Supply-chain management

The fact that a number of companies (such as Wal-Mart, Zara, Dell and Toyota) have managed to record extraordinary success while doing quite ordinary things (such as running supermarkets, selling clothes or making computers or cars) has made managers more fully aware that what their organisations produce can matter a lot less than the way that they produce it. This holds true even in an age when the product life cycle is getting shorter and shorter, and more emphasis is being placed on technological product innovation as a means to add value.

Central to the way that companies produce things is the way that they manage their supply chains—the collection and distribution of all the inputs to the production process. Some companies take this to extremes. For example, Olam, a Singapore-based commodities trader, says that in practice it is “in the business of supply-chain management”. It undertakes all the processes involved in getting soft commodities such as cocoa and coffee from the grower’s farm to the factories of Olam customers such as Sara Lee. Its competitive advantage lies in the superiority of its processes, not its commodities.

Traditionally, the way companies ensured that the right components were ready at the right time was to hold huge stocks of them in warehouses which could be drawn down as and when required. When Toyota invented the just-in-time system (JIT), all that changed. Companies became more aware of the cost of sitting on warehouses full of stock and tried to manage their supply chains so that inputs arrived only when they were needed. At the same time, as companies became more international, so the process crossed more borders and became more complex.

Of course technology, just as it changed products themselves, helped. Much of the improvement in supply-chain management in recent years has come about because of improved information systems that enable managers to know more accurately (and more quickly) exactly what is where and when. Nevertheless, not all companies give supply-chain management a high priority. An article in Harvard Business Review, “Are You the Weakest Link in Your Company’s Supply Chain”, in September 2007 claimed that “the warehouses of many large companies still operate with 20-year-old technology, producing incomplete and unintegrated information flows”. Some companies have been disappointed by the failure of business-to-business exchanges to develop on the internet and provide them with supplies more efficiently than via traditional routes.

The development of RFID (radio frequency identification) technology promises to enable firms to streamline the process even more. RFID involves implanting every package of goods with a small radio transmitter, enabling its owner to know exactly where it is every minute of the day. Following its movements could become a bit like being in an airplane watching a screen on which the progress of the plane is shown by an arrow moving across a map of the world.

In many cases improving the efficiency of supply chains also involves changing a company’s relationships with its suppliers. Not all suppliers are prepared to bear the extra cost involved in (effectively) holding stock on their customers’ behalf. Those that are want a greater commitment from those customers, which has led companies to become much closer to their suppliers, sometimes establishing a formal alliance with them and sometimes taking an equity stake in their business.

In East Asia in particular such links are common. Most of the suppliers to Toyota, for example, are based in or around Toyota City, the company’s main manufacturing centre, a 45-minute drive from Nagoya in Japan. Toyota is, if not their only customer, certainly their most important one, and one they are prepared to go to considerable lengths to keep happy. When

Toyota sets up a plant in another country, many of these suppliers follow and set up an operation of their own nearby.

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