WORKSHOP

OPERATIONAL EFFECTIVENESS (SUPPLY CHAIN) STRATEGY
THE FUNDAMENTAL ELEMENTS OF THE DEFINITION OF AN OPERATIONAL EFFECTIVENESS (SUPPLY CHAIN) STRATEGY

Business Strategy
- Mission of the Business
- Strategic thrusts and planning challenges

Operational Effectiveness (Supply Chain) Requirements

Operational Effectiveness (Supply Chain) Internal Scrutiny
- Strengths and weaknesses
- Distinctive Operational Effectiveness (Supply Chain) competencies for all strategic categories of decisions

Operational Effectiveness (Supply Chain) Environmental Scan
- Industry and competitive analysis
- Operational effectiveness (Supply Chain) intelligence

Formulation of Operational Effectiveness (Supply Chain) Strategy

Operational Effectiveness (Supply Chain) Strategic Agenda

Budgeting
- Strategic funds programming and operational budgets
MAJOR CATEGORIES OF STRATEGIC DECISIONS LINKED TO OPERATIONAL EFFECTIVENESS (SUPPLY CHAIN)

1. SUPPLY CHAIN INTELLIGENCE

To observe the practices and trends of procurement, logistics, manufacturing, and distribution in the industry, such as: alternative sources of supply from around the world, legislative changes, cartelization of supplies, general health and competitive standing of key suppliers, technological changes that may affect procurement, distribution patterns, and material management practices and innovations, changes in competitors’ facilities, technological developments in process technologies, new raw materials or components, standardization, capital investment practices, and environmental legislation.

2. SELECTION, EVALUATION, AND DEVELOPMENT OF SUPPLIERS

For finding, selecting, evaluating, developing, administering and motivating suppliers able and willing to provide consistent quality, service, and competitive prices; maintaining a healthy relationship with suppliers, subcontracting, buying inside the company, and make vs. buy decisions.

3. MATERIALS MANAGEMENT OF PURCHASED GOODS

Dealing with the flow of all of the purchased goods into the organization, mainly: materials planning and control, order processing, incoming traffic, inventory control, receiving, in-plant materials movements, and scraps and surplus disposal.

4. VALUE ANALYSIS, PRICE; COST ANALYSIS, AND STANDARDIZATION

To confront with ample information the difficult trade-offs among price, quality, design, manufacturability, standardization, and cost. Value
analysis is a systematic effort directed at analyzing the functional requirements for achieving the lowest attainable cost, consistent with the needed performance, reliability, quality, and maintainability of a product.

5. FACILITIES

Mainly the number of plants, their sites and location, and most importantly, how specialized or focused facilities are and the degree of flexibility they possess.

6. CAPACITY

As determined by: the plant equipment and human resources available, the slack in the use of capacity with regard to demand, the ability to handle demand peaks, and the decisions pertaining to the sequences of capacity expansion.

7. VERTICAL INTEGRATION

Addressing among other issues: the definition of the boundaries of the firm with regard to its value chain (the questions of make vs. buy), the management of the relationship among the firm and its external constituencies (primarily suppliers, distributors, and customers), and the conditions under which those characteristics should be altered to gain competitive advantage and to increase the appropriation of value by the firm.

8. PROCESS TECHNOLOGIES

Involving decisions as to: the degree of the technology and process equipment used (from general to specific purposes), the labor skills required, the degree of automation, and the flexibility for scope and volume, as well as the rate of new product introductions.

9. PRODUCT SCOPE AND INTRODUCTION OF NEW PRODUCTS

Including issues such as: the definition of the breadth of product lines, the rate and mode of new product introductions, and the desirable length of the product life-cycle.
10. DISTRIBUTION STRATEGY

Involving selection of a distribution channel (whether direct or via retailers, wholesalers, or agents), design and management of the physical distribution system (including customer service, demand forecasting, inventory control, materials handling, order processing, parts and service support, warehousing and storage, procurement, packaging, returned goods handling, and traffic and transportation), and push vs. pull mode of operation of the distribution and sales systems.

