Managing Supply Chain and Operations An Integrative Approach 2nd edition Foster Solutions Manual

SKU: 9780134739830-SOLUTIONS

Chapter 2 Solutions Manual

Integrative Learning Exercise

This chapter focuses on strategy. As a result, this exercise is designed to get the students to think about SC&O strategy. They are to go to the popular press to research a company and find out about its strategic planning and mission. The exercise should be used to spark a discussion on issues such as core competence, the voice of the customer and market, and how SC&O managers have to make choices to allocate resources.

Integrative Experiential Exercise

This activity involves visiting a company to review its strategy process and content. The students should report on whether the company uses a cost, differentiation, or focus strategy. They should then discuss order winners and qualifiers. This will allow you to start a discussion on winners, qualifiers, and strategy.

Discussion Questions

1. **What is the purpose of strategy?**

   Strategy is a long-term plan that defines how the company will win customers, create game winning capabilities, fit into the competitive environment, and develop relationships. Strategy includes long-term planning that is performed at the highest organizational levels to meets the organization's long-term goals and objectives. The purpose of strategy is to provide a roadmap for growth, provide a basis for aligning operational subplans and create and sustain a competitive advantage for the company.

2. **What are the steps of strategic planning?**

   All planning starts with a forecast and requires an understanding of the economic environment. Mission and vision also help to inform strategic decision making. Management use the forecast, mission, and vision, coupled with customer research and market analysis, to set strategic plans. A key decision in developing a strategic plan is to decide whether a company will use a cost strategy **to** find ways to reduce costs, use a focus strategy to service only select customers and provide these niche customers with a narrow range of unique products or services, or use a differentiation strategy that seeks to provide distinctive products or services that competitors cannot compete with. From the strategic plan, operational subplans are established in the areas of finance, operations, supply chain management, information systems, human resources, and marketing.

3. **Why is it important for strategic planning to consider the lifetime value of the customer?**

   Switching costs and differentiation can enhance the likelihood of capturing the lifetime value of a customer. SC&O strategists must address (1) the willingness of

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consumers to switch to or from their product and (2) how differentiated consumers perceive their product or service to be from the competitor's products or services.

4. Why are customers important to the strategic planning process?

Strategists must understand key customers' needs in order for a firm to survive and prosper. Customers are the judge and jury in competitive advantage. No matter how many of your shareholders, your competitors, or the media praise your company, your customer decides your long-term success. Some companies also run the risk of adopting a strategy that attracts the wrong types of customers and thus hurts their existing loyal clientele.

5. Why should strategic planners not treat all customers the same?

SC&O managers understand that customers are not all equally valuable. Some customers simply are not worth the cost or effort to serve. The 80/20 rule, also called the *Pareto's Law*, suggests that 20 percent of customers account for 80 percent of revenues. The key for strategy makers is to identify the very best customers and to provide outstanding service to those top customers.

6. What is the difference between a company's core competency and a skill that the company is really good at doing?

Core competencies are those capabilities that tie most closely to their customer values and that provide companies with a unique competitive advantage. Skills that a company are really good at doing may be of no value to their customers or may not represent a unique competitive advantage.

7. How does a firm know which capabilities they should create and foster?

Companies should focus on those capabilities that tie most closely to their customer values and that provide companies with a unique competitive advantage.

8. What is the five forces model and why is it important to strategic planning?

This model helps companies understand how all competitors and supply chain members influence their ability to compete. There are five considerations in this model:

- Threat of new competitors
- Threat of substitutes
- Bargaining power of customers
- Bargaining power of suppliers
- Rivalry within the industry

9. How do relationships create sustained, competitive advantage for firms?

Relationships can be leveraged to reduce costs, appropriate value from a partner with complementary core competencies, and create synergistic value.

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10. How are complementary relationships different from synergistic relationships?

Complementary relationships occur when companies that clearly understand their core competencies need another firm's competencies in order to maintain world-class service. Generally, these companies understand that they hold a competitive advantage in one area but do not have expertise in another. A synergistic relationship is a relationship between two companies that are committed to work together in a way that the result is greater than the sum of the individual parts.

11. How does aligning strategic, functional, and operational plans help strategic execution?

Strategies form the rationale for tactics and operations because they drive what middle tier management must accomplish to win and keep customers. For example, once a company determines that it is going to be a low price competitor, its tactics are also going to focus on cost reduction and efficiency and its day-to-day operations are going to focus on efficiency. Strategy sets the stage for tactics and operations.

12. How do firms ensure that execution of strategic plans is effective?

When supply chain managers select the correct functional strategies to complement their needs, strategies are supported, and execution becomes easier.

13. How does aligning strategic levels help make strategy execution more effective?

Aligning strategic levels ensures that functional and operational plans work on a tactical level to achieve the overall strategic goals of the firm.

14. What role do functional strategies have in strategy execution?

Functional strategies or operational subplans are one to two year goals that help the firm "win a battle, but not necessarily win the war." They are where "the rubber meets the road" in terms of strategy implementation.

15. How can firms achieve SC&O sustainability?

Firms can achieve SC&O sustainability by implementing quality-based environmental management systems, sometimes referred to as sustainability management, engaging in life cycle costing, implementing supplier sustainability scorecards, managing their reverse logistics processes, and finally by managing their customer's preferences regarding sustainability.

