Supply Chain Strategies
Supply Chain Strategies
Customer-driven and customer-focused

Tony Hines
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Dedication

I would like to dedicate this book to my parents for all their help, support and encouragement in my formative years. Particularly in memory of my Mother, who taught me to listen, think and respond, in that order, an approach that has served me well in life.

Finally, I would like to thank Janice for all her support, encouragement and forbearance in allowing me to pursue this work in her time.
Preface

This book is essentially about supply chain strategies and strategic management of supply chains. It differs from most recent books on the topic because it turns the focus away from purely operational aspects of supply towards strategies that focus upon the customers, their requirements and supply chain imperatives. There has been much discussion about terminology in the literature. Should it be a chain or is it a network? Is it a supply chain or is it a demand chain? Nevertheless, the title is correct in the sense that managers, academics and students have begun to understand conceptually the subject matter of the text in terms of supply chains. It makes sense therefore not to introduce a new terminology. The book is about supply chains, which are customer-focused and customer-driven. It is essentially a strategic and market-driven approach to the study of this topic rather than an operational, purchasing or supply-based view. Nevertheless, it recognizes that the origins have come from an eclectic set of underpinning disciplines with a major contribution from the purchasing and operations management literature. Whilst these contributions are important, their focus and concerns were in many respects different from the major concerns of this text, which primarily focus on how supply chains can be organized effectively and efficiently to satisfy the market and customer demand.

The successful organization of the future will be customer-focused not product or technology focused, supported by a marketing information competence that links the voice of the customer to all the firm’s value-delivery processes. (Webster, 1997)

All organizations have a supply chain. Whether or not the organization manufactures or supplies goods and services there is a supply chain. This is a route that these goods and services take to their market. There are many debates as to whether or not the terms ‘supply chain’ or ‘supply networks’ better describe the approach and this is debated in the text along with a variety of other alternatives. Nevertheless, this text has chosen the language in common usage by managers, which is ‘supply chains’. The value of the text is its focus on the customer as a driver and focal point for all activities within the supply chain, a point that is sometimes omitted from many academic papers, practitioner articles and books that purport to be about some aspect of supply chain management. This book redresses the imbalance of these internally focused approaches and opens up the debate about what it means in contemporary organizations throughout the world to manage their
supply chains and to formulate supply chain strategies. This book is not focused in a single discipline. It acknowledges that in business different perspectives are required but that ultimately it is the customer that determines the future of all business activity within an economic system.

Reference

Chapter 1

Globalization – global markets and global supply strategies

LEARNING OUTCOMES

After reading this chapter you should:

■ be aware of the impact that globalization is having upon world consumption and production;
■ know that not everybody agrees that globalization is of benefit to all people in the world economy;
■ be able to define globalization as a phenomenon and recognize the key drivers of change in the global economy;
■ be aware of the political and regulatory environments in which organizations operate and their impact upon supply chain strategies;
■ know the risks involved in sourcing and procuring suppliers and supplies from different parts of the globe;
■ know the impact of new technologies and innovation, and how these developments impact upon supply chain strategies.

Introduction

The aim of this text is to develop a different approach to the study of organizational supply chains by shifting the terrain from the usual field of purchasing/operations towards a more strategic approach focusing upon customer-driven and customer-focused strategies for managing supply chains. Taking a strategic approach involves direction setting, establishing an agenda for change and allocating
resources effectively whilst simultaneously utilizing resources efficiently. To achieve these strategic objectives it is essential that organizations focus their supply chain activities to satisfy customers. Managers need to think differently about what they do and the purpose of the organization and organizational networks in satisfying demand through effective (strategic) and efficient (operational) supply chain structures, relationships and strategies. Operational thinking is pervasive in most organizations. Indeed this should come as no surprise since most managers are promoted to positions demanding strategic thinking and strategic skill from positions demanding different, important operational thinking and skill sets. In such circumstances the tendency is often to retain operational thinking without recognizing the shift required in their new roles to think strategically. The ability to think strategically and translate that thinking into operational activities likely to work in practice is an important competence for strategic development to be successful. Those managers who can successfully make the transition from operational to strategic thinkers are a very powerful force for their organization.

The shift in focus from operational to strategic is illustrated as follows:

<table>
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<th>From: Operational focus</th>
<th>To: Strategic focus</th>
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<td>Medium to longer term time horizons</td>
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<td>Concrete</td>
<td>Conceptual</td>
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<td>Action/activities/doing</td>
<td>Think, reflect and learn before any action taken</td>
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<tr>
<td>Reactive/problem-solving</td>
<td>Proactive/identify future opportunities</td>
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<td>‘fire-fighting’</td>
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<td>Routine ‘day-to-day’</td>
<td>Future development and change programmes</td>
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<td>Production/service processes</td>
<td>Viewing the total supply chain from the customer’s perspective</td>
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<td>Viewing supply as a production problem</td>
<td>Viewing supply as a customer issue – a market problem</td>
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<td>Resource utilization – efficiency focus</td>
<td>Resource (including competence) development, planning and acquisition – effectiveness focus</td>
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<td>Operational efficiency</td>
<td>Strategic effectiveness</td>
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<td>‘Hands-on’ approach</td>
<td>‘Hands-off’ approach</td>
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<td>‘Feet on the ground’</td>
<td>‘Helicopter view’ or ‘view from the bridge’</td>
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Schonberger (1990) was one of the first to recognize that building a chain of customers was perhaps more important conceptually than thinking in terms of operational supply chains. The idea of turning attention towards a customer focus turns supply push perspectives into demand-led strategy. More recently Pratt (2001), a former Chairman of the Chartered Institute of Marketing, stated in his ‘Platform’ p. 5 ‘Marketing Business’.
Supply chain management is perceived to be the province of the purchasing profession, the logistics department or the IT function, but it’s about time that marketers woke up to the fact that they may be looking down the wrong end of the telescope.

In many respects this is an important statement since it recognizes that supply chain management is not a functional activity. Not wishing to alienate any particular group of professional managers interested in supply chain strategies it is perhaps important to emphasize that supply chain management is an organizational and trans-organizational responsibility. It should not be viewed as a function or a functional activity belonging to any particular professional discipline.

