

Emerging Issues in Supply Management

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IFPSM: Emerging Issues

- What are the aims of Strategic Supply Management?
 - Innovation
 - Corporate Entrepreneurship
 - Knowledge
 - Strategic Agility
 - Superior Financials (EVA)

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- Supply Management is in a state of transformation
- Both a “strategic mandate” and “strategic capability”
- Firms are transitioning from “vertical integration” to “virtual integration”
- SSM can help meet earnings expectations!



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- Questions of relevance to SM Executives:
 - What changes are under way?
 - What are supply management’s strategic responsibilities?
 - What value creation strategies can SCM profitably pursue?
 - What should be done to enable the transformation?



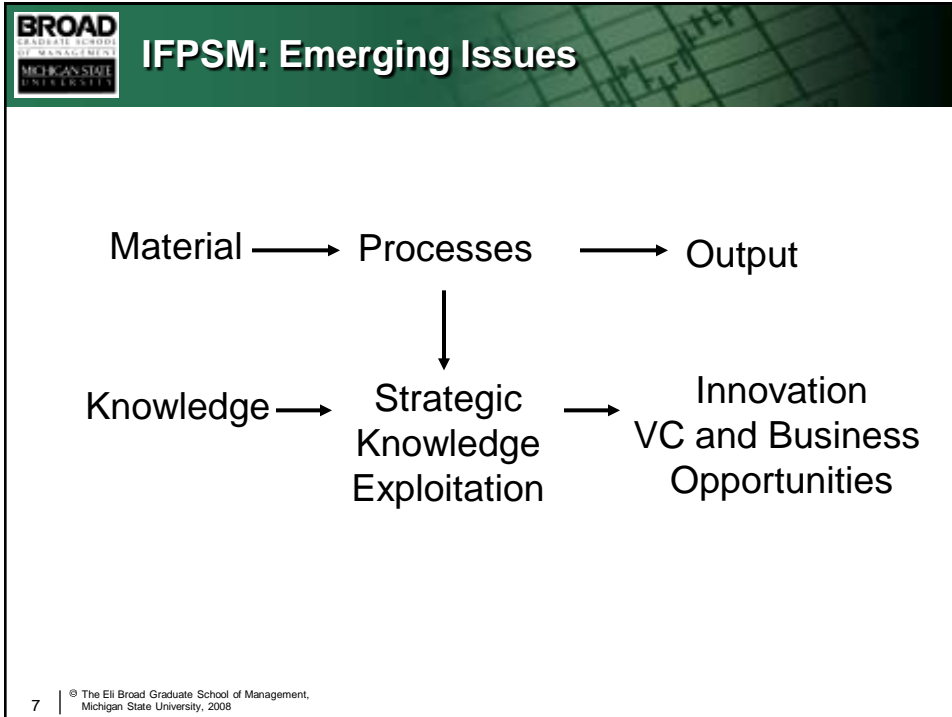
IFPSM: Emerging Issues

- Strategic Supply Management
 - A Paradigm Shift?
- Outsourcing and Innovation
 - Leveraging Knowledge
- Financial Supply Management
 - Entering the “Board Room”



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- Strategic Supply Management...
 - Knowledge is the overarching theme
 - SSM is a transformational philosophy
 - Greater benefits than traditional practices
 - Renewal and K Exploitation





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- Strategic Supply Management...
 - Principal focus: **New Value Creation (NVC)**
 - Create a **Strategy Map!**
 - **Asset Deployment Strategy**
 - **Revenue Enhancement Strategy**
 - **Boundary Spanning Strategy...**



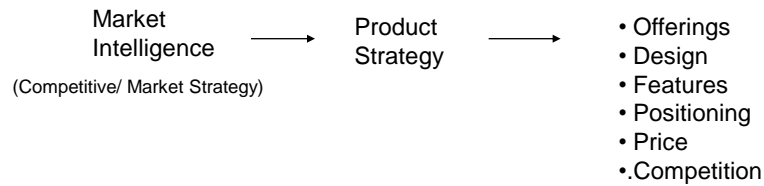
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- Elements of SSM Strategy Map...
 - Recognizes and depicts the fundamental role that SM will play in **shaping** and **executing** to the corporate competitive strategy!
 - Not a reactive but a defining role
 - Focus on **business opportunities** and **customer value creation**



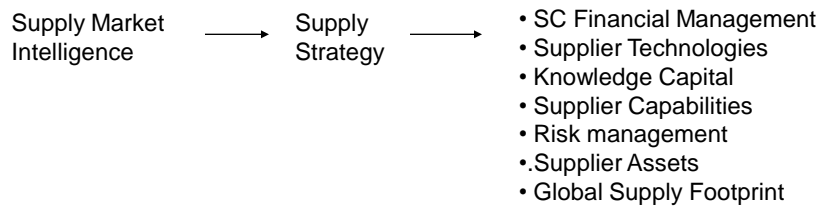
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• Strategy Map – Customer Side



