***Supply Chain Management – Strategy***

🡨 Flow of Information 🡨

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| Supplier | 🡪 | Manufacturer | 🡪 | Distributor | 🡪 | Retailer | 🡪 | Customer |

🡪 Flow of Material 🡪

***Procurement and Outsourcing Strategies***

***Chapter 9***

***Outsourcing***

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| **Outsourcing Products** |
| |  | | --- | | Drivers to Outsource (*Fine & Whitney*) | | \*Limited capacity  \*Limited knowledge/ability | | Product Types (*Ulrich & Swaminathan*) | | \*Modular: Functionality based on the individual ‘modules.’  \*Integral: Functionality based on the ‘integration’ of the modules. |   . . . |

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| **Outsourcing Components** | | |
| **Kraljic (Supply side)** |  | **Fisher (Demand side)** |
| |  | | --- | | **Procurement Supply Strategies** | | Factors in Procurement of Material (*Kraljic*).  \*Profit Impact.  \*Supply Risk. |   . . . |  | |  | | --- | | **Supplier Footprint** | | Two Types of Products (*Fisher*).  \*Functional Product.  \*Innovative Product. |   . . . |

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| ***Procurement of Material***  ***Outsourcing of Functions*** | |
|  |  |
| ***Advantages*** | ***Disadvantages*** |
| **\*Lower Cost**  **\*Increased Flexibility**  **\*Lower Risks** | **\*Loss of Control**  **(Design, Quality, Production)**  **\*Increased Coordination**  **(Policy, Process, People)**  **\*Loss of Brand Identification** |
| **Also** | **Also** |
| Economies of scale  Risk pooling  Reduce capital investment  Focus on core competency | Loss of competitive knowledge  Conflicting objectives |

**Outsourcing Considerations of Products and Components**

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| **Outsourcing Products** |
| |  | | --- | | Drivers to Outsource (*Fine & Whitney*) | | \*Limited capacity  \*Limited knowledge/ability | | Product Types (*Ulrich & Swaminathan*) | | \*Modular: Functionality based on the individual ‘modules.’  \*Integral: Functionality based on the ‘integration’ of the modules. |   . . . |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | ***Outsourcing Considerations*** | | | |  | |  |  |  | ***Drivers*** | |  | |  |  |  | **Limited Capacity** | **Limited Knowledge** |  | |  | ***Product*** | **Modular** | *Low Risk* | *Medium Risk* |  | |  | **Integral** | *Medium Risk* | *High Risk* |  | |  |  |  |  |  |  |   . . . |

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|  | **Outsourcing Components** | | | | | |  |  |
|  |  |  | | | | |  |  |
|  | *Component Criteria* | Outsourcing Strategies (*Fine*) | | | | |  |  |
|  | **Importance to Customer** | High | Low | High | High | |  |  |
|  | **Component Clockspeed** | Fast | Slow | Fast | Slow | |  |  |
|  | **Competitive Position** | High | Low | Weak | Weak | |  |  |
|  | **Capable Suppliers** | 🡪 | 🡪 | Yes | Yes | |  |  |
|  | **Architecture**  **(Modular,Integral)** | X | Modular | Integral |  |  |
|  | **Outsource Strategy** | No | Yes | No🡪One | Yes🡪No | No🡪Yes |  |  |
|  |  |  |  |  |  |  |  |  |

**Considerations of a Procurement Strategy – Kraljic (Supply side)**

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| **Kraljic (Supply side)** |  | **Fisher (Demand side)** |
| |  | | --- | | **Procurement Supply Strategies** | | Factors in Procurement of Material (*Kraljic*).  \*Profit Impact.  \*Supply Risk. |   . . . |  | |  | | --- | | **Supplier Footprint** | | Two Types of Products (*Fisher*).  \*Functional Product.  \*Innovative Product. |   . . . |

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| **Kraljic (Supply side)**  . . . |
| |  | | --- | | **Procurement Supply Strategies** | | Factors in Procurement of Material (*Kraljic*).  \*Profit Impact. Monetary influence on cost, revenue, and growth.  \*Supply Risk. Logistical influence on supply, availability, and service. |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | ***Kraljic’s Supply Matrix*** | | | |  | |  |  |  | ***Profit Impact*** | |  | |  |  | Low | High |  | |  | ***Supply Risk*** | High | **Bottleneck Items**  *(Long-term Contracts)* | **Strategic Items**  *(Top Management Focus)* |  | |  | Low | **Non-Critical Items**  *(Spot Purchase)* | **Leverage Items**  *(Supply Contracts)* |  | |  |  |  |  |  |  |   . . . |

**Considerations of a Procurement Strategy – Fisher (Demand side)**

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| **Kraljic (Supply side)** |  | **Fisher (Demand side)** |
| |  | | --- | | **Procurement Supply Strategies** | | Factors in Procurement of Material (*Kraljic*).  \*Profit Impact.  \*Supply Risk. |   . . . |  | |  | | --- | | **Supplier Footprint** | | Two Types of Products (*Fisher*).  \*Functional Product.  \*Innovative Product. |   . . . |

