



What exactly is Supply Chain Management?

You are experiencing the Digital Business Transformation right now. It's happening all around you, in ways you may and may not see. And the digitalization of business is driving new ways to think about your business's strategies.

Information technology innovations are driving increased business connectivity. That is what is behind the initiation and evolution of networks of relationships between businesses called Supply Chains. It is appropriate to think of these relationship networks as being like a trade network.

In many industries the Supply Chain is becoming the strategic differentiator between competitors. This is most easily seen in retail trade as JCPenney, Wal-Mart, Target, and Sears are more than businesses competing for the same dollars. It is their supply chain that plays a foundational role in their strategic framework. The very foundation of their ability to differentiate and compete. And while you see it in retail trade, I assure you it is happening in the window manufacturing industry, the furniture industry, and many others.

This is important because if you aren't thinking of your supply chain as a strategic weapon; you are falling behind.

Conceptually, supply chain management (SCM) is the embodiment of the strategic choice to collaborate and create interdependencies between value adding partners. Logistics, the work of moving and positioning inventory within the supply chain, plays a pivotal role. While the two terms are often used interchangeably, Logistics is actually a subset of SCM.

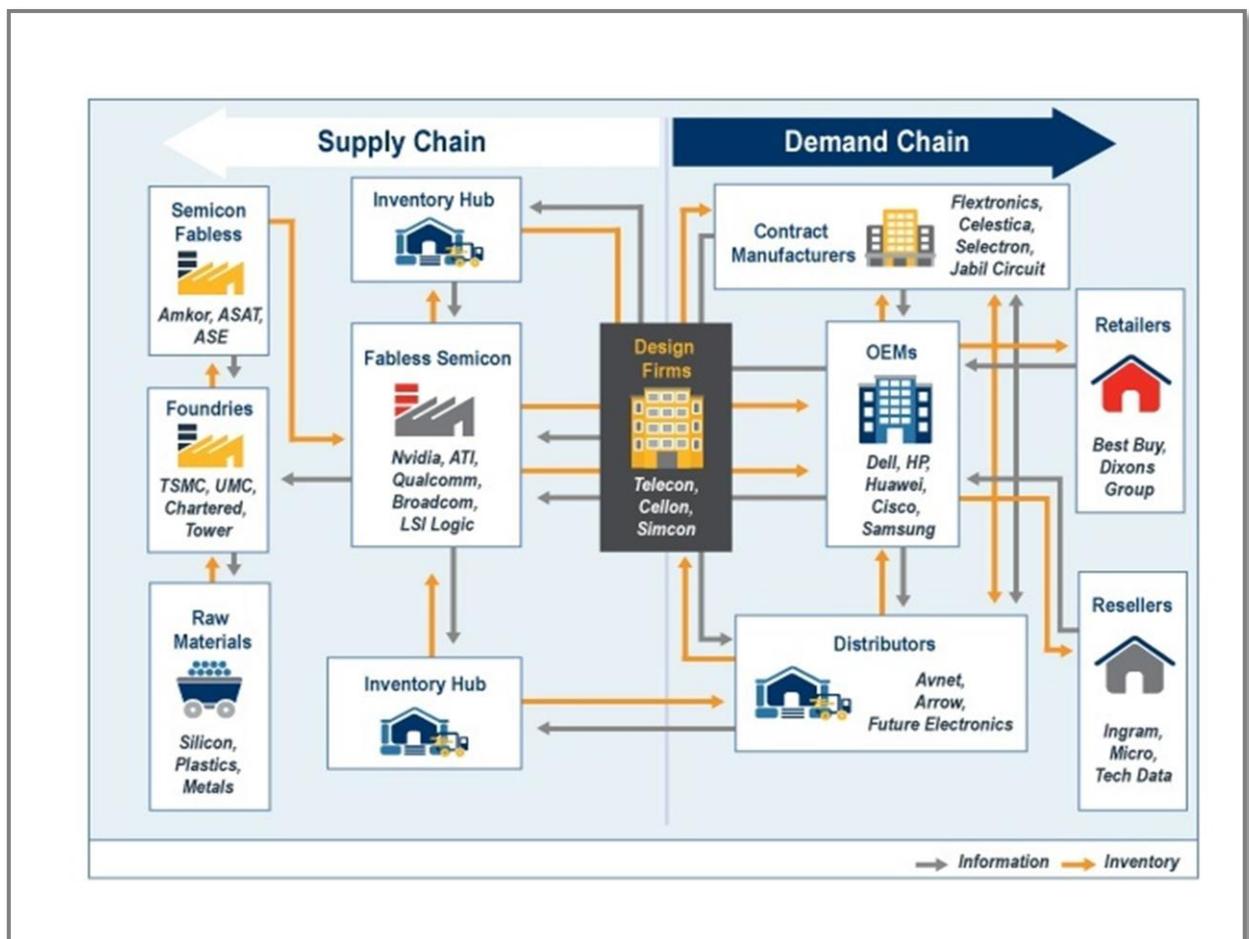
A Supply Chain Model is a multi-party collaboration within a framework of resource flows and constraints which integrates efforts to operationally align an enterprise with customers as well as supporting distributors and supplier networks to gain competitive advantage. And it's effectiveness is measured based on five critical flows: information, product, service, financial, and knowledge.