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Case: Zara

Questions

1. **What is Zara's competitive advantage?**

   Zara's competitive advantage is its ability to get new designs into its shops in five weeks, compared to the six to nine months that is common in the industry.

2. **How has Zara aligned its processes with its marketing requirements?**

   Zara has aligned its manufacturing to make small batches quickly and has structured its distribution for rapid deliveries—by truck or air—to all of their stores. It also produces much of its own product in its own production facilities, and it imports the rest, often partly finished or undyed, allowing it to react quickly to changes.

3. **What problems do you see looming for Zara?**

   The major issue that Zara could face in the near future is the invasion of its space by a competitor who can react equally fast to changing trends and market conditions. Zara also faces competition from local competitors who offer similar clothing on a smaller scale. This question provides an opportunity for students to apply the five forces.

4. **What opportunities has the company created through excellent SC&O management?**

   Zara has created the opportunity to react quickly to changes in fashion, allowing them to maintain their front position as a fashion leader. They have also been able to reduce costs by avoiding overproduction of unsuccessful merchandise.

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Chapter 2: Supply Chain and Operations Strategy

Chapter Outline

1. Understand and Generic SC&O Strategies
    a. Generic Strategies
    b. Alignment
    c. Assessing Customer Value

2. Explain how to Apply SC&O Strategy Process and Content
    a. Hoshin Kanri Strategic Planning
    b. SC&O Strategy Content

3. Supply Chain Strategy
    a. Changes in Strategy
    b. Types of Relationships

4. Strategy Execution
    a. Aligning Strategic Levels
    b. Aligning Incentives
    c. Focusing on Process

5. Strategic Metrics and Measurements
    a. Correct Strategic Behavior
    b. Actionable and Predictive Metrics
    c. Commonly Used Supply Chain Metrics
    d. Systems Thinking

6. The Changing Strategic Environment
    a. Analytics
    b. Globalization
    c. Sustainability
    d. Innovation

Chapter Learning Objectives

1. Understand and Use Generic SC&O Strategies
2. Explain How to Apply SC&O Strategy Process and Content
3. Explain How Managers Use Supply Chain Strategy to Build Relationships
4. Execute Strategy

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5. Understand and Apply Strategic Metrics and Measurements
6. Describe the Changing Strategic Environment

1. Understand and Use Generic SC&O Strategies

1. A leader establishes vision and through such leadership, comes the firm's **strategy**, a long-term plan that defines how a company will operate.
2. **Supply chain strategy** is the supply chain portion of the general strategic plan.
3. **Operations strategy** focuses on allocating resources *within* the firm.
4. **Generic strategies**
   a. **Cost strategy—**concentrating on reducing costs, e.g., Walmart
   b. **Focus strategy—**concentrate on a specific market, e.g., Amazon
   c. **Differentiation strategy—**concentrate on specific products and services, e.g., Bed, Bath, and Beyond

TEACHING TIP
Have the students list various businesses that they frequent in town and ask them which of the above generic strategies are employed by these firms.

5. **Alignment**—Each SC&O decisions matches capabilities with the supply chain needs of the firm's strategic direction
   a. **Fisher strategy model**— differentiate between products sold and customer needs based upon the firm's strategy.
   b. The **importance of agility—**the ability of the supply chain to respond quickly to short-term changes in demand and supply.
   c. **Adaptability—**the capability to adjust a supply chain's design to a structural shift in the market.
   d. **Order winners and order qualifiers—**order winners are those attributes that differentiate a company's products, while order qualifiers are the necessary attributes that allow a firm to compete in a market.
6. Assessing Customer Value
   a. Key customers must be a firm's focus.
   b. Lifetime value—more value in a customer relationship than just a onetime transaction; not allowing returns for defective product may lose a customer for life.
   c. *Pareto's law* states that 20 percent of the customers provide 80 percent of the business; thus, your best service must be slanted toward this 20 percent.
   d. Your customer determines your long-term success.

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2. Explain How to Apply SC&O Strategy Process and Content

1. SC&O Strategy and Content—there are two main components of SC&O strategy: *process and content.*

   a. Strategy **process** is the method pursued for creating strategy.

   b. **Strategy content** is what construes the strategy and includes generic strategies, relationships, competitors and strategy successes and failures.

   c. **Operational subplans** are portions of the strategic plans pertaining to differing functional areas of the firm.

TEACHING TIP
One of the best methods to discuss strategy and its content is to discuss some failures made that the student's lifetime and how the company survived. One of these is the Netflix pricing debacle when the company initiated separate pricing for DVDs and streaming and how the company—and its president—survived by listening to its customers.

2. Hoshin Kanri Strategic Planning

   a. **Hoshin Kanri Planning—**Policy deployment through a strategic planning process that uses project-based improvement.

   b. **Catchball—**Strategic back-and-forth dialogue between successive levels of management and their teams.

3. SC& O Strategy Content

   a. **Capabilities** are a network of people, knowledge, information systems, tools and business processes that create value.

   b. **Core competencies** are a company's abilities to compete with competitors that are difficult for competitors to replicate.

4. Dynamic Capabilities and Retaining Value

   a. **Dynamic capabilities** are the firm's ability to design and reconfigure competencies to address rapidly changing environments.

