Supply chain and logistics: An Australian perspective

By Sameer Latif and David Parker

Supply chain and logistics management is a critical success factor in developing an organisation’s competitive edge. It is no longer just a means and process of connecting with markets but rather a key component of differentiation. According to surveys of senior executives undertaken by the Supply Chain and Logistics Association of Australia (SCLAA), there appears to be little consistency regarding the strategy adopted by organisations to develop world class processes. This paper explores Australian supply chain and logistics management by drawing on several organisation cases.

Introduction

Research undertaken by Gartner at the end of 2011 indicates that Australian supply chain executives were focused predominantly on cost and the customer as key strategic areas to enhance their businesses. At this time there was a significant amount of uncertainty; with the outlook cooling on global commodity markets and organisations looking more closely at their supply networks to keep costs low and improve efficiency. Figure 1 below illustrates some results of the Gartner survey.

The survey results highlight the importance placed on productivity, costs and customers. All three of these areas could be significantly influenced through effective use of supply chain management and logistics services. These perspectives will be explored further by identifying how supply chains integrate into doing business in the relevant industry using Mckinsey five forces case examples. In particular, successful organisations will be identified to determine their strategy in developing a competitive edge. Most international organisations have faced similar situations to that faced by Australian companies during the last decade. Some argue that Australia has been sheltered from the global financial crisis that struck in 2008 – mainly as a result of the strong resources sector. Many international organisations that emerged as survivors and now leaders in their field, post 2008, had adopted supply chain and logistics management principles at their core strategy. In order to understand the role of supply chain and logistics management in developing a world class strategy, it’s important to recognise the need for connectivity and integration to the broader business and so achieve its commercial objective.

Strategic supply chain and logistics management

The way we do business today compared with, say, 50 years ago has changed significantly, turning supply chain and logistics management into a strategic enabling as opposed to a means to an end. This has been underpinned by changes in the operating environment, particularly globalisation, and the ubiquitous electronic data interchange in various forms. Globalisation has been an opportunity and a threat for organisations. One of the key elements underpinning global market opportunities has been a shift in technological advancements. Since the inception of the worldwide web, borders have been crossed that previously were barriers, information and knowledge has become accessible and networks have proliferated through social media and numerous other platforms. All of these elements coming together have created a global marketplace that reduces barriers of language, trading protocols, ethnicity or currency restrictions. Any transaction is possible between two agreeing parties from opposite ends of the earth.

A business can gain a competitive advantage through the successful development and implementation of an innovation business strategy. One of the most well known and utilised industry frameworks is Porter’s five forces – and when combined with the inherent features of globalisation, it becomes a powerful commercial planning tool.

With the advent of globalisation, the threat of new entrants is continuously present. Where the tyranny of distance once formed a formidable barrier, supply networks can be relatively easily developed and flourish through the use of web based interfaces connectivity – both B2B and B2C. The challenge now shifts to utilising this global market place to create an advantage by exploiting effective and effective supply chains. If there are barriers, they are limited to the relationships between players along the chain which the product or service is transferred.

An example of a web based interface that has flourished, is online auctions such as EBay and Gumtree (Australian). They have built their business by splitting the supply chain as McKinsey describes it. They simply facilitate B2C, B2B, and C2C.

Essentially this represents a born-global enterprise innovation allowing players to interact from any location worldwide. Consequently this means the threat of a new entrant is only a click away and vice versa an organisation can enter a market through this channel.

Organisations that are ‘splintering’ their traditional supply chains into smaller, nimble ones are better prepared to manage higher levels of complexity. Second,
they are treating their supply chains to prepare for uncertainty by reconfiguring their manufacturing supplies to anticipate a range of possible outcomes. Logistics and supply chain developers must also deal with increasing complexity. Mobile-phone makers, for example, introduced 900 more varieties of products in 2009 than they did in 2000. Proliferation also affects mature product categories: the number of variants in groceries, beverages, and confectionery, for instance, all rose more than 25 per cent each year between 2006 and 2011, and the average number of SKUs in a typical supermarket now exceeds 100,000.

The focus of the threat of a new entrant is therefore very hard to control because of how easy it is to access markets. However, if an efficient, speedy and agile supply chain is in place, this provides an avenue of exploitation to achieve customer satisfaction through another means, specifically the length of time it takes from the time of the click to ‘buy’ till the doorbell rings. This can be readily exploited with the correct supply chain process because the internet has created the desire for instant gratification.

In determining focus for the logistics and supply chain design it is important to categorise and structure demands. As shown in Figure 3, invariably an 80/20 Pareto) exists that will identify which products to focus on and which to give less preference.

In this instance, some 8 per cent of SKUs deliver 55 per cent of profits. This allows alternative supply chain strategies and operational tactics to be applied to selected categories of products. For example, high-volume-high-volatility and low-volume-high-volatility would be managed under an alternative strategy and tactics.