The major business challenges for organizations developing supply chain strategies include developing capabilities to manage: value, volume volatility, velocity, variety, variability, visibility and virtuality. In order to do so, organizations need to look at the ways in which they interact with customers at every level and view these challenges from a customer perspective. Customers expect value and suppliers need to anticipate and identify what customers value in order to supply a bundle of goods and services that equate with value in order to exchange money for products. Value in exchange, use and over time may be important to the customer. This is the value challenge. Customers nowadays are seldom prepared to purchase quantities suppliers would like to supply, at a time determined by the supplier, in standard form, with non-standard performance a highly probable outcome. This perhaps best describes a hitherto mass-production era. Today’s customer is more demanding in every sense. Meeting the demands of customers when required by ensuring that capacity can be increased when demand is high and lowered when demand is lowered without incurring excessive or unnecessary cost is the volume volatility challenge. Velocity is recognition that speed of response has become an important competitive advantage in many commercial contexts. Variety is a recognition that customer requirements vary and suppliers need to be capable of customizing products and services as a consequence. Variety is also what drives customers by introducing new products and services; by being able to anticipate customer demand. Variability is the challenge of management control in ensuring that goods and services satisfy quality criteria and deliver the required standard for customer satisfaction. Visibility is a core capability for managing the total supply chain from source to consumer. Visibility or transparency ensures that parties within the total supply chain know what the current pipeline looks like. Information and communication technology has allowed organizations to view frequently status reports on sourcing, procurement, production, logistics and customer demand ensuring that there are no blockages, unnecessary inventories or unplanned cost build up. Integration of
systems, policies and procedures across organizational boundaries between organizations working together within a supply chain to satisfy the customer has been the catalyst for visibility whilst technology provided the means. ‘Virtuality’ has allowed organizations to replace inventory with information through the creation of digital supply chains supported by ICT. Organizations need to focus their attention on customers by creating capabilities that deliver market-driven supply chain strategies.

Supply chain strategies must be responsive to customer requirements and in that sense organizations need to develop sustainable strategies, offering service to the customer, with speedy responses, suited to the customer, at a standard quality supported by systems, structures and relationships that deliver customer satisfaction.

<table>
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<th>To: Supply chain strategies – seven S's that deliver organizational strategies</th>
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<tr>
<td><strong>Value</strong> – offer customers value for money based on their preferences. Value not simply in exchange but through time and use</td>
<td><strong>Sustainability</strong> – must offer customers’ consistent value. For example, based on their preferences for time, place, cost, flexibility, dependability and quality. Must identify order qualifiers and order winners and compete managing complexity</td>
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<td><strong>Volume volatility</strong> – customers want to postpone their own supplies until they have a ‘best forecast’ of demand or accurate demand based on actual sales data. This may mean adjusting order quantities on a regular basis. They are no longer prepared to place standard order volumes in many sectors because their own market demand is volatile</td>
<td><strong>Service</strong> – the ability to deliver different quantities of goods through managing capacity not simply operationally but strategically (no longer sufficient to rely on economies of scale). Develop capabilities to manage capacity flexibly to deliver products and services to customers when they are required in the quantities demanded, e.g. from mass production to mass customization (from n to 1)</td>
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<td><strong>Velocity</strong> – speed of change and speed of response (demand conditions, market structures, production technology, supplier capabilities)</td>
<td><strong>Speedy response</strong> – developing responsive capabilities to deliver goods and services when they are required, e.g. efficient consumer response, quick response</td>
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<td><strong>Variety</strong> – ability to customize the product/service offer (move from economies of scale to economies of scope or to ‘economies of value to customer’)</td>
<td><strong>Suited to customer requirements</strong> – developing flexibility capabilities – e.g. agile, lean supply chains, innovations and new product developments</td>
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<td><strong>Variability</strong> – ability to reduce variability and offer standard quality</td>
<td><strong>Standards</strong> – developing supply chain strategies to assure customer quality standards are met effectively and co-operate within supply chains to compete across supply chains</td>
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Visibility – enabling all parts of a supply chain to be transparent and avoid blockages, ‘iceberg’ inventories and hidden costs; keeping the customer informed

Systems focused on customer satisfaction – re-design business processes and develop enabling strategies for all relevant parties including customers to view supply chain information relevant to them (e.g. collaborative, co-operative rather than competitive strategies)

Virtuality – an ability to coordinate intangible and tangible assets within the supply chain facilitated by information and communication technologies gives customers confidence and ensures dependability

Structures and relationships – for example, develop digital supply chain strategies to replace unnecessary inventory movements by moving and exchanging information instead of goods

Supply chain strategy – a definition

The supply chain encompasses all activities associated with the flow and transformation of goods (products and services) from initial design stage through the early raw materials stage, and on to the end user. Additionally, associated information and cash flows form part of supply chain activities. Supply chain strategies are required to manage the integration of these activities through improved supply chain relationships, to achieve a competitive or co-operative advantage. Integrating the supply chain requires an organization to synchronize not only its own activities but also the activities of external organizations that either supply inputs to or receive outputs from the organization. In grocery retail supply chains they use the term ‘from seed to store’, in textile and apparel supply chains the term ‘from concept to consumer’ and in heavy industry and manufacturing industry ‘from mother earth to mother earth’ illustrating the full cycle from extraction, conversion, through to customers, consumption and recycling. This is illustrated in Figure 1.1.

Competition and co-operation are uneasy partners within all economic systems. Political attitudes of regional, national and international communities determine how co-operation and competition are regulated. Laws enforce the regulatory frameworks and trade agreements made between organizations in different nation states. Different organizations in the same country, region or internationally enter contractual obligations centred on the supply and demand for goods and services. These contractual obligations bring with them responsibilities to uphold agreements without recourse to legal remedy and yet legal remedy must be available when one or other of the parties to it do not honour agreements. Laws govern economic behaviour and attitudes within nation states and internationally. However, legal compliance should be a last resort and most business and organizational dealings
on a day-to-day basis rely on agreement and co-operation between the parties within the relationship. Competition and co-operation are discussed in this text in the context of different supply chain strategies, structures and relationships. Competitive forces are at work in private and public service organizations and consequently differently configured supply chain strategies are required within the same organization and across organizational boundaries.

This text aims to convince the reader that context is important in the supply chain strategy decisions. There is no such thing as either a universal supply chain strategy or an industry-wide supply chain, but there are rather different types of supply chain structures, strategies and relationships all of which must aim to satisfy the ultimate customer.