Supply Chain Management is a key to maximizing consistent manufacturing throughput. SCM provides predictable costs while minimizing disruptions and eliminating surprises.

This shift in thinking, from the silo bound focus on function-specific best practices and lowest achievable cost by each function, to holistic system thinking focused on process achievement in the form of lowest total process cost is the crux of the supply chain revolution. And remember it's enabled by the "big data" in today's information technology world.

Enterprises participating in a supply chain share strategic goals and have well defined specific roles. There are three core concepts of Supply Chain Management that enable this achievement; Collaboration, Enterprise Extension and Integrated Service Providers.

Beginning in 1984 a series of regulatory changes began a shift in thinking which



has grown into an environment that is more nuanced in differentiating collusion from collaboration. Within this new framework, industry competitors frequently share information thought unthinkable only a generation ago. Combining this collaboration and information sharing with process specialization ushered in multi-firm integrated processes designed to reduce risk, increase efficiency, and reduce overall process cost.

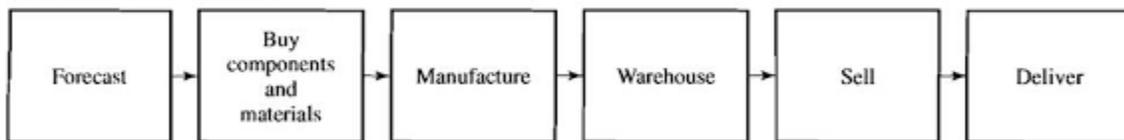
The difference between an extended enterprise and outsourcing is really just context and depth. The evolution was from a regulated (pre 1984) trucking and warehouse environment (distinct and separate service providers) to the advent of

Third Party Logistics (3PL) companies as integrated service providers who bundle and customize different combinations of services based on the supply chain needs.

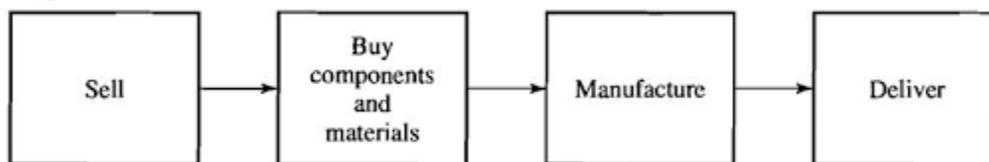
Illustrated below are the line diagrams of the Anticipatory and Response-Based models. The responsive model consists of less steps, less risk, and less capital intensive than the anticipatory model.

Another of the advances found in information technology which seeded supply chain thinking was the ever increasing computing power available. This allowed businesses to make the leap from the traditional anticipatory business model to a time-based responsive model.

Anticipatory business model



Response-based business model



As computing power continues to decrease in cost most companies have migrated to a time-based responsive model and have built their systems around either customized manufacturing (form postponement) or focus on logistics (geographic postponement).

Base financial measures of supply chain are about measuring the value of time and reduced capital investment. Migration from a traditional business model to a supply chain enabled responsive model is supported by measuring Cash-to-Cash Conversion improvement, Dwell Time Minimization and increasing Cash Spin.

Cash to Cash Conversion is the time needed to convert raw material or inventory purchases into sales revenue. Dwell time is the ratio of time an asset (think inventory as an example) sits idle to the time required to satisfy its designated supply chain mission. Cash Spin is a measure of the reduction of overall assets

committed to supply chain performance that can be redeployed elsewhere in the business.

As the world has flattened and more businesses become global, supply chain theory has evolved to incorporate new partners with new core competencies. Dealing with vast distances requires longer lead times. Accommodating laws and regulations of many countries involves more complex documentation. Diverse operating environments and work practices as well as cultural differences in product/service demand require unique approaches.

All of these represent a new and specialized mix of competencies that are the hallmark of a reputable supply chain logistics partner.

Customodal publishes a series of informative articles on Logistics, Supply Chain Management and getting the most from your 3PL partner.

[Mike Eberl](#) is the CEO of Customodal Inc., A RRD DLS - Worldwide agency headquartered in Wisconsin. Mike can be contacted at 715.803.4368 or you can reach him on [Linkedin](#)

You can learn more about Customodal at www.customodal.com

Mike Eberl is a UW Madison School of Business graduate with more than 25 years' experience in supply chain management. Mike brings an executive's 50,000 foot viewpoint to holistically see the bigger picture his clients need to maximize their market strengths and best position themselves. Mike directs a team of talented professionals providing multiple mode (LTL, TL, Ocean, Air, Intermodal) services to a broad array of clients. From the minutia of selecting the best carrier for a load today to helping define and execute a transportation strategy for a five year plan, Mike's front-line team balances the transactional realities to effectively bring total lowest cost solutions.