3. Supply Chain Strategy

1. Companies realize that creating and maintaining important business relationships must be included in their strategic planning.
2. Changes in strategy have moved from inside the four walls of the firm to a globally connected world. Much of this change was precipitated by the prevalence of the Internet, where firms that were once isolated from their suppliers have them as close as a computer screen.
3. The book *The World Is Flat,* by Friedman, should be read to understand the significant phenomenon of this global environment and its far reaching impact on a firm's supply chain strategy.

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4. Relationship management both domestically and globally is vitally important to a successful sustained competitive advantage.
5. There are three main reasons for this supply chain strategy—leverage relationships to reduce costs, create relationships with complementary core competency companies, and establish long-term relations to create synergistic value.
6. Three different types of relationships help in leveraging relationships. The one used is dependent upon the firm in which one has business dealings:
    a. **Transactional relationships** are an arm's length relationship, primarily centered on cost control, e.g., bidding for sales.
    b. **Complementary relationships** is a relationship where there is core competency in one area, say research and marketing, but not in another, say manufacturing, therefore both firms work together to satisfy the consumer's need. The relationship between Apply and Foxcom has the same relationship.
    c. **Synergistic relationship** is a relationship between companies to bring the product to market over the long term. This relationship primarily consists of companies and their suppliers where the relationship has been worked and tested over the years.

TEACHING TIP
Read a summary of the Friedman book and use modest excerpts to point out the ramifications *of the Internet on the supply chain. Discuss the Honda Corporation in terms of this globalization.*

4. Execute Strategy

1. Aligning Strategic Levels
    a. **Strategies** are the long-term goals that define how the company will succeed and prosper.
    b. **Functional strategies** or **operational sub plans** are one- or two-year goals that help the company "win a battle, but not necessarily the war," and include such things as improving supplier relationship for cost savings.
    c. **Functional tactics** or **tactics** are short-term steps in implementing functional strategies.
    d. Operations are daily activities that a firm must perform to tie into their tactic and ultimately to their strategies
2. Aligning Incentives—Good strategy aligns the incentives to both—a sales team and the SC&O team to create greater profits for the firm and not work at cross-purposes.
    a. There are many alignment issues that must be addressed in a firm.
    b. Manufacturing and sales—products need to be defined and prioritized.
    c. Information systems—what data elements are necessary and which are not?
    d. Logistics—how does shipping align with manufacturing? Are there conflicts?

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e. Suppliers—who are the preferred suppliers? Do they source globally?

f. Inventory Management—much inventory is needed? Does it link to sales and finance strategies?

3. Focusing on Process

a. The SCOR model—the managers must focus on processes throughout the supply chain.

b. The SCOR model has three main points of emphasis—process modeling, performance measurements, and best practices. The SCOR processes are—plan, source, make, deliver, and return.

c. The SCOR model helps managers view the supply chain for the benefit of its customers. By doing so, the firm does better and achieves its objectives.

TEACHING TIP
Discuss the examples of Ford and Harley Davidson outlined in the book. These examples are pertinent to the students because they should be familiar with the products and the companies involved.

5. Understand and Apply Strategic Metrics and Measurements

1. Correct Strategic Behavior

a. There is a significant difference between strategic behavior and the **correct** strategic behavior. Discuss the Lawn Mower gas cap example in the book.

b. Great metrics, or measuring results, drive not only strategic behavior but also the correct strategic behavior.

c. The firm must measure innovation by the needs of the customer, not by the needs of the firm.

2. Actionable and Predictive Metrics

a. A good metric allows managers to make a decision based on facts.

b. A clear action plan with a cause-and-effect result can help managers understand the actions necessary to achieve their goals.

3. Commonly Used Supply Chain Metrics

a. **Strategic metric**—purchased from a supplier to sustainability help define this metric.

b. **Financial metric**—from dollar revenue generated by supplier to asset utilization help define this metric.

c. **Relationship metric**—degree of trust to the satisfaction level of the relationship to define this metric.

d. **Operational metric**—from defects in the processes to the productivity rates and timeliness of orders define this metric.

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4. Systems Thinking
    a. Holistic thinking takes the strategy alignment, incentive alignment, and metrics analysis and combines them to work for the benefit of the entire company.
    b. An effective SC&O manager is no longer a functional expert but a strategic team member, leading the entire supply chain.

6. Describe the Changing Strategic Environment

1. Analytics
    a. Advances in data storage and resulting lowering of costs have enabled companies to store more and more data.
    b. Use Ford's example from text to illustrate role of data in answering supply chain questions.
2. Globalization
    a. With advances in communication, helped along by the Internet, globalization has helped multinational companies increase their sales from $3 billion in 1990 to nearly $10 billion in 2010.
    b. Real time information from supplies needed to manufacturing output to payment has been speeded up significantly over the past 20 years.
    c. But globalization has also created problems with supply chain disruptions, such as fires in China manufacturing plants to a tsunami in Japan, which hindered supply chains and caused numerous problems all over the world.
3. Sustainability
    a. There are unintended consequences to working in areas where the ability to operate must take into consideration methods of production and logistics that do not threaten future generations.
    b. SC&O practices must consider not only the public relations issues of sustainability but also the methods used to work in this environment profitably.
    c. Because of regulatory pressure, all companies understand that they must include environmental concerns in their strategic plans.
    d. **Sustainability management** means improvement based on environmental management systems.
    e. **Life-cycle costing,** a technique in environmental management, must be considered as one reviews product development.
    f. **Scorecard** is a tool to communicate strategic metrics.
    g. **Reverse logistics** is a tool used to move products up the supply chain, often used in managing recycling.
    h. **Customer preference**—A strategic planner must decide if the product preferred by the customer, but environmentally negative, will continue to

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be made or changed to a less desirable product for the consumer but environmentally better.