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| **Fisher (Demand side)**  . . . |
| |  | | --- | | **Supplier Footprint** | | Two Types of Products (*Fisher*).  \*Functional Product. Slow clockspeed, low demand variability and low profit margins.  \*Innovative Product. Fast clockspeed, high demand variability and high profit margins. |  |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  | **Functional Product** | **Innovative Product** |  | |  | Slow Product Clockspeed  High Product Demand Predictability  Low Profit Margins  Low Product Variety  Low Forecast Error | Fast Product Clockspeed  Low Product Demand Predictability  High Profit Margins  High Product Variety  High Forecast Error |  | |  |  | |  |  | |  | **PUSH Strategy** | **PULL Strategy** |  | |  | >Cost Objective< | >Service Objective< |  | |  | Focus on Supply Chain Planning  (Offshoring) | Focus on Order Fulfillment  (Onshoring) |  | |  |  |  |  |   . . . |

**Considerations of a Procurement Strategy – Components**

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|  | **Kraljic (Supply side)** | | | |  |
|  | ***Kraljic’s Supply Matrix*** | | | |  |
|  |  |  | ***Profit Impact*** | |  |
|  |  | Low | High |  |
|  | ***Supply Risk*** | High | **Bottleneck Items**  *(Long-term Contracts)* | **Strategic Items**  *(Top Management Focus)* |  |
|  | Low | **Non-Critical Items**  *(Spot Purchase)* | **Leverage Items**  *(Supply Contracts)* |  |
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|  |  | **Procurement of Components based on**  **Kraljic (Supply side) & Fisher (Demand side)** |  |  |  |
| **↑** | *Kraljic* | **Component Supply Risk** | Low | High |  |
| **↑** | *Kraljic* | **Component Financial Impact** | High | High |  |
|  |  |  |  |  |  |
| **↓** | *Fisher* | **Component Forecast Accuracy** | High | Low |  |
| **↓** | *Fisher* | **Component Clockspeed** | Slow | Fast |  |
|  |  | **Strategy** | Cost  (Offshoring) | Service  (Onshoring) |  |
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|  | **Fisher (Demand side)** | |  |
|  | **Fisher’s Product Framework** | |  |
|  | **Functional Product** | **Innovative Product** |  |
|  | Slow Product Clockspeed  High Product Demand Predictability  Low Profit Margins  Low Product Variety  Low Forecast Error | Fast Product Clockspeed  Low Product Demand Predictability  High Profit Margins  High Product Variety  High Forecast Error |  |
|  |  |
|  |  |
|  | **PUSH Strategy** | **PULL Strategy** |  |
|  | >Cost Objective< | >Service Objective< |  |
|  | Focus on Supply Chain Planning  (Offshoring) | Focus on Order Fulfillment  (Onshoring) |  |
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**e-Markets**

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| ***e-Markets*** | ***Description*** |
| Public. | A supplier driven horizontal market design that is competition based. |
| Consortium. | A buyer driven vertical market design with supplier collaboration that is focused primarily on administration efficiency. |
| Content. | Either a supplier driven horizontal market design with buyer collaboration with a focus on supplying MRO material or a buyer driven vertical market design with supplier collaboration with a focus on supplying industry-specific material. |
| Private. | A buyer driven vertical market design that is focused on control between the supplier and buyer. |

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| **Supplier links through e-markets in business-to-business** | | |
| ***Characteristics*** | **🡪** | ***Drivers*** |
| Increased Competition | 🡪 | Lowering Cost |
| Increased Flexibility | 🡪 | Enhance Bidding Capabilities |
| Increased Knowledge | 🡪 | Increased Standardization |
| Increased Value | 🡪 | Supports Strategic Alliances |

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| Monetization.  \*Transaction Fee. Percentage of sale paid by supplier, buyer, or both.  \*Licensing Fee. Vendor licensing capability to access network.  \*Subscription Fee. Market charges membership fee to use the system. |

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| **e-Markets** | **Public** | **Consortium** | **Content** | **Content** | **Private** |
| **Basis** | Competition-based | Administrative  Efficiency | MRO | Industry-specific  Material | Collaboration-based |
| **Benefits** | Services,  Price, Quality | Standardization  of Services | Standardization of Material | Standardization of Material | Control |
| **Orientation** | Supplier  driven | Buyer driven  With Suppliers Collaborated | Supplier driven  With Buyers Collaborated | Buyer driven  With Suppliers Collaborated | Buyer  driven |
| **Market** | Horizontal | Vertical | Horizontal | Vertical | Vertical |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Horizontal Market  (Public, Content/MRO) | | | | |  |  | Vertical Market  (Private, Consortium) | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Seller | ↔ | Seller |  |  |  |  | Seller |  |  |
|  |  | ↕ |  | ↕ |  |  |  |  | ↕ |  |  |
|  |  | Buyer | ↔ | Buyer |  |  |  |  | Buyer |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
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