Supply Chain Implementation
In a Global Environment

7th Annual Global Supply Chain Management Program

Arizona State University
April, 1999
Today’s Presentation

Our presentation today is planned to include . . .

- Perspective on Supply Chain Management
- Background and Company Profile
- Supply Chain Business Models
- Implementing Structure and Process Change
- Program Organization and Structure
- Program Planning and Control
Today’s Presentation

In addition, our presentation today is planned to include . . . .

- Dealing with Multi-Country Businesses
- Trading Service Agreements - TSAs
- Applying Standards in a Worldwide Environment
- Monitoring, Managing, and Reporting
- Pitfalls - What to Look For and How to Look
- In Summary
The logic of supply chain strategy relates directly to the flow of products, information, and costs through the business to the customer.
There are several levels of supply chain activities between the product source and the customer . . . .
Perspective on Supply Chain Management

Supply chain management groups together a complex network of functions into a true cost and service effective business strategy . . . .

Raw Materials

Suppliers

Manufacturing Facilities

Distribution Centers

Finished Products

Customers

Supply Chain
The logic of supply chain planning relates directly to the functional flows of information and product through the business . . . .
Background and Company Profile

Our presentation today uses a global consumer product company to illustrate the complexities of supply chain management across multiple cultures and business environments.

- Our company is a multi-billion dollars pharmaceutical company
- Manufactured product groups include:
  - Over the counter drugs
  - Prescription drugs
  - Nutritional products
  - Health and beauty aids
- Product markets include:
  - Primary - internal markets
  - In-country markets
  - International internal markets
  - International external markets
Background and Company Profile

Our company business model consisted of over two dozen facility locations in over twenty countries, a sampling included . . . .
The objective, reasoning, and logic for implementing an integrated global supply chain strategy included the need to . . . .

- Integrate a global supply chain network worldwide
- Standardize processes, and ‘ways of working’
- Improve inventory and information accuracy
- Update production, information, order processing, and financial systems more quickly and easily
- Implement common performance measures
- Set the stage for future change compatibility
Consideration was given to various supply chain business operating models based on . . . .

- Type of business and products
- Dynamics of distribution and markets
- Global supply chain differences
- Models of company components could consist of:
  - Production model - produce and distribute
  - Market model - acquire and sell
  - Country business model - country self-contained
Supply Chain Business Models

The company supply chain structures and functions consists of . . . .

Integrated Supply Chain Management

<table>
<thead>
<tr>
<th>Forecast Demand</th>
<th>Plan &amp; Manage Inventory</th>
<th>Plan Production</th>
<th>Process Orders</th>
<th>Move Product</th>
</tr>
</thead>
</table>

Policies, Key Performance Indicators
Supply Chain Business Models

The integrated supply chain business model included certain key functions in order to effectively support the business . . . .

Integrated Supply Chain Management

- Forecast Demand
- Plan & Manage Inventory
- Process Orders
- Plan Production
- Move Product
Alternative supply chain structures need to consider products, markets, production capability, logistics network resources, and customer service in order to effectively support the overall business strategy.

- Market forecast
- Sales plan
- Plan and manage inventory
- Plan and schedule production
- Customer order processing
- Distribute product
Supply Chain Business Models

An alternative supply chain structure that places most of the responsibility on the demand side can be illustrated as follows . . . .

<table>
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<th>Demand</th>
<th>Supply</th>
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<tbody>
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<td>• Market forecast</td>
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</table>
Supply Chain Business Models

An alternative supply chain structure that balances the responsibility on both the demand and supply side can be illustrated as follows . . . .

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Implementing Structure and Process Change

Once the structure is decided on, the tasks turn to implementation and process change and must consider . . . .

- Understanding ways of working, reasoning, and logic
- Uniqueness of country operating characteristics
- Identifying process and productive operations change
- Standardization of ways of working versus unique country needs - ‘financial, marketing, etc.’
Effective program organization must blend the proper mix of resources, matching skills with specific functional requirements.

**Resource Teams**

- Corporate resources
- Above country resources
- External resources
- Local resources
- Process owners
- Technical resources
- Internal resources
Program Planning and Controlling

Planning, monitoring, and control are the essential ingredients to successful program implementation . . . .