3. Innovation
    a. SC&O world is getting into the world of innovation. The days of just being involved in cost controls and product quality is now including innovation of new products and services.
    b. Tomorrows SC&O managers must not only be good at functional tactics, they must be culturally astute, sustainability minded, and innovative.

TEACHING TIP
Discuss the new aluminum body Ford F-150 truck body, the reverse logistics of the aluminum waste in forming the body (as much as 20 percent), how it is recycled and sent back to the supplier (resold for reprocessing),and then sold back to Ford for the production of a new vehicle.

In Class Activity

1. As a group, have students' select 10 items that they use on a daily basis. Discuss the country origin, either domestic or global, of each item, why and where it is built, and if the county of origin ever be changed (and why or why not).

Class Discussion Questions

1. Discuss Zara's supply chain strategy. How does Zara's supply chain give it an edge in the fashion industry?
2. Ask the students if there is a difference in their minds between buying a clothing item from Zara or at a competitor. Compare Zara's strategy to a competitor's, such as H&M.

Video Suggestion

Discussion Topic: What are the current problems with the fast-food market? What strategies are firms like Chipotle using to obtain market share?

Search the Internet for MSN's "5 Problems that'll Challenge McDonald's No Matter Who's CEO" for a video on the topic. Running Time: 42 seconds.

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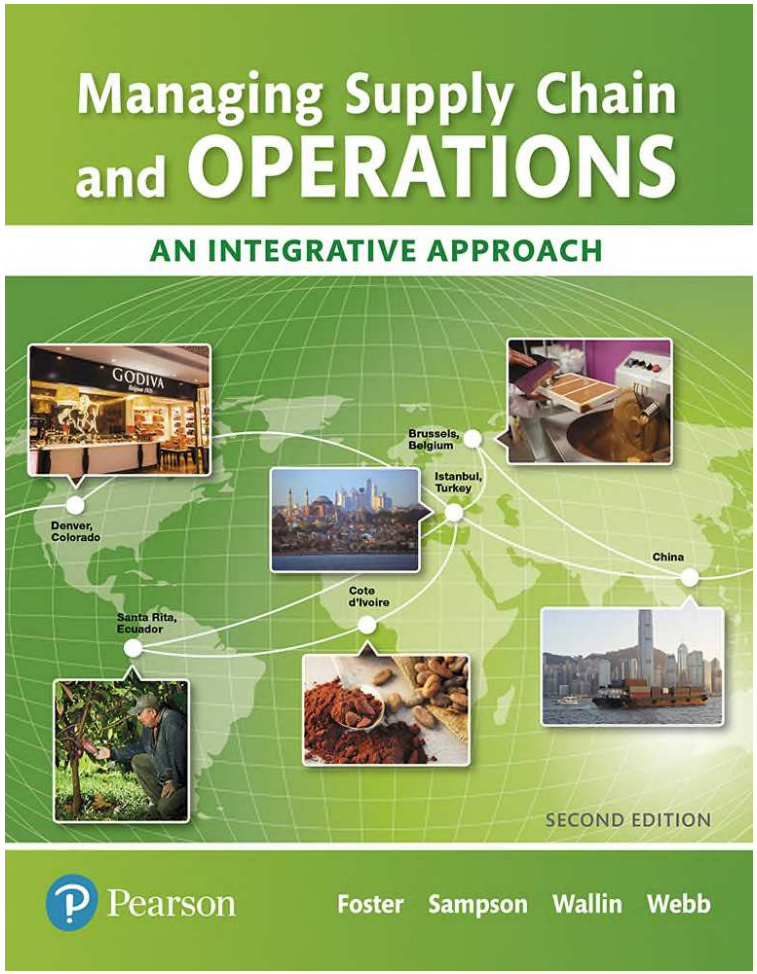

Chapter 2

Supply Chain and Operations Strategy

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The SC&O Model - Integrating

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Thought Questions

- SC&O Current Events 2.2
  - Example of three retailers
- Did initial strategy drive SC capabilities?
- Does Kmart's SC capabilities match strategy?
- How do Target and WalMart SC differ?

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Definitions

- Strategy
  - Long-term plan to win customers
- Supply Chain Strategy
  - SC portion of strategic plan
- Operations Strategy
  - Allocating resources to provide value
- SC&O Strategy
  - Encompassing SCM and OM

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Learning Objectives

2.1 Understand and Use Generic SC&O Strategies

2.2 Explain How to Apply SC&O Strategy Process and Content

2.3 Explain How Managers Use Supply Chain Strategy to Build Relationships

2.4 Execute Strategy

2.5 Understand and Apply Strategic Metrics and Measurements

2.6 Describe the Changing Strategic Environment

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Learning Objective 2.1

- Understand and Use Generic SC&O Strategies
  - List and explain the three generic strategies.
  - Explain how managers use alignment to achieve strategic goals.
  - Describe how managers assess customer value.