11. HUMAN RESOURCES

Addressing questions such as: recruitment, selection, promotion and placement; appraisal; rewards, incentives, and job security; skills development and adjustment to changing technological demands; and labor/employee relations, and voice.

12. QUALITY MANAGEMENT OF PURCHASED AND MANUFACTURED GOODS

Dealing with: the definition of the desirable product quality, quality improvement program, assignment of responsibilities for quality, training, quality control, prevention, and testing.

13. SUPPLY CHAIN ORGANIZATION AND MANAGERIAL INFRASTRUCTURE

Most importantly: the design of the proper organizational structure (including the degree of centralization of responsibilities), the design of planning and scheduling systems, control and information systems, and forecasting and inventory management. A central issue is the coordination of a set of critical managerial activities. Most importantly: distribution, quality management, and finance.
MEASURES OF PERFORMANCE RELATED TO OPERATIONAL EFFECTIVENESS (SUPPLY CHAIN) STRATEGY

Supply chain measurements involve essentially tracking down performance of procurement, manufacturing, and distribution.

**Procurement Measurement**
An effective measurement for procurement performance is hard to define because of the many factors that have to be traded off to provide a steady flow of materials as needed, at lowest ultimate cost. The desired objectives for procurement are to obtain: optimum quality, minimum final cost, effective supplier service, continuity of supply, a solid supplier know-how, and good and permanent supplier relations. Some examples of performance measurements are:

1. **INDICATORS OF COST PERFORMANCE**
   Costs of procured goods vs. standard costs
   Administrative costs of the purchasing department as a fraction of total purchases
   Total value added of purchased goods as a fraction of total cost
   Inventory turnover ratios
   Cost savings

2. **INDICATORS FOR SERVICES PERFORMANCE**
   Percentage of orders on time
   Average delay on delinquent orders
3. **INDICATORS FOR QUALITY PERFORMANCE**
   - Percentage of orders meeting specifications
   - Reliability of purchased goods
   - Vendor quality

4. **INDICATORS FOR VENDOR RELATIONSHIPS**

**Manufacturing Measurement**

1. **COST**
   - Variable unit cost and total unit cost (from the point of view of the manufacturer)
   - Total life-cycle cost (from the point of view of the user)

2. **DELIVERY**
   - Percentage of on-line shipments
   - Predictability of delivery dates
   - Response time to demand changes

3. **QUALITY**
   - Adherence of products to the various dimensions of quality (performance, features, reliability, conformance, durability, serviceability, aesthetics, and perceived quality)
   - Rejection rates
   - Return rates
   - Cost and rates of field repair
   - Cost of quality
4. FLEXIBILITY TO VOLUME CHANGES AND NEW PRODUCT INTRODUCTION
   Response to products or volume changes
   Product substitutability
   Product options or variants

   Normally, cost and delivery represent a different way to compete from quality and flexibility. If a firm wants to establish itself as a low-cost producer, it might adopt a strategy that prevents delivering highly customized products and simultaneously begin able to absorb significant changes both in volume and in product innovation.

Distribution Measurement

1. DISTRIBUTION STRATEGY
   Efficiency of distribution channels
   Customer service levels
   Distribution costs per channel
   Distribution and sales force productivity
THE RELATIONSHIP OF PRODUCT INNOVATION AND PRODUCTION PROCESS CHARACTERISTICS

Rate of Major Innovation

Product Innovation
- Emphasis on maximizing product performance
- Stimulated by information on user needs
- Novelty or radicalness high
- Frequency of product innovation is rapid
- Predominant type is product rather than process

Production Process
- Flexible and inefficient
- Small size or scale
- General purpose equipment used
- Available materials used as inputs
- Product is frequently changed or custom designed

Fluid Pattern

Transitional Pattern
- Emphasis on product variation
- Increasingly stimulated by opportunities created through an expanding technical capability
- Predominant type is process required by rising volume
- Demands placed on suppliers for specialized components, materials, and equipment

Production Process
- Some sub-processes are automated creating "islands of automation"
- Production tasks and control become more specialized
- Process changes tend to be major and discontinuous involving new methods of organization and changed product design
- At least one product design is stable enough to have significant production volume