This chapter explains some of the forces at work in the organizational environment that have a major impact changing the ways in which businesses conduct their activities. Perhaps the biggest influencing factors in recent years have been the velocity of change in market conditions, the rapid development of information and communication technologies (ICT) and globalization. This chapter will explore each of these factors and examine their impact upon organizational supply chain strategies.
Globalization

The term ‘globalization’ has been coined to represent the ways in which markets have converged throughout the world and the ways in which production poles have shifted geographically to satisfy global consumers. It is a trend. It is not saying that we have arrived at the destination yet. It is saying that in this world economic system there are identifiable influences and trends that are developing new and emerging patterns of economic behaviour that can be clustered under one theme, hence, globalization. Other writers have defined it in different ways. Beynon and Dunkerley (2000, p. 3) claim that globalization is a defining feature of human society at the start of the twenty-first century. Mattelart (2000, p. 97) states that globalization has a hegemonic role in organizing and decoding meaning of the world. Schirato and Webb (2003, p. 1) define it as power relationships, practices and technologies that characterize and shape the contemporary world. The convergence trends identified in markets, products, consumer behaviour and society encapsulate the concept of globalization as used within the context of this text.

It is important to recognize that convergence is one part of the equation and that divergence and anti-global forces represent the other part. Almost 20 per cent of the world population lives in poverty. This is defined by the World Bank as people living on less than US $1 per day. Supporters of globalization are believers: they stress the benefits, they are optimistic and they see globalization as the culmination of revolutionary structural change. Sceptics view globalization as evolutionary change, continuing the trend of colonial expansion that was at its height between 1870 and 1914. They are more pessimistic than the protagonists.

International trade is nothing new. We have engaged in international trade since mankind has been able to walk even before the development of nation states, as we now know them. The ‘Silk Road’ from east to west is an early example of a supply route transporting products from where they were made in China to the markets of Europe where they were sold. Although the term ‘supply chain strategy’ had not yet been coined, those ancient traders following their trade routes to market were engaged in market-led supply chain strategies.

Commercial revolution – the rise of national and international organizations

In the nineteenth century both in the USA and in Europe industrial development took place on an unprecedented scale. The first industrial nation was Britain. The history books record how the first industrial revolution witnessed human migration from the countryside to
newly developed towns and cities built around newly developed industries conducted in factories. Thus domestic production moved out of the homes and into factories where products could be manufactured in volume to achieve economies of scale in production. As this new economic order began to take shape the businesses that developed became larger, employed larger numbers of people and eventually became national rather than merely local businesses. These businesses transformed the ways in which people lived their lives, earned their livelihoods and consumed goods. As markets developed so too did transport and communication systems to ensure that the product from these factories could be sold, earn profits for the owners and wages for the workers. This economic cycle also created consumers who would spend their earnings. These businesses have created new centres of population (towns and cities), transport links between production centres and their markets developed nationally with roads, canals and later railways to ensure that goods could easily be transported to their market. In every respect these were market-led developments.

Later many national organizations expanded their sphere of reference to engage in international trade. Similarly as international trade develops so too does the infrastructure to oil the wheels of commerce. Sea links, rail links, road links and air links have developed to support the growth of international trade. Ideas of what constitutes an industry, a market and competition constantly change as a consequence of these shifts in boundaries. Today in many markets boundaries appear to be less important whilst in others they are very important and present real barriers to trade. Recent innovations in ICT have enabled many organizations to shift their spheres of operation yet again. This time they are not physical infrastructural developments like roads and railways but they are electronic links, partly physical, fibre-optic cables, satellite communication systems transmitting information between different parties and partly waves and signals in the ‘ether’. The digital economy dealing in information and financial exchange is contributing to economic growth and development of trade alongside the physical economy moving tangible goods to markets.

The changing business environment

Many commentators and journalists to describe anything remotely international glibly use the word ‘global’. It has become a byword for protest at world summits and World Trade Organization (WTO) meetings (witness Seattle, Cancun, Doha), a mantra of the anti-global protest groups that consider anything global to be associated with capitalist expansion and that is considered to be undesirable. In economic
terms there are observable examples of unstoppable forces at work that are changing people’s lives in a variety of ways. There are indeed large corporations that span the world trading across international borders and having annual revenues higher than many nation states.

Transformations in the world economy and the shift in power, people, capital and other resources have been taking place since ancient times. It is a contemporary phenomenon in the sense that the transformations are faster, more visible and affect more people in the world population than ever before. Visibility in particular is an important driver through electronic media, television, telecommunications and the Internet relay pictures, words and events instantly from what were once remote world locations into the homes of many people globally. Political, economic, social and technological landscapes are continuously changing the nature and structure of international organizations, national economies, interactions and exchanges. The patterns of development observed vary enormously and there are great paradoxes. For example, it is estimated that more than 400 million people use the Internet regularly but over half the world population has never seen or used a telephone. Uneven developments through time, space and place mean that global phenomena will be observed and experienced differently. In Ohmae’s (1994) triad countries and his borderless world there will be economies bounded by the borders of North America, Western Europe and the Japan/Pacific Rim basin that may have developed quickly with consumer markets that have developed homogenized tastes and preferences. However, there are economies in South America, sub-Saharan Africa and other parts of the globe that are drained by debt and poverty with populations that are diverse in their needs. Patterns of employment, economic well-being, poverty and wealth are very different across the globe. There are large regional groups that have developed in the latter part of the twentieth century to protect the interests of those countries within the group: significantly the European Union (EU) and the North American Free Trade Association (NAFTA). Those countries excluded from what some observers refer to as the ‘Rich man’s clubs’ scramble for position to enter because they feel that their interests would be better served from inside. Looking East or South we may view globalization very differently from those facing North or West.