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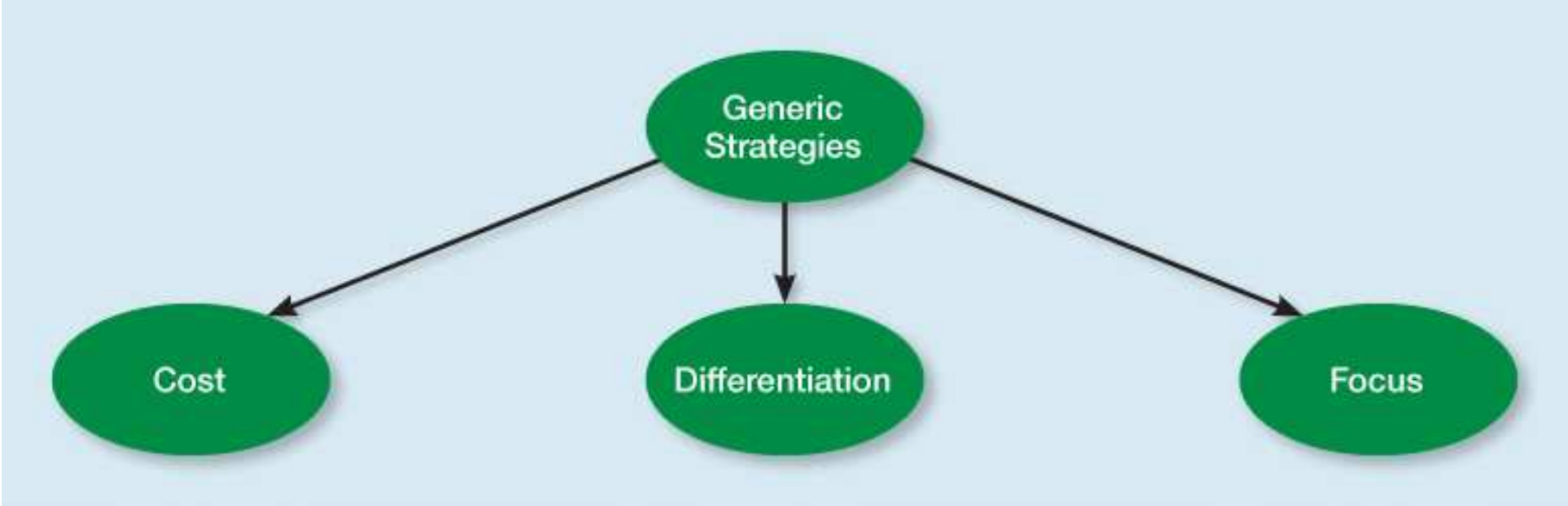
Figure 2.1 – Porter's Generic Strategies



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Generic SC&O Strategies Examples

- Cost Strategy
  - Walmart
- Differentiation Strategy
  - Apple
- Focus Strategy (Broad versus narrow)
  - Home Depot

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SC&O Tactics Should Align Strategy

Table 2.1 Fisher's Supply Chain Alignment Model

	Functional Products	**Interactive Products**
Efficient Supply Chains	Match	Mismatch
Responsive Supply Chains	Mismatch	Match

Source: Based on data from Fisher, M., "What Is the Right Supply Chain for Your Product?" *Harvard Business Review*, March–April 1997, pp. 105–116.

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Agility and Adaptability

- Agility
  - Quick response to short-term changes
    - In demand or supply
- Adaptability
  - Adjust SC design to market shifts
    - Make changes as product matures
    - Identify capabilities needed to transition

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Order Winners and Order Qualifiers

- Order Qualifiers
  - Necessary attributes
  - Safety standards in US cars
- Order Winners
  - Differentiating attributes
  - Fuel efficiency in US cars

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Assessing Customer Value

- SC&O works closely with marketing
- Lifetime Value (LTV)
  - Customers' potential long-term worth
  - LTV preferred over single sale

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Assessing Customer Value: The Pareto Principle

- Not all customers the same
  - Pareto's Law
    - 20% of customers
    - 80% of revenues
  - Strategy should attract correct customers
    - Waitrose example on page 26

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Learning Objective 2.2

- Explain How to Apply SC&O Strategy Process and Content
  - Explain Hoshin Kanri strategy and planning.
  - Define and differentiate between capabilities and competencies.
  - Explain the resource-based view.