Specific Pattern
- Emphasizes cost reduction
- Predominant mode is incremental for product and process
- Effect is cumulative
- Novel or radical innovations occur infrequently and originate outside productive unit
- Stimulation arises from disruptive external forces

Production Process
- Efficient, system-like, capital-intensive
- Cost of change is high
- Scale and facility market share is large
- Special purpose process equipment used
- Specialized input materials or extensive vertical integration
- Products are commodity-like and largely undifferentiated

Process Innovation
PRODUCT STRUCTURE
PRODUCT LIFE-CYCLE STAGE

I
LOW VOLUME-
LOW
STANDARDIZATION,
ONE OF A KIND

II
MULTIPLE
PRODUCT,
LOW
VOLUME

III
FEW MAJOR
PRODUCTS,
HIGHER
VOLUME

IV
HIGHER VOLUME-
HIGH
STANDARDIZATION,
COMMODITY
PRODUCTS

PROCESS
STRUCTURE
PROCESS
LIFE-CYCLE STAGE

I
JUMBLED FLOW
(Job Shop)

II
DISCONNECTED
LINE FLOW
(Batch)

III
CONNECTED
LINE FLOW
(Assembly Line)

IV
CONTINUOUS FLOW

Key management
tasks:

Fast reaction
Loading plant, estimating
capacity
Estimating costs and
delivery times
Breaking bottlenecks
Order tracking and
expediting

Systematizing diverse
elements
Developing standards
and methods,
improvement
Balancing process
stages
Managing large,
specialized,
and complex operations

Meeting material
requirements
Running equipment
at peak efficiency
Timing expansion and
technological change
Raising required capital

Flexibility-cost

Dependability-quality

Flexibility-quality

Dependability-cost

Dominant competitive
mode:

Custom design
General purpose
High margins

Custom design
Quality control
Service
High margins

Standardized design
Volume
manufacturing
Finished goods
inventory
Distribution
Backup suppliers

Vertical integration
Long runs
Specialized equipment
and processes
Economies of scale
Standardized material

NOTE: The margin of the matrix indicate the trade-offs to be made among the four external performance measurements (flexibility, quality, dependability, and cost), and the changing nature of the managerial tasks and competitive modes in different stages of the product-process life-cycle matrix.

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<tr>
<th>MANUFACTURING AND THE BUSINESS LIFE CYCLE</th>
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**MANAGERIAL DECISIONS**

- **SHOULD DEVELOPMENT PROCEED?**
- **ARE PRODUCT SPECIFICATIONS COMPLETE?**
- **ARE MANUFACTURING SPECIFICATIONS COMPLETE?**
- **ARE COST & QUALITY GOALS BEING MET WITH REGARD TO THE MARKET?**
- **IS PRODUCT BECOMING OBSOLETE?**

**ARE PRODUCT FEASIBLE?**

- **CAN PRODUCT BE MANUFACTURED?**

**IS THE INVESTMENT BE MADE?**

**R&D and ENGINEERING**

- Assess initial technical feasibility
- Demonstrate design feasibility
- Prove design, build prototypes
- Strong interaction with marketing
- Transfer team to manufacturing
- Adjust design as required

**MARKETING**

- Define product concept
- Investigate market potential
- Update marketing information
- Prepare all material for product introduction
- Test product in market area
- Define pricing, advertising, packaging
- Final definition of marketing strategy
- Marketing follow up

**MANUFACTURING**

- Check general consistency of product concept with manufacturing strategy
- Collect manufacturing information
- Develop and run manufacturing process at the lab level
- Develop pilot plant
- Optimize manufacturing process
- Cost vs. quality trade-offs
- Build manufacturing facilities
- Check quality & productivity
- Manage operations
- Position for harvest or divestment
- Review project profitability

**FINANCE**

- Minor commitment of resources
- Prefeasibility study
- Some commitment of resources
- Analysis of pilot run data
- More important commitment of resources
- Detailed study of project
- In-depth economic & financial analysis
- Major commitment of resources
- Manage for growth, profitability & cash generation

