

From Supply Chain to Value Chain

Every organization relies on their suppliers to enhance their value proposition. So why in many cases are they ignored?

Introduction

In difficult economic times there is a necessity to squeeze cost out of supply chains; and, it is an opportunity to create value chains that deliver exceptional value from customer to suppliers. It is at the ends of the supply chain that more and more value is created. Innovative value propositions pull services and products to meet the needs of specific customer segments. Supplier partners delivery capabilities in addition to products in services in line with those value propositions. It is the marketing and sales perspective that enables the shift from supply to value chains.

The Traditional View of Supply Chains

Traditionally supply chains are associated with costs to be minimised: production costs, quality costs, inventories, distribution and logistics costs. Without negatively impacting on service, the objective has been to continuously reduce the cost of goods sold (COGS). Enlightened companies have expanded the objective to minimising the cost of ownership, which includes inventory related costs and warranty costs related to quality. This has drawn attention to supplier management and development to improve supplier quality and reduce raw material and component inventories. Important achievements in reducing overall supply chain cost have been achieved.

Taking a Value Perspective

Companies able to grow the top line with supply chain services that add value have changed the equation from minimising cost to maximising value. Examples include:

- Packaging materials suppliers who improve the productivity of packaging lines

Pharma companies partnering with logistics providers to replenish patient's supply of medication and adherence to their prescriptions

- Medical device companies increasing access for patients in developing countries by partnering with health care providers
- Car rental companies able to offer one hour usage and distributed access to vehicles

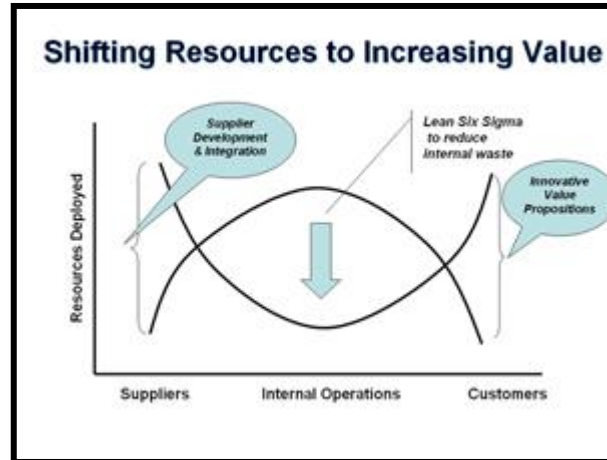
Progressive companies are inverting the deployment of resources to where it can add the most value, at the supplier and customer end of the value chain. (see image next page)

Where Lean Thoughts can become Reality

"Unless you try to do something beyond what you have already mastered, you will never grow."

Ronald. E. Osborn

SUPPLY CHAIN TO VALUE CHAIN



The business case for a progressive view of value chain depends on linking supply chains to value propositions. This means marketing and sales leaders at the table with their operations, supply chain and procurement colleagues defining unmet needs in the market place and developing innovative ways to fulfill them.

One Size Does Not Fit All

Values chains aligned to value propositions and specific customer segments means multiple value chains will run through a company's production sites and logistics systems. Operational Excellence pays off in that it reduces internal waste, makes processes leaner, more visible and easier to manage. By reducing internal complexity and cost, more value-added complexity can be shifted to the front and back end of value chains.

A Cultural of Collaboration is Key

For many companies focused narrowly on squeezing the purchase price of raw materials/services and conversion costs, the shift to value chains requires a fundamental shift in culture: from raw competition to results through collaboration. The first step is to establish a value-based vision that is shared by the senior leadership team that represents all the functions in the supply chain enterprise including critical support functions such as finance, human resources, communications and the legal department.

Conclusion

A narrow focus on reducing supply chain cost of goods sold should be broadened to maximising value delivered. The shift hinges on linking supply chains to value propositions. Marketing and sales leaders with their supply chain colleagues have an opportunity to develop innovative business models. It starts with a shared, cross-functional vision of what is possible. Because of the cultural shift this requires in most companies, the journey has to start at the top.

Lean Thoughts