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SC&O Strategy Process and Content

- Strategy process
  - How to create strategy
- Strategy content
  - Parts of the strategy
- Operational subplans
  - Functional portions of strategic plan

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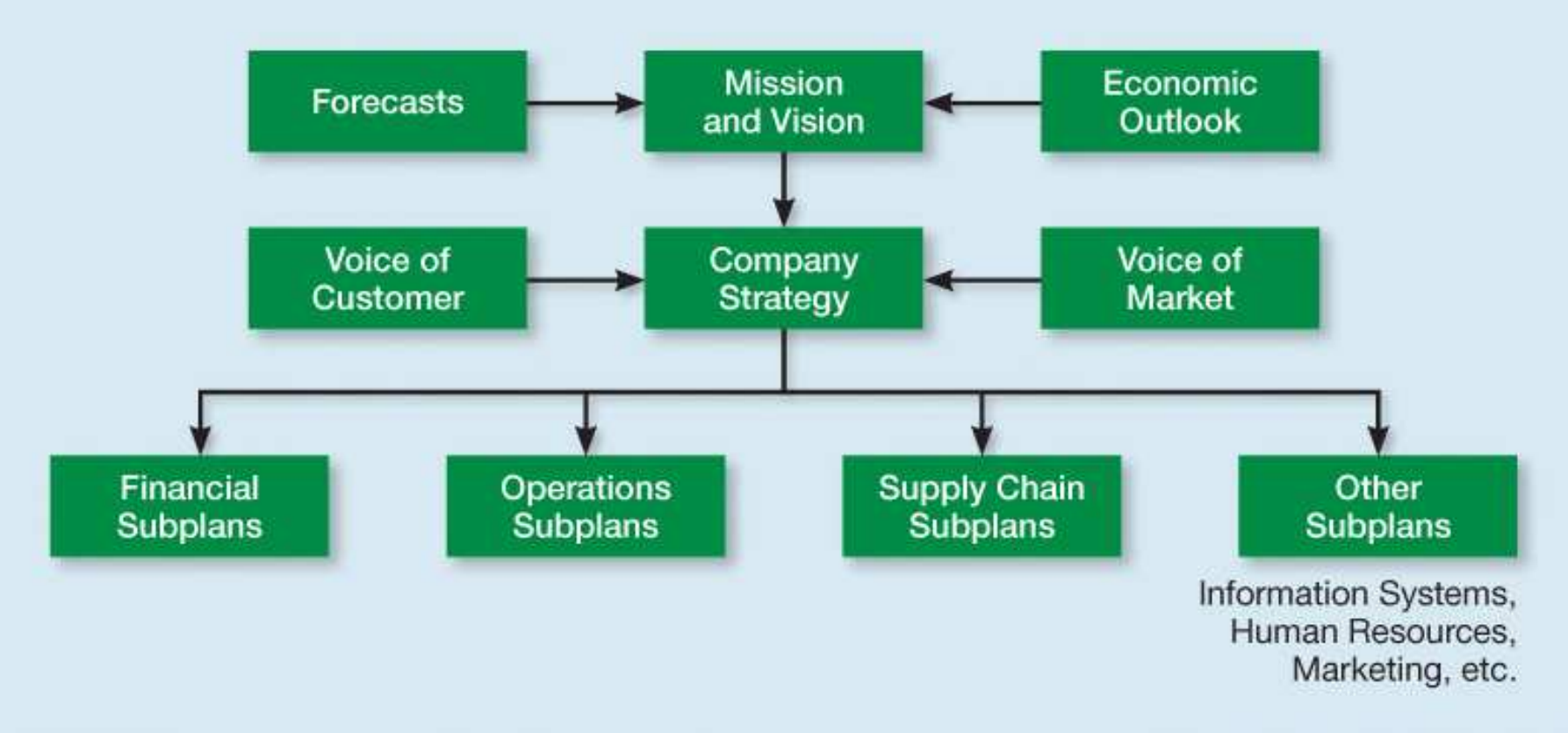
Figure 2.2 – Supply Chain and Operations Strategic Planning Hierarchy



