Chapter V

Supply Chain Management

If your international supply chain management is the weakest link in your organisation, your board or chief executive will say good-bye — without a winking eye. How do you know your supply chain in the age of globalisation and internationalisation is effective? Literature in its many forms contains a lack of clarity and completeness in the how to’s of implementation. This chapter covers the nuts and bolts of what’s required and what can go wrong. I’ve been there, seen it, done it and didn’t get fired. Reality, therefore, pervades this chapter. Within this chapter, I will explore definitions and concepts of logistics and supply chain management, including the value chain, logistics management, global sourcing, and the bullwhip effect. Illustrations will be taken from the private and public sector along with a suggested interlock strategy.

The Role of Supply Chain Management

Where do you start? First, you have to accept there is no escape from globalisation and internationalisation of business in the 21st century. You also need to accept that in the Western world, organisations and businesses are more similar than different. What this means is that international logistics strategies

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are a substantial challenge for any management group. It also means these strategies must be tailored to suit the dynamic and frequently changing global environments. What changes, what environments? Remember the Soviet Union break-up; its effect still reverberates. Remember the European Union; it’s about to get larger. Remember China with no money; well, they’ve got some now. Remember the imperial market of India; it’s opening up. Remember the Middle East, all that oil money and no industrial structure; well, they’ve bought the technical know-how. Remember the Asian economic collapse; well, they’ve recovered. Australia and New Zealand businesses have world-class supply chains (Mollenkopt & Dapiran, 2005). Then there’s the Internet. Convinced yet? Okay, let’s move on.

Does a supply chain lead to improved performance? Yes, if you do it properly and if you understand what supply chain is. It arguably includes all activities required in order to obtain the product from the supplier and get it to the place where it is actually used. It encompasses the purchasing function, store, traffic and transportation, incoming inspection, and quality control and assurance. Some also include salvage and management of environmental issues (as they are related to materials) in procurement. What I am concerned with here is the complete supply chain. The message here is that there is a chain of events to be managed — the art is recognising that there is one and where it can be influenced in one form or another.

With major changes occurring in industry, the perception of supply chain in executive offices has failed to evolve in concert, principally due to continual changes in terminology. Nevertheless, business executives are increasingly questioning the supply chain potential for contributing to overall profitability. These questions are typified by the following comment from a chief executive of a leading organisation:

I now know what supply chain management can do to save money. Tell me what it can do to improve my profits, to increase my share of the market, to improve my cash flow, to open new territories, to introduce new products, and to get the stockholders and board of directors off my back.

Notice that the chief executive asks if supply chain can do anything important for profitability, and if so, what? Supply chain must make this profitability contribution if it is to expand its role in the company.

Expenditure on purchasing goods and services in a company may account for between 30 to 75% of total costs. Expenditure on storing and distributing materials may absorb a further 10 to 20% of total costs. Using some very different benchmarks, stock as a proportion of total funds employed can account for anything between 30 and 50% (see, for example, Quayle, 2002). Total distribution costs expressed as a percentage of sales, range from 9 (industrial manufacturing) to 34% (wholesale consumer goods). Despite this, and whilst