IFPSM: Emerging Issues

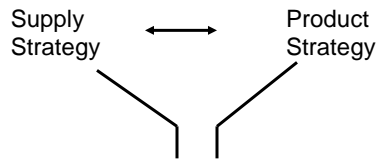
• Strategy Map – Supply Side





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- Strategy Map – Integration



Strategic Cost Management
 Strategic Supply Management
 Asset Deployment
 Revenue Enhancement
 SC Financial Management
 Boundary Spanning



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- Strategy Map Objectives (Outcomes)

1. Increase **Business Opportunities**
2. Decrease **Planned Budget**
3. Decrease **Working Capital**
4. Increase **Profitability and Market Share**
5. Decrease **COGS**, Increase **ROIC**
6. Increase **Knowledge Capital** and **CVC**
7. Increase **Strategic Relevance** of Supply Management



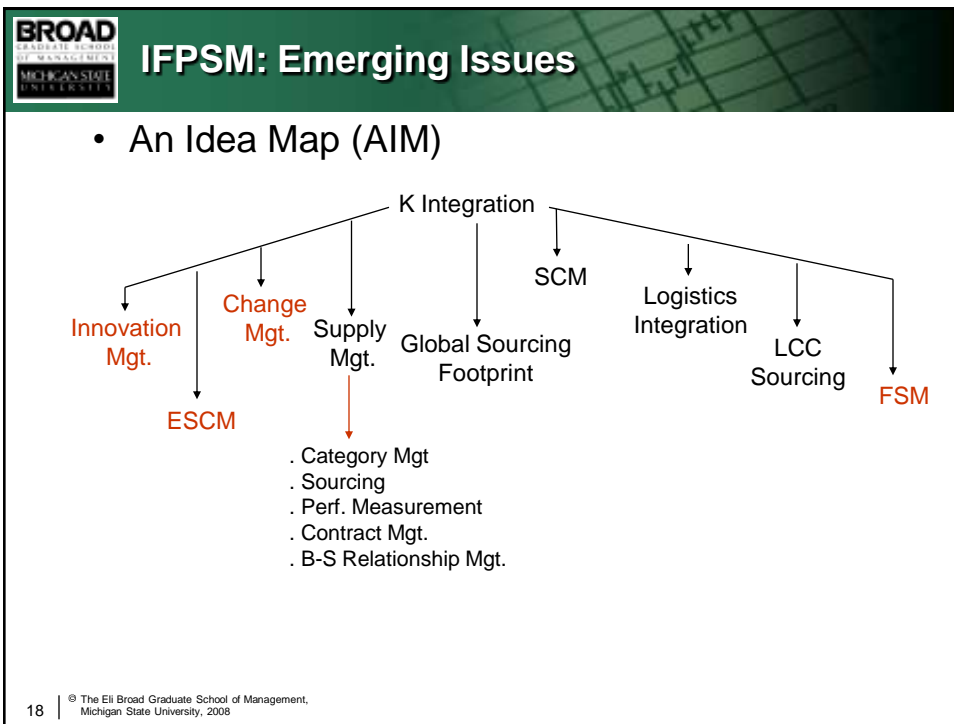
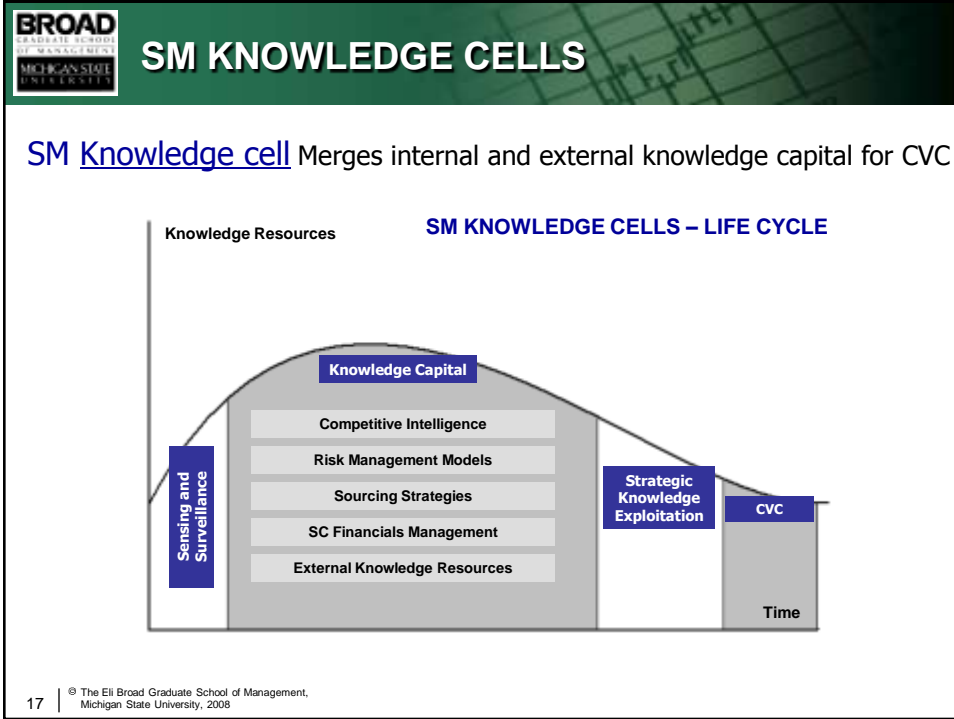
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- Outsourcing and Innovation...
 - Innovation is **pathway** to NVC
 - Opportunistic surveillance and **sensing** capability
 - Outsourcing offers **continuous innovation** and **strategic agility**
 - Strategic Agility requires **strategic adaptation** and **repositioning of assets**.
 - **Implications** for outsourcing and innovation? Striking the right balance is key