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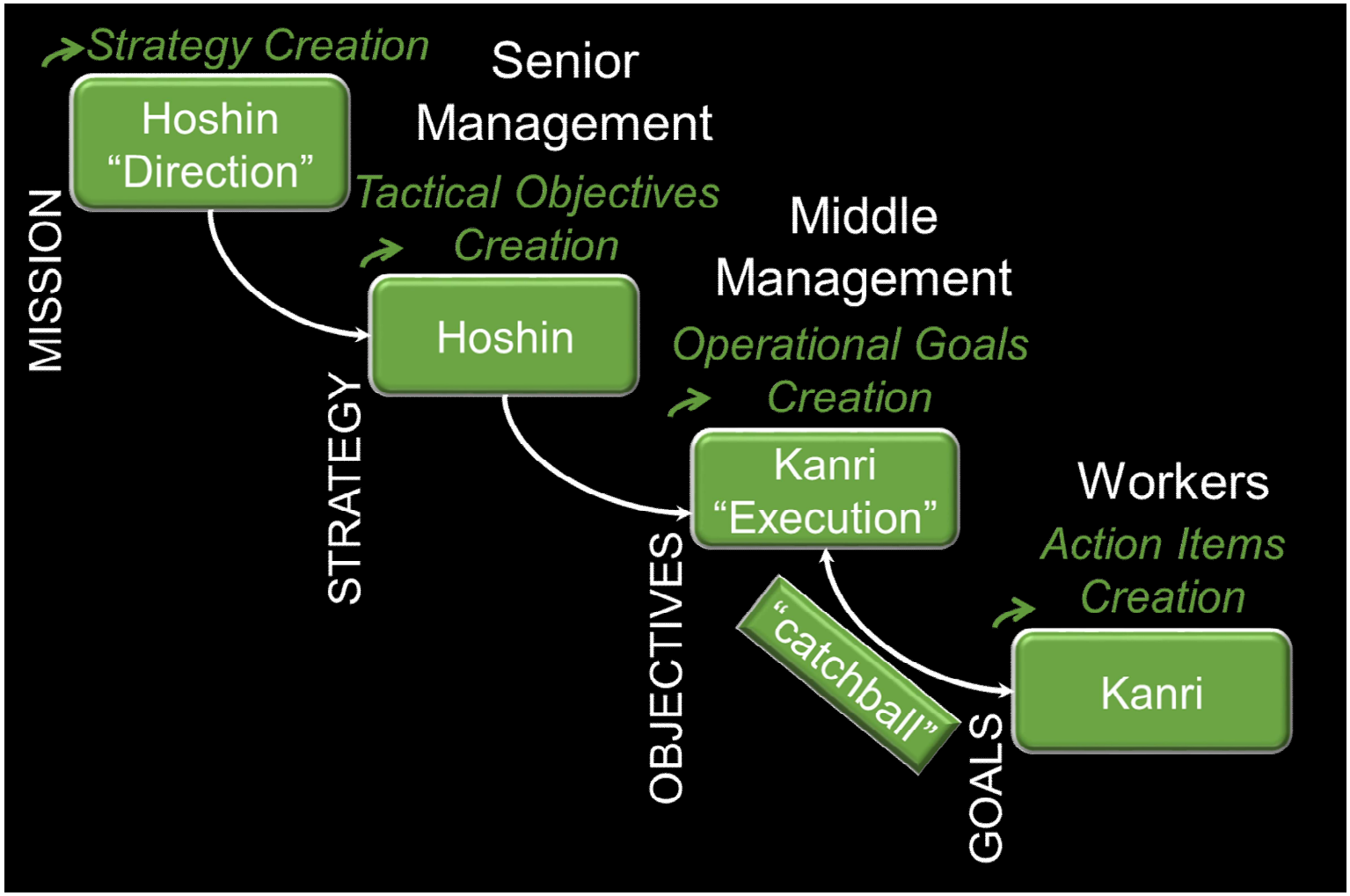
Hoshin Kanri Strategic Planning



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SC&O Strategy Content

- Capabilities developed for strategic objectives
- Capabilities
  - People, knowledge, IS, tools, processes
  - Create value for customers
  - Too many “capabilities” risky

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SC&O Strategy Content Competency

- Core Competencies
  - Capabilities that customers most value
  - Relate to values associated with firm
  - Example
    - Walmart everyday low prices
    - SC capabilities for low prices
    - Customers value low prices

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Learning Objective 2.3

- Explain How Managers Use Supply Chain Strategy to Build Relationships
  - Describe how the strategy has changed.
  - Describe the types of relationships managers leverage.

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Supply Chain Strategy

- No longer company against company
- World is globally connected
- World Wide Web of production
  - Companies can leverage world's best
- Best companies utilize relationship management

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Types of Supply Chain Relationships

- Transactional
  - Lowest cost, arm's length transactions
- Complementary
  - Borrows value from strategic partners
- Synergistic
  - Partners create relation specific value

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Supply Chain Relationships

- Strategic relationships improve strategic value
  - Share a partner's core competency
  - Manufacturer expert at assembling cars
    - Manufacturer delivers cars via 3PL
- Long-term, intense relationships
  - Synergistic value

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Learning Objective 2.4

- Execute Strategy
  - Describe how managers align strategic levels.
  - Explain why and how managers align incentives to achieve optimum levels of output.
  - Explain why and how focusing on processes helps managers reach their goals.

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Strategic Levels

- Hierarchy: Strategy, functional tactics, operations
  - Strategy drives tactics and operations
    - High-Level plan to win
  - Functional tactics
    - Short-term strategic implementation
  - Operations
    - Daily activities to achieve success

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Aligning Incentives

- Local optimums drive suboptimal behavior
  - Should focus on company-wide effects
- Firm rewards must drive cooperation
  - Must not focus too narrowly
- Focus on process integration between
  - Information systems, logistics, suppliers, inventory

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Process Focus

- Individual functionality is wrong focus
- Focus should be on value creation processes
- Supply Chain Operational Reference (SCOR)
  - Identifies five SC processes
  - Plan, Source, Make, Deliver, Return

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SCOR Model Processes

- Plan – to best meet requirements
- Source – for procuring goods/services
- Make – transforming products
- Deliver – provides goods
- Return – post delivery customer support

