***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** |
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| 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)** |
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| **Procurement Supply Strategies** |
| Factors in Procurement of Material (*Kraljic*).\*Profit Impact. \*Supply Risk.  |

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| **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 scaleRisk poolingReduce capital investmentFocus on core competency | Loss of competitive knowledgeConflicting objectives |

**Outsourcing Considerations of Products and Components**

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| **Outsourcing Products** |
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| 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 Considerations*** |  |
|  |  |  | ***Drivers*** |  |
|  |  |  | **Limited Capacity** | **Limited Knowledge** |  |
|  | ***Product*** | **Modular** | *Low Risk* | *Medium Risk* |  |
|  | **Integral** | *Medium Risk* | *High Risk* |  |
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|  | **Outsourcing Components** |  |  |
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|  | *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 |  |  |
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**Considerations of a Procurement Strategy – Kraljic (Supply side)**

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| **Kraljic (Supply side)** |  | **Fisher (Demand side)** |
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| **Procurement Supply Strategies** |
| Factors in Procurement of Material (*Kraljic*).\*Profit Impact. \*Supply Risk.  |

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| **Supplier Footprint** |
| Two Types of Products (*Fisher*).\*Functional Product. \*Innovative Product. |

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| **Kraljic (Supply side)**. . . |
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| **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. |

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

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| **Kraljic (Supply side)** |  | **Fisher (Demand side)** |
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| **Procurement Supply Strategies** |
| Factors in Procurement of Material (*Kraljic*).\*Profit Impact. \*Supply Risk.  |

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| **Supplier Footprint** |
| Two Types of Products (*Fisher*).\*Functional Product. \*Innovative Product. |

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| **Fisher (Demand side)**. . . |
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| **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. |

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|  | **Functional Product** | **Innovative Product** |  |
|  | Slow Product ClockspeedHigh Product Demand PredictabilityLow Profit MarginsLow Product VarietyLow Forecast Error | Fast Product ClockspeedLow Product Demand PredictabilityHigh Profit MarginsHigh Product VarietyHigh Forecast Error |  |
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|  | **PUSH Strategy** | **PULL Strategy** |  |
|  | >Cost Objective< | >Service Objective< |  |
|  | Focus on Supply Chain Planning(Offshoring) | Focus on Order Fulfillment(Onshoring) |  |
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**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 ClockspeedHigh Product Demand PredictabilityLow Profit MarginsLow Product VarietyLow Forecast Error | Fast Product ClockspeedLow Product Demand PredictabilityHigh Profit MarginsHigh Product VarietyHigh Forecast Error |  |
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|  | **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 | AdministrativeEfficiency | MRO | Industry-specificMaterial  | Collaboration-based |
| **Benefits** | Services,Price, Quality | Standardizationof Services | Standardization of Material | Standardization of Material | Control |
| **Orientation** | Supplier driven | Buyer drivenWith Suppliers Collaborated | Supplier drivenWith Buyers Collaborated | Buyer drivenWith Suppliers Collaborated | Buyerdriven |
| **Market** | Horizontal | Vertical | Horizontal | Vertical | Vertical |

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