• A well organized and documented plan is the first step

• Effective communications at all levels is the second step

• Up front ‘ownership and buy in’ are keys to success

• Establishment of clearly defined roles, responsibilities, and accountabilities are essential

• Monitoring, progress reporting, and plan management make sure timing and progress are kept on track
Dealing with Multi-Country Businesses

*Multi-country environments create significant challenges to program implementation.*

- ‘Up front agreement’ and ‘buy in’ are key to multi country program success
- Ways of working, considering functions, tasks, and activities, can be very different and demand unique processes
- Cultural differences must be considered and dealt with in an effective manner
- Sequence and timing are critical to maintaining program momentum
- Responsibility and discipline are necessary for program management
- Respect for country style and culture must be considered in all phases of program implementation
- REM rule: One third country; one third culture; one third business
Trading Service Agreements - TSAs

Trading service agreements are used to make firm both demand and supply requirements and negotiate key points of difference.

- Demand must initiate marketplace requirements in terms of:
  - Products
  - Quantities
  - Time

- Supply must define production and distribution capacities in terms of:
  - Products and production capacity
  - EOQs
  - Inventories and locations
  - Distribution and delivery timing
Trading Service Agreements - TSAs

*Trading service agreements must consider, negotiate, and agree on certain key elements.*

- Initial consideration given to:
  - Uniqueness of products, markets, country, etc.
  - Product life cycle and volatility
  - Product sourcing

- Key agreement components:
  - Product quantities
  - Timing
  - Firm versus planned orders
  - Negotiation process
  - When and how to change

- TSA agreement must be a process - not a product
Applying Standards in a Worldwide Environment

*Once agreements are in place and the process is working effectively, there is a need to develop standards and measures* . . . .

- Benchmarks need to measure progress over time
- Measures need to benchmark and compare
  - Internal measures
  - Functional elements
  - Industry benchmarks
  - World class benchmarks
- They must recognize operational differences
- They must compare ‘apples to apples’
Performance Measurement Framework

- Business Decisions
- Information Requirements
- Organizational Accountabilities
- Resource Allocation & Prioritization

What is PM?

A management process that translates business strategies into action steps:

- Business Decisions
- Information Requirements
- Organizational Accountabilities
- Resource Allocation & Prioritization

The performance measurement framework model demonstrates the use of evaluation, measurement, and reporting in applying standards . . . .
Monitoring, Managing, and Reporting

*Measures and standards provide the ability to manage the supply chain to effectively support the business.* . . .

- Monitoring supply chain operations must consider:
  - Key elements and functions
  - Exception reporting
- Timing is a key to effective management
  - Daily activities
  - Weekly trends
  - Monthly summaries
  - Yearly planning
- Tolerance ranges can be effective tools for management
  - Focus on key functions and elements
  - Signal problem areas based on data outside ranges
  - Ranges can set degree and priority of management attention
Monitoring, Managing, and Reporting

Continuous Improvement

Quality

State-of-the-Art Strategies/Automation

Benchmarking

Proactive in Business Decisions

Performance Measurement Standards

High Level of Productivity/Efficient Use of Resources

Effective Internal Controls

Excellent Reputation in Industry

Team Work

Monitoring, Managing, and Reporting

Continuous Improvement

Quality

State-of-the-Art Strategies/Automation

Benchmarking

Proactive in Business Decisions

Performance Measurement Standards

High Level of Productivity/Efficient Use of Resources

Effective Internal Controls

Excellent Reputation in Industry

Team Work
Pitfalls - What to Look For and How to Look

*Pitfalls to watch out for and be aware of include . . . .*

- Insufficient planning and organization
- Incorrect deployment of internal and external resources
- Insufficient time to deal with cultural differences
- In-depth knowledge of country and local uniquenesses
- Lack of effective and timely communications from beginning to end
- Unanticipated issues - e.g. inventory and data accuracy
In Summary

In summary, a successful global integrated supply chain program implementation must consider . . . .

- Worldwide markets, products, and businesses
- The reality of a global economy
- Multidimensional operating environments
- Need for up front planning and resource commitment
- Effective and timely communications
- Need for coordination and cooperation
- The assumption that one thing that is constant is ‘Change’