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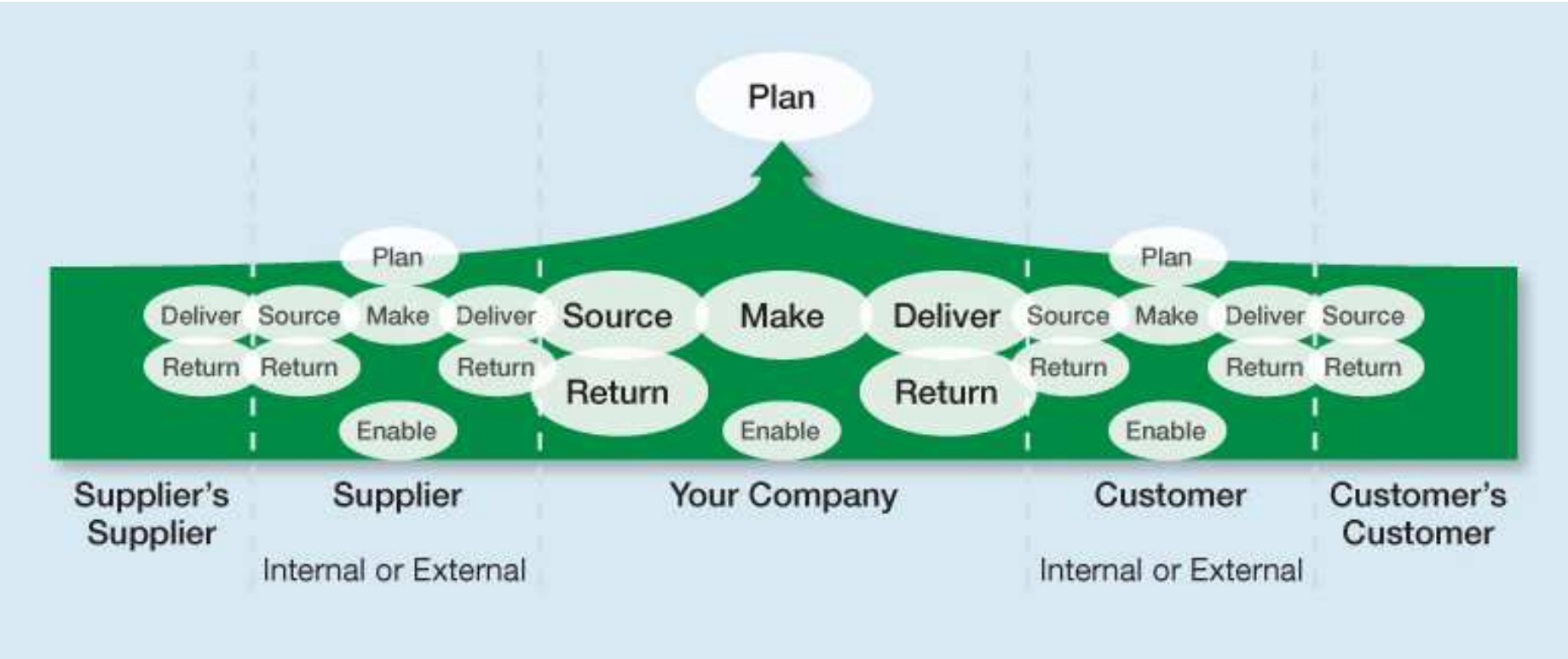
Figure 2.3 The SCOR Model



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Learning Objective 2.5

- Understand and Apply Strategic Metrics and Measurements
  - Describe correct strategic behavior and how it is implemented.
  - Explain how managers use actionable and predictive metrics to achieve their strategic goals.
  - List and describe commonly used supply chain metrics.
  - Explain why managers need to think about their strategy in a holistic way.

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Strategic Metrics and Measurements

- Strategy success or failure
  - Determined through measurement
- Good metrics:
  - Drive correct, strategic behavior
    - E.g. only innovate at touch points
  - Are actionable and predictive
    - E.g. what if metric goes down?

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Systems Thinking

- Must think holistically
  - Act to help entire company
- SC&O manager is strategic orchestrator
  - Focuses on value creation processes
  - Not focused on functional area
- Global and broad leader

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Learning Objective 2.6

- Describe the Changing Strategic Environment
  - Discuss emerging strategic concerns such as globalization, sustainability, and innovation.

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Analytics

- Cost of data storage inexpensive
  - Year 2000, 1 gigabyte $11
  - 2018, 1 gigabyte $0.019
- Companies capture extensive data
  - Use information for competitive advantage
  - E.g. Ford parts commonality saved $2B
- Creates better decision making

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Globalization

- Supply chains cross many borders
  - Apple has 200+ suppliers
    - In at least 28 countries
  - Walmart
    - 80% of goods manufactured overseas
- Cultural savvy necessary for success
  - Promising new international markets

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Sustainability Management

- Operating today without threatening the future
- Strategy considers future externalities
- Sustainability has benefits
  - Patagonia creates brand loyalty
- Firms must integrate environmental concerns into strategic plans
  - Being a good corporate citizen

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Sustainability

- Life-cycle costing
  - Cost of a cheeseburger?
- Supplier sustainability scorecard
  - Tool to monitor supplier compliance
- Reverse logistics
  - Managing waste streams for cost reduction
- Customer preference
  - Is ecommerce sustainable?

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Innovation

- Innovation is critical today
- Changing processes important
- SC&O managers support new products
  - Importance of SC&O to Tesla?
- Flexibility and adaptability
  - Necessary in SC&O strategy

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Completed Learning Objectives

2.1 Understand and Use Generic SC&O Strategies

2.2 Explain How to Apply SC&O Strategy Process and Content

2.3 Explain How Managers Use Supply Chain Strategy to Build Relationships

2.4 Execute Strategy

2.5 Understand and Apply Strategic Metrics and Measurements

2.6 Describe the Changing Strategic Environment

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