Velocity of change

Global capital markets are predicted to grow in value from $20 trillion in 2000 to $200 trillion by 2010, a multiple of ten times in 10 years (Means and Schneider, 2000). To demonstrate the velocity of the expected change
it is worth noting that during the last 20 years of the twentieth century global capital markets grew from $2 trillion in 1980 to $20 trillion by 2000. The start of the first decade in the twenty-first century is witnessing an unleashing doubling in the speed of change. The e-revolution is transforming the ways in which business-to-business (B2B) and business-to-consumer (B2C) markets are interacting. The e-business revolution has arrived. Much publicity has surrounded the dot.com collapse in 2000 but this is a blip on the economic landscape. It is not just or simply the technological impacts that are leading to long-term market change but a series of changes that have developed during the last decades of the twentieth century. These factors influencing conditions are: globalization and global economic shifts on an unprecedented scale; organizational restructuring; ICT; a growing recognition that differentiation strategies and not simply cost-based strategies are required to survive and thrive in the twenty-first century; and finally, the rise in consumerism with more fickle buying behaviour. The more ‘savvy’ consumers and businesses in the start of the new century are migrating to e-business, digital shopping, telephone commerce, e-retail and e-finance. The choice is not simply between traditional and e-business strategies but rather they are complementary and should not necessarily be seen as separate. Business is the same in many ways as it has always been. Markets are identified or created in which buyers and sellers exchange information, goods, services and money. What is different is the ways in which markets are structured and how organizations conduct transactions and relationships. Production, distribution and consumption have limitless boundaries across the globe and the digital economy has changed the patterns of economic activity. Consumers have more choice, are likely to be less loyal, are not prepared to accept second best and have become more sophisticated in their tastes and their approach to buying and consuming goods and services.

Global companies want to achieve market dominance by developing powerful brands that transcend local domestic markets and change the nature of hitherto local competitive markets. Global organizations satisfy customers by understanding better their needs and serving them locally. These organizations exploit global markets by producing or procuring products in low-cost countries and distributing them in markets that can sustain higher prices. Consumers in these markets recognize value and benefit from lower prices for high-quality goods and services. Consider your own consumption habits and how prices have fallen for a range of products and services during the past few years. An economy ticket of British Airways from London to San Francisco cost around £700 in 1985; today you could buy a ticket for around half that. However, in real terms after taking the falling value of money over the period it is probably nearer to a quarter of the price it was
then. In 1980 a VHS video recorder cost around £600; today you could buy one for around one-sixth of the price and it would have more features and be technologically superior. Many more consumer products purchased in the 1980s would have been manufactured and assembled in Europe than would be the case today. There has been a shift in manufacturing industry from the western world to the lesser-developed countries (LDCs) located mainly in the Far East. If you were to examine labels on your food, beverages, TV sets, video recorders, cameras, telephones, computers, clothing and footwear, you would probably find in many cases a multitude of countries around the globe had been involved in their production. Levi jeans from China with zips from Japan, studs from India, Nike sports shoes from China or India, branded shirts from Bangladesh, Vietnam or Cambodia, curtain fabrics from South Korea, Taiwan or China, Sony computers and cameras made in China and so on. One example of this shift in production is the establishment and development of the Sri Lanka’s clothing industry. Prior to 1977 the major export earner was tea. In 1977 Sri Lanka began to produce clothes for UK and US markets mainly from an almost zero base. In 2001 exports from clothing accounted for 52.7 per cent of Sri Lanka’s exports and tea represented 14.1 per cent. These shifts in production have caused structural changes in the make-up of Western economies. Many heavy engineering and manufacturing jobs have disappeared as the economies in the West have become more dependent on services as a proportion of their gross domestic product (GDP). Automobile manufacture, shipbuilding, textiles and electronics are key industries in Japan, South Korea and China. In 1950 these countries were newly industrializing countries reliant on agriculture for their main sources of income and these contemporary prominent industries either did not exist or were in an embryonic state.

Global trends

Today we witness further global shifts in service industries. It is not simply manufacturing jobs under threat. If you telephone American Express to check details on your credit card you may be transferred to a call centre in India and not to someone in Brighton in the UK (which is the address on the payment slip) as you might think. Similarly you may purchase property and have your conveyancing carried out by a local solicitor or so you think but trained legal staff in India accessing information through the Internet may conduct the work. If you purchase a computer and decide to ring the helpline for assistance in setting it up, you may find that your expert helper is located not in the UK but perhaps once again in India. According to Deloitte Consulting
2 million jobs could move to India from the West by 2008. The world’s top 100 financial institutions could save costs of $138 billion in the next 5 years by moving operations offshore. Thirty per cent of these operators already have some offshore operations and this is expected to rise to 75 per cent in 5 years. Amicus state that 200 000 British jobs will be lost as operators move offshore by 2008 in back-office functions and call centres. India has 1.5 million graduates who speak English according to the Confederation of Indian Industry.

Political uncertainties carry associated risks for suppliers locked into global markets and global supply networks. Since 11 September 2001 these risks have increased for all parties. There is paradoxically an increasing interdependence in the global economy and the rich world depends on the poor world to sustain western consumer lifestyles while the LDCs depend on orders and business involvement with the DCs to sustain employment, maintain and improve the quality of life of the LDC population. With over 6 billion people in the globe our lives are intertwined whether we realize it or not. However, one thing has become clear that in the industrial or post-modern world governments of all political persuasion in all countries are less able to engineer economic success than they would like to admit. The record of the last 50 years or more speaks for itself. Most governments meddle – they have consistently introduced regulatory controls even in what we regard as developed freer societies and intervention distorts markets sometimes in desirable ways and sometimes in unplanned ways.

Ethical considerations have become more of a concern in consuming marketplaces. The social conscience of conspicuous consumption sometimes pricks the skin and the economic guilt complex of western society is exposed. Seattle and Cancun bear witness to Naomi Klein’s (2000) ‘No Logo’ thesis. There is also the concern of the impact that commercial activities are having on the global environment. Deforestation is but one consequence of economic activity, scarred landscapes from drilling for oil and other geological mining activities are amongst others. Changes to weather patterns and natural river flows have all been disturbed by individual and private industrial activities, national interest is both perpetrator and protector and yet there is the paradox of the individual without a voice being subsumed by private interests while governments are incapable either individually or collectively of looking after the majority interest. The collective good is often in the hands of wealthy or just politically powerful individuals and organizations. Democratic interests may not be fully represented.

Regulation and deregulation of markets can alter patterns of demand, production and consumption. For example, the demise of the multi-fibre agreement (MFA) in textiles in 2005 sees a quota-free world in textiles and apparel, which will again lead to global shifts in production as
buyers seek to lower costs and sellers, seek to supply at the desired cost. Exchange rates also determine the balance of trade for many locked in global competition.

