silos’ (MRP-DRP-ERP-CPFR)
- Evolutionary inter-dependence (trust, commitment)

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- Integrally linked to the processes of *consumption* in society (Fine & Leopold, 1993)
 - Consumer demand determines how organisations set their expectations and justify adaptation of their operations
 - consumption as a sociological and economic phenomenon needs to be understood in terms of the mechanisms and structures which enable it

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- Growing interest in the application of supply chain management principles to:
 - Public services (e.g. health)
 - Ethics (cheap t-shirts, child labour and ecological devastation)
 - ‘The Environment’ (e.g. ‘food miles’)
- Transparency and sustainability are the key issues here (more the domain of politics than of economics or ecology)

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	EFFICIENCY	‘JUSTICE’
Normative FOCUS:	<p>EXAMPLE: How should firms organise their relationships with customers and suppliers in order to achieve increased efficiency?</p> <p>MANAGERIAL ACTION</p>	<p>EXAMPLE: How should firms deal with the problem of child labour in the Indian textile industry?</p> <p>REFORMING ACTION</p>
Descriptive FOCUS:	<p>EXAMPLE: How do firm’s strategies in regard to vertical co-ordination correlate with corporate performance?</p> <p>ECONOMIC INTERPRETATION</p>	<p>EXAMPLE: How do firms evaluate the ethical and environmental performance of their suppliers?</p> <p>SOCIO-POLITICAL INTERPRETATION</p>

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- Three themes dominate:
 - the supply chain from the perspective of an individual firm (region, country)
 - a supply chain related to a particular product or item
 - 'supply chain' as synonym for purchasing, distribution and materials management (integrated business processes)

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- What it boils down to:
 - Information (creation, utilisation, management)
 - People
 - individual and collective competence
 - independence and control (power)
 - communication
 - Innovation (in **all** aspects of the business)
 - It ain't rocket science!

Supply Chain Management - practice

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- Emergence of supply chain competition
 - differential use of codes of practice and product specifications
 - suppliers must do more to avoid the commodity trap
 - proactive market research and NPD fosters co-dependence
 - cost-plus ‘model’ gaining favour in commodity lines
- Distribution of benefits not proportional to the distribution of costs
 - Manage expectations (premiums must be earned)
 - Volume gains ‘fuel’ specific investments (people, products, processes)

Supply Chain Management - practice

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- Organisational change not keeping pace with technological opportunities (investment in people)
- Inadequate communication (within and between organisations)
- limited use of formal contracts downstream (brand integrity more important than price discovery)
- use of formal contracts increases upstream (in proportion to opportunistic behaviour?)
- Farmers most reluctant (unable?) to adjust
 - lack of trust (weak sellers, independent)
 - lack of knowledge (myopic, production orientated)

Supply Chain Management - practice

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- Successful partnerships **typically** require:
 - strategic orientation
 - clear (but not necessarily equal) commercial benefits for all partners
 - compatible organisational structures and business cultures
 - good communication links at all levels of the business
 - flexibility to meet the needs of each partner at all levels of the business
 - ability to exploit market information
 - ability to measure and control the full costs of servicing customer requirements
 - ability to innovate
 - endless supply of goodwill (commitment & trust)

Conclusions

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- Supply chain management to grow in importance as:
 - Competition between firms is replaced by competition between supply chains
 - retailers seek to:
 - rationalise supply base (paradox of power)
 - search for long term sources of competitive advantage (innovation)
 - protect brand integrity
 - suppliers seek to break out of the commodity trap
 - what does my customer\consumer value, is willing to pay for, that provides an opportunity for above-average margin?
 - governments seek to ‘moderate’ the economic motive
 - food safety
 - sustainability

Conclusions

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- Fundamental change in agency relationships:
 - declining emphasis on sales/price, increased emphasis on added value and understanding the consumer
 - declining importance of wholesale markets and spot trade (risk aversion)
- Fundamental change in the structure and culture of business organisations
 - from constrained (hierarchical) to ‘empowered’ (de-centralised)
 - from reactive to pro-active
 - from ‘learning organisation’ to ‘learning chain’ (with IT providing the essential lubricant)

Conclusions

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- Making this happen requires:
 - Accurate and relevant information, delivered in a timely manner efficiently and effectively to **all** stakeholders who need it
 - Investment in information systems
 - People who understand the drivers for change and embrace the supply chain philosophy
 - Investment in education, training and extension
 - Government agencies that facilitate the process of change
 - Engage channel captains (essential for ‘quick-wins’)
 - Promote **and reward** best practice
 - Devolve responsibility for implementation
 - Keep it simple and focus on strategic issues