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**Volume and demand volatility by finished-good SKU, example of US-based consumer-durables company**

*Source: McKinsey*

**Figure 3: Volume and demand volatility**

Organisations that are ‘splintering’ their traditional supply chains into smaller, nimble ones are better prepared to manage higher levels of complexity. The bargaining power of customers relates to the ability of the customer to negotiate the pricing point at which supply and demand intersect. This is dependent on existing channels of supply. These channels have expanded by globalisation and more freely available information to compare and source products. An effective supply chain will act as an enabler to dominate channels of distribution. The online auction industry again represents the ability for a buyer to finely determine the pricing point at which to transact on a purchase. A premium may be paid in instances where a consumer prefers to walk into a store and immediately obtain the desired product. Even in this instance, however, the internet and free flowing information plays a part as the consumer can undertake pre-purchase research to search what stores have on offer and compare features and prices. This will ultimately lead to decision on what is the best destination to get the best deal.

**Bargaining power of suppliers**

The bargaining power of suppliers relates to the market of inputs and sourcing of raw materials. Effective horizontal sourcing channels can be optimised to form part of a seamless and uninterrupted supply to provide a business with steady and consistent results. This in turn will allow the development of a platform for building credibility and loyalty within the sector. The procurement or sourcing process becomes imperative in obtaining bargaining power. A thorough understanding of the total cost of ownership (TCO) is required to maximise benefits and enhance bargaining power. Total cost of ownership takes into account inherent life cycle costs associated in the sourcing process. This can be financial or value driven or even environmentally-sustainably driven. An example of an organisation utilising its bargaining power to develop a core competence in sustainable supply chain is John West. As the largest branded supplier of seafood products in Australia, John West has focused its core competence in sustainable sourcing process. This can be financial or value driven or even environmentally-sustainably driven.

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John West demonstrates this through traceability of all of its products being made transparent to the consumer picking up their product. This commitment gives John West the bargaining power as a dominant market...
player in the canned and pre-packed seafood industry to influence the sources of supply to be sustainable and environmentally conscious. This can be seen as a strategic step to motivate suppliers to do the right thing as well as ensures long term sustainability. This safeguarding of the supply chain in the fishing industry will ensure we do not adversely affect and cause an imbalance in the eco-system and run the risk of depletion of this resource.

Intensity of competitive rivalry

The concentration of competitive rivalry is directly proportionate to the attractiveness of an industry. Establishing a competitive advantage over other players in the industry is crucial to establishing dominance. This can be described simply by understanding a marketplace. If there are many competitors offering equally attractive products and services, then an organisation will have little power in the situation because buyers and sellers alike can easily go elsewhere if they cannot get the deal they want from. Conversely, few competitors will result in greater dominance.

In light of the globalisation technological advances and environmental factors, logistics and supply chain management has become the focus of many international organisations – having a direct impact on Porters five forces.

Logistics and supply chain management as a source of competitive advantage

As identified in the research survey by Gartner, logistics and supply chain management is a source of competitive differentiation by thirty per cent of leading Australian organisations. ‘One of the most important aspects of competitive strategy is to find sources of competitive advantage that can be applied to the service offering. There are several open to service providers. These include the core competence of the organisation, the corporate brand and existing customer relationships. Each is unique and a potential source of profit. To determine and exploit all three is a very powerful and enduring method of gaining competitive edge.’

The above statement establishes the basis upon which a competitive advantage is realised. The principles of supply chain management can strongly influence and assist in exploiting the sources described.

Core competence of an organisation

The differentiating feature of an organisation can be its core, key element which it focuses on to be better than its competitors. It is harnessed by combining skills, experiences and resources to deliver value to customers. A true core competence has such a unique and intricate blend of these elements that it makes it very difficult for competitors to mimic.

A standout example of an international organisation that has developed a core competence in its supply chain management is Zara, the Spanish clothing manufacturer and retailer. In a mature industry, Zara has emerged as a dominant player by focusing on two core elements: response time and affordability.

Zara’s innovation in its logistics and supply chain has been a disruptive influence in the clothing industry – by turning around the design-to-sales process in a fifth of the time of leading competitors. It achieves this by using an intricate web of local subcontractors to run a ‘street-based’ operation which can be compared to the way most drug cartels operate. Bringing this street smart approach has enabled it to achieve what designers and leading fashion labels thought impossible. This is Zara’s core competence and it has given them a clear advantage by being able to listen to a customer and give them back what they want in a store on the opposite side of the globe by the time they get their next monthly pay cheque.