Yergin and Stanislaw (1998, p. 13) noted a world trend towards deregulation, privatization of nationally owned assets and freer markets. They describe it as the ‘greatest sale in history’ whereby governments dispose of business assets worth trillions of dollars privatizing steel plants, airlines, telecommunications, utilities, railways, hotels and to their list one could add healthcare and education. Once sacrosanct publicly owned assets are released in a market free for all. The phenomenon can be observed across the world in the former Soviet Union, Eastern Europe, China, Western Europe, Asia, Latin America, Africa and the United States. This observed trend has major implications for procurement and other supply chain strategies as new global suppliers replace traditional suppliers of labour, materials, goods and services, since the new management teams will seek to achieve cost savings and efficiency gains.

International trading organizations tend to fall into one of four categories identified by Keegan and Green (2002, p. 16):

- **Ethnocentric** – The home country is viewed as superior and the organization sees similarities between the home country and other countries. Management activities are centralized, and standard products and services are supplied to markets seen as similar to the home market.

- **Regiocentric** – The organization sees both similarities and differences in a world region (e.g. North America, Europe, Southeast Asia). It adopts either an ethnocentric or polycentric approach in doing so. Products and services therefore may be either standardized extensions or locally adapted depending on whether they adopt an ethnocentric or polycentric approach.

- **Polycentric** – Views each host country as different. Many differences require products and services to be locally adapted. Markets are viewed as different; essentially, new products for each new market.

- **Geocentric** – takes a worldview seeing both similarities and differences in the home and host countries. This is an integrated world approach synthesizing the ethnocentric and polycentric attitudes. Products and services will be sourced locally and globally, and they will be distributed to global markets (locally and globally).

Social change is endemic throughout the globe; it is simply the rate of change that differs and the base from which the country is starting. There is a trend of rising expectation. People generally want to be able to buy and consume more but this is relative. Those on average daily
incomes below $0.20 cents cannot consume as much as those on more than $100 per day. Some argue that markets are becoming similar, well some are. Perhaps in Western Europe and the USA there are similarities but for all those similarities there are differences as wave after wave of failed retail global expansion demonstrates.

The political and legal regulatory framework

Probably the most important structural influence is the political and legal regulatory frameworks that impact upon organizational activities. The ‘Bretton Woods Agreement’ in 1944 signalled the new order of regulation with two major financial institutions established: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) later renamed the World Bank. These institutions were to underpin the post-World War economies and oil the wheels of commerce and industry in international markets. In 1947 the General Agreement on Tariffs and Trade (GATT) was established with the purpose of removing trade barriers and various types of trade discrimination. In principle if not always in practice the GATT was intended to promote freer trade between the countries subscribing to it and liberalize markets opening up new markets to newly developing countries by removing trading barriers. It developed mechanisms for dealing with the many trade disputes that broke out during the course of its life although it had no compliance mechanisms relying largely on self-governance between the parties in dispute to reach agreement. Following the Uruguay Round of talks in 1994 agreement was reached to replace GATT with the WTO taking over its role from 1 January 1995. It is based in Geneva and provides a forum for trade negotiations and to act as mediator between the 141 member states. There have been a number of recent major disputes between member states. In 1995 the US government wanted to impose 100 per cent tariff duties on Japanese cars imported to the US in retaliation for the Japanese refusing to take US merchandise. The US argued that the Japanese refusal to allow US imports were responsible for around one-third of the trade deficit between 1990 and 1994. Further recent trade wars have nearly erupted between Europe and the USA over the EU’s quota policy and refusals to accept certain country’s banana exports into Europe as a consequence. For example, Britain until recently still imported most of its bananas from former colonies in Caribbean countries excluding the former US territories access to UK and EU markets. The USA threatened to refuse entry to EU exports and some industries particularly EU textile exports were seriously disrupted.
In 1999 world trade exceeded $5.9 trillion. According to the IMF intraregional trading accounts for the largest world trade flows. In 1998 intraregional exports in Europe and Central Eurasia (the largest intraregional amount) was worth $1176 billion. Imports from Asia and Oceania stood at $242 billion and exports to that region at $215 billion. The trade flows in 1999 between industrialized countries was around $3.8 trillion (exports) and $3.76 trillion (imports). Developing countries exported $1.74 trillion and imported $1.98 trillion. Trade growth in developing countries is accelerating. Nevertheless, two-thirds of world exports are still accounted for by the developed world. The top 10 exporting and importing countries are listed in Table 1.1.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>765.3</td>
<td>1</td>
<td>USA</td>
<td>1013.3</td>
</tr>
<tr>
<td>2</td>
<td>Germany</td>
<td>517.8</td>
<td>2</td>
<td>Germany</td>
<td>465.9</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>448.6</td>
<td>3</td>
<td>UK</td>
<td>319.2</td>
</tr>
<tr>
<td>4</td>
<td>P.R. China</td>
<td>323.5</td>
<td>4</td>
<td>France</td>
<td>298.0</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>295.7</td>
<td>5</td>
<td>Japan</td>
<td>278.2</td>
</tr>
<tr>
<td>6</td>
<td>UK</td>
<td>262.1</td>
<td>6</td>
<td>The Netherlands</td>
<td>212.4</td>
</tr>
<tr>
<td>7</td>
<td>Canada</td>
<td>243.3</td>
<td>7</td>
<td>Canada</td>
<td>211.6</td>
</tr>
<tr>
<td>8</td>
<td>Italy</td>
<td>217.0</td>
<td>8</td>
<td>Italy</td>
<td>204.7</td>
</tr>
<tr>
<td>9</td>
<td>The Netherlands</td>
<td>182.3</td>
<td>9</td>
<td>P.R. China</td>
<td>163.3</td>
</tr>
<tr>
<td>10</td>
<td>South Korea</td>
<td>146.5</td>
<td>10</td>
<td>Hong Kong</td>
<td>154.7</td>
</tr>
</tbody>
</table>

Source: IMF/World Bank.
Country risk

Doing business with particular countries around the globe carries a particular risk. Dun and Bradstreet assess and rank country risk indicators and produce tables that indicate the levels of risk across seven categories with seven being highest risk and one lowest. Table 1.2 illustrates a comparative cross-border risk assessment conducted in October 2003. The list from top to bottom also has some element of ranking within the categories 1–7. In making the assessment political risk, commercial risk, macroeconomic risk and external risk are categories of assessment. Each is explained briefly:

- **Political risk.** The internal and external security situation, policy, competency, fostering and enabling of the business environment.
- **Commercial risk.** The sanctity of contract, judicial competence, regulatory transparency and degree of systemic corruption that affect commercial transactions are assessed.
- **Macroeconomic risk.** Inflation, balance of payments, money supply growth and indicators that determine the country’s ability to deliver sustainable growth.
- **External risk.** The current account balance, capital flows, foreign exchange reserves, size of external debt and all such factors determining the country’s ability to attract foreign exchange and investment.

