BE/OM201

Q&A Notes 1: Supply Chain Management

30 March 2020

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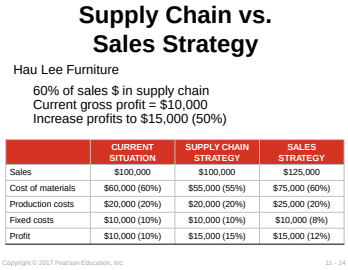
1. What is the difference between supply chain strategy and sale strategy in slide no. 13?

Slide 13: The insight from this slide (Example 1) is that it's often easier to meet increased profit goals via improving supply chain efficiency than it would be by having to generate more sale revenue. This is one reason why supply chain management receives so much attention. Under the assumptions of this particular example, the firm can increase profit by 50% either by

(1) cutting cost of materials from $60,000 to $55,000 (material cost reduction by 8.3%) or

(2) improving sales from $100,000 to $125,000 (sale increase by 25%).

Which is easier? It seems the supply chain strategy is much easier.



Supply Chain vs. Sales Strategy

Hau Lee Furniture

60% of sales $ in supply chain
Current gross profit = $10,000
Increase profits to $15,000 (50%)

	CURRENT SITUATION	SUPPLY CHAIN STRATEGY	SALES STRATEGY
Sales	$100,000	$100,000	$125,000
Cost of materials	$60,000 (60%)	$55,000 (55%)	$75,000 (60%)
Production costs	$20,000 (20%)	$20,000 (20%)	$25,000 (20%)
Fixed costs	$10,000 (10%)	$10,000 (10%)	$10,000 (8%)
Profit	$10,000 (10%)	$15,000 (15%)	$15,000 (12%)

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2. Can you give an example of each/some companies that supply chain decision was come from corporate strategy in the table 11.2 on slide 14?

Slide 14: This slide reproduces Table 11.2 from the text. We see another example here of how important it is to clearly define and disseminate the firm's strategy to all employees, as the strategy dictates very different supply chain policies that should be followed.

Daily consumables and functional products such as canned food and bottled soft drinks are cases for low-cost strategy. Perishable products such as flowers and fresh vegetables are cases for response strategy. Hi-technological products such as motor vehicles and smart phones are cases for differentiation strategy.

Supply Chain Management

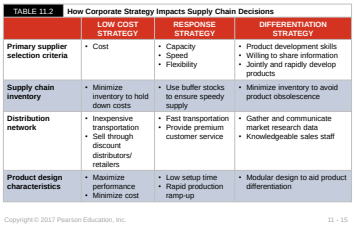

TABLE 11.2 How Corporate Strategy Impacts Supply Chain Decisions

	LOW COST STRATEGY	RESPONSE STRATEGY	DIFFERENTIATION STRATEGY
Primary supplier selection criteria	• Cost	• Capacity • Speed • Flexibility	• Product development skills • Willing to share information • Jointly and rapidly develop products
Supply chain inventory	• Minimize inventory to hold down costs	• Use buffer stocks to ensure speedy supply	• Minimize inventory to avoid product obsolescence
Distribution network	• Inexpensive transportation • Sell through discount distributors/ retailers	• Fast transportation • Provide premium customer service	• Gather and communicate market research data • Knowledgeable sales staff
Product design characteristics	• Maximize performance • Minimize cost	• Low setup time • Rapid production ramp-up	• Modular design to aid product differentiation

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Table 11.2 refers to the study of Marshall Fisher in 1997. Fisher states that although the distinctions between functional and innovative products are obvious, the fact that some products which are physically the same can be either functional or innovative, is the reason why many companies find it difficult to understand the exact nature of their product. Therefore to optimize the performance of your supply chain, the first thing you have to do, is to think carefully and decide in which category your product belongs. Fisher continues to describe the ideal strategy for Supply Chains. According to Fisher there are two types of supply chains: efficient and responsive. The efficient chains are applied to functional products and the responsive chains are applied to innovative product. Also a supply chain performs two different functions: physical function and market mediation function. Each of these two functions incurs costs. Physical costs are those of production, transportation and inventory storage. Market mediation costs arise when supplies do not match with the demand. Predictable demand of functional products makes physical costs much more crucial than market mediation costs. Stable production rate allows the companies to employ Manufacturing Resource Planning (MRP) software which organizes and supervises the ordering, production and delivery of supplies in order to achieve higher efficiency.