

Final Exam

Why must traditional suppliers and customers evolve into real collaborators under global supply chain concept?

Introduction

"Globalisation has created the need for truly comprehensive supply chain solutions, which must deliver value to be effective." Taken this statement as a starting point to answer the question above one realizes that only through a greater collaboration of suppliers and customers value is added in a global supply chain. The following essay will therefore examine the reasons behind this process while looking at the arising of global supply chains, the expected benefits for suppliers and customers and their development, but also the new challenges and finally pointing out on this basis the necessity of collaboration among suppliers and customers with the help of an example.

Concept of a global supply chain

One approach to look at a supply chain in general is to see it as "a network of connected and interdependent organization mutually and co-operatively working together to control, manage and improve the flow of materials and information from suppliers to end users" (J. Aitken, 1998). Under the global supply chain concept it is extended to many different countries around the world.

Reasons for the development of a global supply chain can be seen firstly in the internet and other technological changes. The internet has added speed and accessibility, allowing companies to reduce or even eliminate many time-consuming activities such as ordering and purchasing transactions. It has also helped to tear down geographic barriers, giving companies access to new markets and suppliers from around the world. Furthermore many trade agreements have sped up global trade activities. Beside this a greater regionalization has formed nations into many different trading groups. Within these groups, like the NAFTA or the EU, trade barriers have fallen and products have no longer tariffs or other duties on them. But also the upcoming and opening of new markets, e.g. of post-socialist countries, have supported this development. All these trade advantages have lowered the supply chain costs and reduced the order cycle time.

But of course they have also increased the competition of companies all over the world. By expanding current business operations internationally, companies can offer and sell new products and services more easily. Expanding globally with an effective supply chain will give companies a comparative and competitive advantage over others. In order for a global supply chain to be effective, it must be reliable and fast. The *aim* is to deliver a companies

products and services quickly and at the least cost possible while exceeding customer expectations, which have become hugely important in today's business.

Development of supplier's and customer's expectations

First of all the development of *retailer-manufacturer relationships* during the last decades indicates a shift in the power of the two groups. Till the 1970s the manufacturers, who can be regarded as suppliers within the supply chain concept, have dominated this relationship, but in the 1980s the growing power of the retailers, considered here as customers, through their consolidation has displaced this domination. Due to rising expectations of the customers in the 1990s resulting in a growing importance of customer service this process was even enforced. So customers nowadays are much more demanding and sophisticated than 30 years ago. Also the transition of the consumer markets towards commodity markets contributed to this development. Because of this it is essential to retain customers, who can now very easily switch and substitute products of the suppliers, and attract new customers through greater customer satisfaction. This is the real source of added value for the supplier and makes up in the end his competitive advantage in the hypercompetitive environment nowadays. As a result you can say that in the beginning of the 21st century suppliers and customers finally head to a new equilibrium.

Examining these developments concerning the changed expectations of each side deeper *suppliers* seek to reduce costs and to enhance revenues on the one hand and to increase customer service on the other hand. Whereby cost cutting comprises reduction of inventory investments, of lost sales due to out-of-stocks, of merchandise returns, of goods obsolescence, but also an increase of sales and higher margins resulting in an overall enhanced cash flow. Beside this customer service is about greater customer satisfaction to retain existing and attract new customers. All in all these leads to a competitive advantage, i.e. to fulfil customer wishes better, faster and at less cost.

Having a look at the customer service from the eyes of the *customers* it contains firstly product availability, i.e. to have the right products available at the right place at the right time in the right condition and quantity, short order cycle time, high reliability of delivery as well as order accuracy, convenience of ordering and after-sales service, which include e.g. the procedure of claims, the response time and its quality.

Therefore suppliers need a distribution system, which comprises flexibility concerning responses to requests, information concerning speed and accuracy of the responses, a malfunction and an adequate after-sales support to fulfill all the customers needs.

Challenges in a global supply chain

The listed up expectations are heavily affected within a global supply chain and because of this it is even more challenging to remain flexible and to have a competitive cost structure.

One of the main challenges is the decision of the supplier whether to adapt to customers needs in national environments with different cultures, politics and economics, and localize the resources, i.e. factories and inventories, or to centralize them and sell a global product. Each decision implies different business impacts, so suppliers face on the one side an even more increased complexity of order fulfillment processes and marketing efforts when they adapt their products, but gain on the other side an advantage in customer satisfaction due to the differentiation. Whereas selling a centralized manufactured product globally the same way allows suppliers to explore economies of scale.

In every case there are high investments in the IT infrastructure to undertake in order to manage the complexity of an extended network in the global supply chain. In this context also the cost-intensive setting-up of an E-business platform is nowadays a main issue. Furthermore the geographic impact in terms of time differences and distance of markets plays an important role. As well as there are barriers in languages and cultural differences in communication to overcome. Moreover the management has to cope with exchange rate fluctuations, minimizing of tariff and quota problems, and instability of governments or diplomatic relations.

Despite these challenges suppliers should gain a unique value added position to customers around the world to meet the intensified competition from around the world, which is only possible when they understand the customers needs.

Creating win-win-situations through collaboration

Among several examples showing the greater importance of collaboration in a global context, like Just-in-Time, Efficient Consumer Response (ECR) etc., the implementation of Collaborative Planning, Forecasting and Replenishment (CPFR) should be discussed further here.

The *goal of CPFR* is to develop one common forecast through forecast sharing and collaboration among suppliers and customers with the help of EDI and internet-based tools. Before an implementation of CPFR both sides were confronted with different planning data and non-integrated processes and systems which all led to excessive response times, costs and inventory due to forecast inaccuracy. So manufacturers as the suppliers faced high inventory costs and obsolescence, whereas retailers as the customers dealt with out-of-stocks, material shortages, high inventory costs impacting margins, lost sales and poor customer service.

With an *CPFR solution* it is possible to align forecast data on a regular, mostly weekly, basis to deliver and sell the right amount of products even in unforeseeable situations such as promotions, inventory policy changes, store openings or closings, product changes etc.. But to be that flexible in case of exceptions suppliers and customers have to integrate their

systems and share their data, such as POS data, causal information, promotion calendars and inventory strategies.

As a *result* sales increase by 10-100%, inventory and out-of-stocks are reduced by at least 10%, as well as merchandise returns are decreased by 5-20% and forecast accuracy improves by at least 20%. This all enhances both cash flow and profitability, and contributes to a higher consumer satisfaction.

To sum up CPFR helps to overcome a traditional trade-off because now improving of inventory and reducing of out-of-stocks are possible at the same time. Therefore a *win-win-situation* is created where customer satisfaction, costs and revenues of the supplier are improved simultaneously.

Conclusion

Due to the globalization with its described opportunities and challenges supply chains have become even more complex and difficult to manage. At the same time suppliers face an increased competition in an often as an hypercompetitive described environment where not only different companies, but whole supply chains compete against each other. Because of all this it has become more important than ever before to optimize the own global supply chain in order to work more effectively. This can only be achieved if a value added is delivered at both ends of the chain, i.e. for the supplier and the customer, and of course to everybody in between. This value added makes up the so decisive competitive advantage of global supply chains and its components.

Collaboration in an integrated global supply chain delivers exactly this value added and is the only way to realize this. When the demand and supply processes regarding the information flow from the consumer to the supplier and the products flow in the other direction are optimized, customer satisfaction rises, costs are reduced and revenues increase. To conclude collaboration overcomes barriers in the global supply chain and adds a competitive advantage towards higher customer satisfaction.