Regional trading blocs

In the twentieth century the most important preferential trading agreement was the British Commonwealth preference system. The UK, Canada, Australia, New Zealand, India and other former British colonies had preferential trading arrangements covering all classes of goods and services. The UK ended this arrangement when it entered into the European Economic Community (EEC). The decision to do so taken in 1972 became more important in the 1990s and beyond as the European Union began to achieve greater integration of trading policies and practices across the union. The majority of UK exports and imports are conducted in intraregional trade within the EU.

The reality of global markets

The nature of supply chains in most industries is global. Supplies are sourced from a variety of locations throughout the world to make a product that is demanded by consumers who may also be located globally.
<table>
<thead>
<tr>
<th>Low risk</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>High risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>Luxembourg</td>
<td>Kuwait</td>
<td>Bahrain</td>
<td>Brazil</td>
<td>Cote d’voire</td>
<td>Argentina</td>
<td>Afghanistan</td>
</tr>
<tr>
<td>Australia</td>
<td>Australia</td>
<td>Malta</td>
<td>Israel</td>
<td>Kenya</td>
<td>Gabon</td>
<td>Azerbaijan</td>
<td>Congo DR (Zaire)</td>
</tr>
<tr>
<td>Austria</td>
<td>Austria</td>
<td>Singapore</td>
<td>Korea</td>
<td>Panama</td>
<td>Guatemala</td>
<td>Cambodia</td>
<td>Iraq</td>
</tr>
<tr>
<td>Canada</td>
<td>Canada</td>
<td>Spain</td>
<td>Mexico</td>
<td>Peru</td>
<td>Iran</td>
<td>Ecuador</td>
<td>Nepal</td>
</tr>
<tr>
<td>Denmark</td>
<td>Denmark</td>
<td>Chile</td>
<td>Oman</td>
<td>Philippines</td>
<td>Romania</td>
<td>Honduras</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Finland</td>
<td>Finland</td>
<td>Greece</td>
<td>Saudi Arabia</td>
<td>Uganda</td>
<td>Syria</td>
<td>Kenya</td>
<td>Nepal</td>
</tr>
<tr>
<td>France</td>
<td>France</td>
<td>Hong Kong SAR</td>
<td>China</td>
<td>Dom. Republic</td>
<td>Zimbabwe</td>
<td>Vietnam</td>
<td>Vietnam</td>
</tr>
<tr>
<td>Ireland</td>
<td>Ireland</td>
<td>Italy</td>
<td>Estonia</td>
<td>Lebanon</td>
<td>Venezuela</td>
<td>Senegal</td>
<td>Senegal</td>
</tr>
<tr>
<td>The Nether.</td>
<td>The Netherlands</td>
<td>Japan</td>
<td>Jordan</td>
<td>Bulgaria</td>
<td>Yemen</td>
<td>Slovakia</td>
<td>Slovakia</td>
</tr>
<tr>
<td>Norway</td>
<td>Norway</td>
<td>Mauritius</td>
<td>Poland</td>
<td>Colombia</td>
<td>Nigeria</td>
<td>Ukraine</td>
<td>Ukraine</td>
</tr>
<tr>
<td>Sweden</td>
<td>Sweden</td>
<td>Portugal</td>
<td>Costa Rica</td>
<td>Croatia</td>
<td>PNG</td>
<td>Paraguay</td>
<td>Paraguay</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Switzerland</td>
<td>Qatar</td>
<td>Czech Republic</td>
<td>El Salvador</td>
<td>Turkey</td>
<td>Russian Federation</td>
<td>Russian Federation</td>
</tr>
<tr>
<td>UK</td>
<td>UK</td>
<td>Botswana</td>
<td>Egypt</td>
<td>Ghana</td>
<td>Zambia</td>
<td>Sudan</td>
<td>Sudan</td>
</tr>
<tr>
<td>US</td>
<td>US</td>
<td>Slovenia</td>
<td>Lithuania</td>
<td>Jamaica</td>
<td>Bangladesh</td>
<td>Ukraine</td>
<td>Ukraine</td>
</tr>
<tr>
<td>Belgium</td>
<td>Belgium</td>
<td>Taiwan</td>
<td>Malaysia</td>
<td>Mozambique</td>
<td>Bolivia</td>
<td>Kyrgyz Republic</td>
<td>Kyrgyz Republic</td>
</tr>
<tr>
<td>Germany</td>
<td>Germany</td>
<td>Tunisia</td>
<td>India</td>
<td>Tanzania</td>
<td>Cameroon</td>
<td>Macedonia</td>
<td>Macedonia</td>
</tr>
<tr>
<td>Iceland</td>
<td>Iceland</td>
<td>Cyprus</td>
<td>Latvia</td>
<td>Sri Lanka</td>
<td>Indonesia</td>
<td>Nicaragua</td>
<td>Nicaragua</td>
</tr>
<tr>
<td>New Zealand</td>
<td>New Zealand</td>
<td>Hungary</td>
<td>Namibia</td>
<td>Algeria</td>
<td>Angola</td>
<td>Albania</td>
<td>Albania</td>
</tr>
<tr>
<td>UAE</td>
<td>UAE</td>
<td>Morocco</td>
<td>Senegal</td>
<td>Ethiopia</td>
<td>Belarus</td>
<td>Bosnia and Herzegovina</td>
<td>Bosnia and Herzegovina</td>
</tr>
<tr>
<td></td>
<td></td>
<td>South Africa</td>
<td>Slovakia</td>
<td>Fiji</td>
<td>Cuba</td>
<td>Georgia</td>
<td>Georgia</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trinidad and Tobago</td>
<td>Thailand</td>
<td>Malawi</td>
<td>Myanmar</td>
<td>Myanmar</td>
<td></td>
</tr>
</tbody>
</table>

Source: www.dnb-solutions.com/uk/ft (October 2003).
Production, distribution and consumption are a global phenomenon. There are of course great variations in developed and lesser-developed economies. In the automobile industry we can observe the global car (Table 1.3). For example, the Ford Escort was manufactured in Halewood near Liverpool in the UK and in Saarlouis in Germany. However, if you examined the product assembly more closely you would have soon realized that this vehicle contained sub-assemblies from many different parts of the world.