**CONCEPT DEVELOPMENT**

- EARLIER STAGES
- FINAL STAGES

**LAB FEASIBILITY**

- EARLIER STAGES
- FINAL STAGES

**PILOT PLANT FEASIBILITY**

- EARLIER STAGES
- FINAL STAGES

**FINAL PRODUCTION**

- GROWTH & MATURITY STAGES
- AGING
OPERATIONAL EFFECTIVENESS (SUPPLY CHAIN) REQUIREMENTS FROM THE BUSINESS STRATEGIC THRUSTS

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### COMPETITIVE STANDING. STRATEGIC PERFORMANCE MEASUREMENT OF OPERATIONAL EFFECTIVENESS (SUPPLY CHAIN)

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- Critical External Factors:
  - Analyze factors that may impact the supply chain:
    - Government and Political Factors

- Impact:
  - Positive (Opportunities): Consider benefits and growth opportunities.
  - Negative (Threats): Identify risks and challenges to mitigate.
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### Critical Factors

**External Factors**

- Legal Factors

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<td>1. Supply Chain Intelligence</td>
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Note: In the assessment of strengths and weaknesses try to have relevant competitors in mind and use proper strategic performance measurement.
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CHARACTERIZE YOUR PRESENT OPERATIONAL EFFECTIVENESS (SUPPLY CHAIN) POLICIES REGARDING THE MAJOR DECISION MAKING CATEGORIES

<table>
<thead>
<tr>
<th>Decision Category</th>
<th>Description of Policy</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Distribution Strategy</td>
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<td>11. Human Resources</td>
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<tbody>
<tr>
<td>12. Quality Management</td>
<td>Purchased and Manu-Manufactured Goods</td>
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<tr>
<td>13. Supply Chain Organization and Managerial Infrastructure</td>
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</table>
The components of the Strategic Agenda

- Strategic Thrusts
  - Supported by:
    - Business segmentation
    - The Triangle
    - The mission statement

- Organizational Structure
  - Assignment of responsibilities and authorities

- Business Processes
  - Detecting activities that cut across organizational units, requiring horizontal coordination

- Performance
  - Performance indicators
  - Time-driven events

Culture
### OPERATIONAL EFFECTIVENESS (SUPPLY CHAIN) STRATEGIC AGENDA

<table>
<thead>
<tr>
<th>Strategic Thrusts</th>
<th>Organizational Units</th>
<th>Business Processes</th>
<th>Performance Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Key role in formulation and implementation</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2. Important role of support and concurrence</td>
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<tr>
<td>3. Identifies the 'Champion', who takes leadership for the strategic thrust execution</td>
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<tr>
<td>CT - Customer Targeting</td>
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<td></td>
<td></td>
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<tr>
<td>OE - Operational Effectiveness</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>I - Innovation</td>
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</table>
ASSIGNMENT OF PRIORITIES TO STRATEGIC THRUSTS

<table>
<thead>
<tr>
<th>Strategic Thrusts</th>
<th>Priorities</th>
<th>Weight</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
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A - Absolute first priority (postponement will hurt competitive position significantly).
B - Highly desirable (postponement will affect competitive position adversely).
C - Desirable (if funds were available, competitive position could be enhanced).
## DEFINITION OF STRATEGIC THRUSTS

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
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<table>
<thead>
<tr>
<th>Responsible Manager</th>
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<table>
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<tr>
<th>Other Key Participants</th>
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</table>

<table>
<thead>
<tr>
<th>Other Important Contributors</th>
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</table>

<table>
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<tr>
<th>Key Indicators for Management Control and Targets</th>
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<table>
<thead>
<tr>
<th>First Major Milestone Description</th>
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<table>
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<tr>
<th>First Major Milestone Date</th>
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<tr>
<th>Resources Required</th>
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<tr>
<th>Statement of Benefits</th>
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</table>
TESTS TO EVALUATE THE QUALITY OF THE STRATEGIC AGENDA

1. Comprehensiveness

2. Stretch

3. Monitoring and Control- Ease of Implementation

4. Motivation- Quality of Working Environment

5. Vulnerability