In the instance of the second element, affordability, Zara uses real time information to determine trends and appreciates different regions may have different demands for certain styles and products. Instead of mass producing and shipping out inventory to all its stores, Zara first establishes the trends of the area. Once understood, utilising its responsive supply chain it replenishes exactly what is needed. This reduces inventories and potential for obsolete stock as well as the reliance on forecasting. In turn, Zara manages its cash flow more effectively and reduces the potential for write-offs leading to reasonable pricing and still being profitable.

In summary, Zara uses effective supply chain management to enable unmatched timely delivery from the design team to the consumer whilst managing cash flow. This gives them a competitive advantage like no other – to dress a customer in the latest fashion at an affordable price. An advantage developed by optimising multi-directional supply networks.

Corporate brand

Corporate branding creates an identity. Organisations that develop a successful corporate brand hold significant amounts of equity in their brand name. In order to establish brand identity, organisations can
utilise their supply chains to develop this brand recognition and coverage. An example of one of world’s most successful international organisations with a brand that stretches to some of the most remote areas of the planet is Coca-Cola. The coke supply chain stretches into parts of the world where there is no electricity and, or running water and only basic sanitation. Yet in these remote places, that may be decades behind the rest of the planet, there is a high likelihood of finding a bottle of Coke – and whether it be painted, printed or a plastic crate the shopkeeper is sitting on, the signature red and white Coca-Cola logo is sure to be sighted nearby.

The key point to understand how successful supply chain underpins this brand equity is that the Coca-Cola company is headquartered in Atlanta, Georgia in the USA is merely a marketing and governance arm of the business. The way Coca-Cola operates is it has a bottleneck in each country or region around the world. Therefore the only product actually supplied in bulk is the syrup to these bottlers. Together with the syrup is a bottle of Coke – and whether it is a high likelihood of finding a Coca-Cola logo is sure to be sighted nearby.

Existing customer relationships

The demand of the customer is what drives the supply chain design, and without the customer there is no financial incentive. An organisation’s relationship with its customer is at the centre of having accurate information and feedback for decision making. Knowing the customer, what their needs are and having a means to communicate with them will give focus on the elements within the supply chain that add value. The other critical element often overlooked is the outright customer experience. The ease of doing business and quality output are the basic success factors in this regard.

Optimal inventory planning for purchasing raw materials and optimising the supply chain are two examples of supply chain principles that are underpinned by accurate customer data. They in turn will lead to strengthened cash flows, ultimately optimising the supply chain and lending towards a competitive differentiation. An example of an international organisation that leveraged off the JIT concept and who focuses on the customer experience is Dell. In a technological era where the speed of the processor doubles every 18 months and the cost is halved, many desktop computer and laptop manufacture were having difficulty maintaining margins and turning stock around quick enough before the competition. In the product could be sourced at a quarter of the price and competitors had them on shelves. Dell focused on one element, optimising of phone and online ordering platforms for ease of use and simplicity to the customer. Even though they had no physical store locations initially, the prompt turnaround time and simplicity gave it the edge. On the back end, because of the direct interface with the end consumer, Dell had regional facilities where components were kept and designed in a way that allowed customisation to the customer. Although to the customer it felt like they were building their very own machine from the ground up, Dell simply had developed a system of bolting on parts to the motherboard as the orders came through. In focusing on the relationship with the customer and tailoring an optimised supply chain to suit and deliver on customer needs, Dell had developed a competitive advantage over its competitors.

Conclusion

Principles of supply chain management are being used by international organisations to develop a key competitive edge. World class logistics and supply chains are recognised as being resilient to unforeseen disruptions – through the use of splintering – and by adopting network design that maximised customer value-adding features. In Australia, the demographic and geographic uniqueness (unlike, say, the US or EU characteristics) and recent expansion of the resources sector, has led to a focus on differing corporate supply chain designs. The view taken is either that supply networks are a cost of doing business or as a means of competitive differentiation. Each network leads to a specific design.

References

A study has found that middle managers need to behave ‘powerfully’ in order to get ahead. The research, carried out by Professor Laura Guillen at the ESMT business school in Germany, found that displaying certain ‘power competencies’ serves to make middle managers better liked in the office, and more importantly, to get ahead in their organisations. The study, carried out by Professor Laura Guillen at the ESMT business school in Germany, found that displaying certain ‘power competencies’ serves to make middle managers better liked in the office, and more importantly, to get ahead in their organisations.

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Guillen adds: “What was perhaps most surprising was that, although many may imagine that exhibiting these behaviours might prove unpopular amongst colleagues, the opposite appeared to be the case. Behaving in a powerful way actually made middle managers more popular amongst their co-workers.” In the study, middle managers filled out a personality questionnaire and undertook a 360 degree assessment to assess what personality traits and behaviour needs to be displayed for them to be successful.

Middle managers should display power to get ahead – and be liked

Being a ‘good team player’ does not lead to success

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