Table 1.3

<table>
<thead>
<tr>
<th>Country</th>
<th>Sub-assemblies</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>Carburettor, clutch, ignition, exhaust, fuel pump</td>
</tr>
<tr>
<td>Germany</td>
<td>Pistons, front discs, speedometer, fuel tank, spindles</td>
</tr>
<tr>
<td>Belgium</td>
<td>Seat pads</td>
</tr>
<tr>
<td>Sweden</td>
<td>Hose clamps, cylinder bolt</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>Paint, hardware</td>
</tr>
<tr>
<td>Canada</td>
<td>Glass, radio</td>
</tr>
<tr>
<td>Spain</td>
<td>Wiring harness, battery</td>
</tr>
<tr>
<td>Japan</td>
<td>Starter motor</td>
</tr>
<tr>
<td>Norway</td>
<td>Exhaust flanges, tyres</td>
</tr>
<tr>
<td>Austria</td>
<td>Radiator, heater hoses</td>
</tr>
<tr>
<td>Denmark</td>
<td>Fan belt</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Speedometer, gears</td>
</tr>
<tr>
<td>Italy</td>
<td>Cylinder head, defroster grills</td>
</tr>
<tr>
<td>USA</td>
<td>EGR valves, wheel nuts, hydraulic tappet</td>
</tr>
</tbody>
</table>

The first global industry?

Historically the textiles and clothing industries have played a prominent role in the process of economic development. In the eighteenth century the textiles and clothing industries led the Industrial Revolution in Europe and more recently were crucial to the success of export-led growth in the dynamic newly industrializing economies of East Asia. Globally the textiles and clothing industries are large employers of labour with 13 million directly employed in textiles and a further 10 million in clothing manufacture. However, as Dicken (1998, p. 284) remarks these figures are likely to grossly underestimate the actual numbers of people involved who are not recorded in any official statistics or estimates. In 1998 the figures for employment in the clothing
industry alone were estimated at 10.7 million which was a substantial increase on previous estimates (OETH, 2000, p. 10). The increase was attributed to more accurate statistics from the Peoples Republic of China. Between 1995 and 1999 EU employment in clothing fell by 9.1 per cent. Globally 14.2 per cent of all employment is accounted for by textiles and clothing manufacture. In the EU 7.5 per cent is the comparable figure for employment in textiles and clothing. World production in textiles was valued at US $485 billion and clothing at US $335 billion in 1998. Asia is the largest exporter of clothes and Western Europe the largest importer. This is indicative of global production and consumption trends. The textiles and clothing industries were the first manufacturing industries to take on a global dimension and are the most widely dispersed industries across the developed and developing world.

The world’s largest companies

Table 1.4 shows the top 40 world corporations by revenue in 2001. It is interesting that the number one position is held by a US retailer and that only one British company appears in the top 40 although Royal Dutch Shell which is Anglo-Dutch is in as well. The list is dominated by the US and Japanese corporations. The largest British retail organization, Tesco, is ranked 114 in the world and Marks and Spencer is ranked 439. Carrefour France is the largest European retailer ranked 37. Corporations located in oil, automobiles, electronics, telecommunications and financial services are the industrial sectors that dominate the top 40 list.

Global businesses develop powerful information systems that provide their owner(s) with vast databases that they can mine to identify market trends and utilize for targeted promotional activity. New product innovation and creativity to leverage both the brand and the vast arrays of information that these global brand owners have at their disposal require them to think in new ways about their business and the competition they face. Owning assets is no longer as important as owning customers. This belief is evidenced by recent trends to restructure organizations and to outsource many of the functional and traditional activities previously regarded as essential to the well-being of the organization. Efficient and effective supply chains are required to manage customer demand and brand operations. Customer relationship management (CRM) is supported through e-commerce. Back-office support activities are more focused on satisfying customers and fulfillment of the marketing promise is critical to the organization’s future. Organizations are focused on value creation rather than merely short-term profitability. Creating value streams is important as markets and marketing processes; supplier networks and operations throughout the
## Table 1.4

<table>
<thead>
<tr>
<th>Rank</th>
<th>Rank</th>
<th>Country</th>
<th>Revenues</th>
<th>% Change from 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>2</td>
<td>Wal-Mart Stores</td>
<td>US</td>
<td>219,812</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>Exxon Mobil</td>
<td>US</td>
<td>191,581</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
<td>General Motors</td>
<td>US</td>
<td>177,260</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>BP</td>
<td>Britain</td>
<td>174,218</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>Ford Motor</td>
<td>US</td>
<td>162,412</td>
</tr>
<tr>
<td>6</td>
<td>16</td>
<td>Enron</td>
<td>US</td>
<td>138,718</td>
</tr>
<tr>
<td>7</td>
<td>5</td>
<td>Daimlerchrysler</td>
<td>Germany</td>
<td>136,897</td>
</tr>
<tr>
<td>8</td>
<td>6</td>
<td>Royal Dutch Shell Group</td>
<td>NET/Britain</td>
<td>135,211</td>
</tr>
<tr>
<td>9</td>
<td>8</td>
<td>General Electric</td>
<td>US</td>
<td>125,913</td>
</tr>
<tr>
<td>10</td>
<td>10</td>
<td>Toyota Motor</td>
<td>Japan</td>
<td>120,814</td>
</tr>
<tr>
<td>11</td>
<td>12</td>
<td>Citigroup</td>
<td>US</td>
<td>112,022</td>
</tr>
<tr>
<td>12</td>
<td>9</td>
<td>Mitsubishi</td>
<td>Japan</td>
<td>105,813</td>
</tr>
<tr>
<td>13</td>
<td>11</td>
<td>Mitsui</td>
<td>Japan</td>
<td>101,205</td>
</tr>
<tr>
<td>14</td>
<td>60</td>
<td>Chevrontexaco</td>
<td>US</td>
<td>99,699</td>
</tr>
<tr>
<td>15</td>
<td>14</td>
<td>Total Fina ELF</td>
<td>France</td>
<td>94,311</td>
</tr>
<tr>
<td>16</td>
<td>15</td>
<td>Nippon Telegraph &amp; Telephone</td>
<td>Japan</td>
<td>93,424</td>
</tr>
<tr>
<td>17</td>
<td>13</td>
<td>Itochu</td>
<td>Japan</td>
<td>91,176</td>
</tr>
<tr>
<td>18</td>
<td>25</td>
<td>Allianz</td>
<td>Germany</td>
<td>85,929</td>
</tr>
<tr>
<td>19</td>
<td>19</td>
<td>IBM</td>
<td>US</td>
<td>85,866</td>
</tr>
<tr>
<td>20</td>
<td>24</td>
<td>ING Group</td>
<td>The Netherlands</td>
<td>82,999</td>
</tr>
<tr>
<td>21</td>
<td>21</td>
<td>Volkswagen</td>
<td>Germany</td>
<td>79,287</td>
</tr>
<tr>
<td>22</td>
<td>23</td>
<td>Siemens</td>
<td>Germany</td>
<td>77,358</td>
</tr>
<tr>
<td>23</td>
<td>18</td>
<td>Sumitomo</td>
<td>Japan</td>
<td>77,140</td>
</tr>
<tr>
<td>24</td>
<td>34</td>
<td>Philip Morris</td>
<td>US</td>
<td>72,944</td>
</tr>
<tr>
<td>25</td>
<td>20</td>
<td>Marubeni</td>
<td>Japan</td>
<td>71,756</td>
</tr>
<tr>
<td>26</td>
<td>32</td>
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globe become integrated through e-linkages in a complex chain moving parts, products and information around the network in order to meet customer demand. Different strategies are required to pursue this goal as time and distance shrink (Cairncross, 1998). Internet strategies present opportunities to integrate complex supply chains from concept design to store to consumer. Markets and market opportunity may be both local and global. Organizations will be managing networks to leverage brand values and this can be achieved using global communication systems from anywhere in the world.