IFPSM: Emerging Issues

- Outsourcing offers **continuous innovation** and **strategic agility**
 - Knowledge is too dispersed and diverse
 - Leverage Internal and External Knowledge Capital
 - Ducati, Apple examples
 - Convergence necessitates the creation of SM Knowledge Cells



Knowledge Mgt. Element	Innovation. Mgt.	Change Mgt.	ESCM	SSM	GS	SCM	LI	LCC	FSM
Strategy Map Element									
Strategic Cost Management		3	3			1			
Strategic Supply Management	2	2	3	1					
Asset Deployment	1				1				
Revenue Enhancement									4
Boundary Spanning (ISMP)		4	3		2		1	2	4
Supply Chain Financials					4				4
Combined Readiness Assessment	✓	✗	MI	✓	MI	✓	✓	✗	✗

Ratings: 1=adequate; 2=enhancement needed; 3=major enhancement needed; 4=new initiative; 5=org. transformation required

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<ul style="list-style-type: none"> • KM drivers in SM <ul style="list-style-type: none"> – SM Culture: Internalization of mission, strategy and customer centric values by SM Professionals – SM Leadership: Dispersed leadership and empowerment, Mobilize organization toward strategy execution – SM Alignment: Strategy Map Linkages and how performance metrics reflect those – SM Project Orientation: Teamwork, Results Orientation, Speed of Response, Goal Directed Effort 			
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IFPSM: Emerging Issues

- Financial Supply Chain Management...
 - SCF is also Knowledge driven
 - Current financial crisis has opened up possibilities
 - Investment finance versus Working Capital (WC) finance
 - $WC = Inventory + Receivables - Payables$
 - SC Finance solutions can affect all three components of WC and sustainability of financial operations
 - SM affects Cash Value Added (CVA)

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The project WorkCap at a European producer of household goods generated EUR 25,4 mio. in free cash flow and has shortened the balance sheet by EUR 9,8 mio.

Project example: Effects on the balance sheet





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- $CVA = \text{Operating Cash Flow} - \text{Depreciation} - \text{Capital Costs}$
- $OCF = EBITDA - \text{Income Taxes} + \text{Change in Working Capital}$
- $EBITDA = EBT + \text{Change in Interest Expenses/Income} + \dots$
- $EBT = \text{Market Contribution} = \text{Vol.} \times \text{Var. Gross Margin per unit}$
- $VGM (\text{per unit}) = \text{Ave. Selling Price} - \text{Var. Mfg. Cost} - \text{Ave Warranty Expenses} - \text{other expenses}$
- $\text{Change in WC} = \text{Change in Inv.} + \text{Change in Payables} + \text{Change in Receivables}$
- $\text{Capital Costs} = WACC * \text{Invested Capital}$
- WACC is determined by debt and cash needs
- These are levers influenced by SM. Future CPOs will be Finance Experts



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- Due to the financial crisis, initiatives for supplier stabilization and the need for optimized cash conversion cycles, Supply Chain Finance will gain in importance.
- Current trends
 - **Limited access to capital market** - largely reserved for major companies
 - Increasing **price pressure** from consumers puts pressure on suppliers
 - **Limited liquidity of suppliers**—increasing supplier risks
- Active Risk Management measures towards important suppliers: **Securing financial stability of suppliers**
- Need for cash and optimized cash conversion cycles puts **pressure on payment terms** for buyers and suppliers alike

Source: BrainNet

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SM Levers	Value Potential (Example)
– Product	High
– Volume	Moderate
– M-o-B	Low
– Sourcing	High
– Price	Moderate
– Contracts	Moderate
– Process	Low
– Risks	Low

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- Implications for CPOs
- Solid knowledge of financials (liquidity, cash flow calculation etc.) and the cash conversion cycle
- Knowledge of the finance sector in order to have face-to-face discussions with CFOs
- Knowledge of optimization levers in finance and their operational consequences
- Knowledge of the Financial implications of SM levers and measures
- Alignment of CFO and CPO targets

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- Financial Supply Chain Management...
 - CFO, CPO dependency
 - CEOs will begin to pay attention
 - CPOs will increasingly work cross functionally with Finance to achieve superior financial performance
 - IFPSM affiliates must incorporate Finance in program offerings to SM Professionals
 - Offer SM Programs to CFOs and COOs



ACHIEVING SUPERIOR FINANCIALS





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“The best way to predict the future is to create it!”

– Peter F. Drucker



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Thank you!



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- SM – Strategy Connection: Integrative Management Practices