Figure 1.1 illustrates the environmental influences acting upon an organizational value chain. The diagram represents production of goods and services in the centre and some key-stage activities that create value for the customer, consumer and producer. In essence this value chain is a supply chain moving and transforming inputs into finished goods and services that are bundled to add value for the customer. Time, place and space determine value since outputs are required by customers in a particular market (space or place) and at a particular time. Time, place and space affect value and prices. For example, it is important that perishable food products reach their markets while still in good condition if suppliers are to achieve the agreed price. In moving perishable products to market it is essential that they reach the places where the customers are located within the time the product is in saleable condition. It is not simply produce that is perishable but other outputs such as market information is perishable. A buyer will be prepared to pay higher prices for information that is timely when it is history it may be worth less. Organizations operate within a larger environment and changes occurring in that environment affect what happens inside the organization. The larger economic system into which organizations are locked may experience changes to interest rates, exchange rates and other economic conditions that impact upon how a single organization is able to act and react. The economic environment will determine the rate of change in the technological environment. Innovations occur when forces create conditions that make them necessary or desirable. Both these factors influence value creation within an organization. Changes in societal values lead to change in the political and legal environments that in turn impinge upon and control the activities of single organizations.

The importance of manufacturing industry

Many commentators refer to a post-industrial society in reference to the UK. However, it is salutary to realize that 15 of the top 25 largest corporations (see Table 1.4) in the world are involved in heavy engineering
and manufacturing in diverse areas: automobiles, computer hardware, power turbines and consumer electronics. Six in supply energy, three are in financial services and one Wal-Mart is the world’s largest retailer. Only two can claim to be British, BP and Royal Dutch Shell, in which the latter is partly British.

Manufacturing accounts for less than one-fifth of the UK economy providing 14 per cent of total employment but 64 per cent of exports and creates wealth and spending power that feeds service industries. There were on average 820 insolvencies each week in manufacturing in 2002 the highest in 10 years and output saw its largest fall since 1991. It is often stated that the UK is a creative nation and ideas are the source of wealth. However it is important to recognize that the USA filed 30 450 patents in 2001, Japan 19 845, Germany 21 308 and the UK just 4853. The conversion rate of ideas into commercial products in the UK is also poor by international comparison. The tax system, rising infrastructure costs, higher insurance costs and planning regulations all impact upon investment ability. In 2002 many high-profile companies ceased to manufacture in the UK. Dyson moved its manufacture of vacuum cleaners to Malaysia, Dr Martens to China, Black & Decker to the Czech Republic, a total of 350 000 jobs in all moved offshore. In the same year many retailers were sourcing more supplies from overseas than from the UK with an impact upon local manufacturing. Dyson said it was not simply a matter of low labour cost in their case since transport cost and duty more than offset the savings. The decision was taken because vital manufacturing infrastructure and support was available on a scale not seen in Britain for 30–40 years. According to Dyson, China with its mantra of employment over profit will be the workshop of the world by 2010 and UK industry will not be able to compete on cost, quality or reliability. Stripped of manufacturing clients service industries too will suffer and many skills will disappear as cost-efficient service industries in places like India develop further. India is already a magnet for software developers, call centres and online accountants. The multiplier effect will impact upon the UK Balance of Payments and tax revenues to support an ageing population. It will compromise industrial strength, innovation and military capabilities.

If one considers that these changes occur in an environmental system that is global then organizations may be influenced by changes taking place in parts of the world that they may not be fully aware of. For example, take the example of a local purchase of mange tout peas from Tesco in the UK one may track the supply of this produce back to Southern Africa maybe Zimbabwe where conditions are such that political instability may threaten supplies. The labour market is such that farm workers may earn as little as 50 pence per day for their hard toil and be subjected to compliance and regulation from the supermarket
buyers from the UK who aim to satisfy consumer demand for the product by ensuring compliance standards and attractive pricing and presentation. Compliance may take the form of checking for insects, washing and ensuring that only standard sized peas enter the food chain for the supermarket. Once packaged a 100-g packet may sell for between 75 pence and £1 equivalent to the pay for one or two days’ labour by the farmhand in Africa. Thus people in different lands throughout the globe are interconnected in ways that they might not consider or think about. A dinner party in Chelsea or Kensington may have produce from various parts of the globe and will have touched many peoples’ lives in one way or another on its journey to the table. Every day consumers make decisions to purchase products and services in their country, which will impact in some way on someone in a remote part of the globe that they may not even be able to point to on a map. Impacts are both positive and negative in their effect. These statements simply serve to confirm the interconnectedness of market-driven supply chains spanning the globe. Figure 1.2 locates the supply chain within an economic system which shapes other influencing factors that include: technological change and innovation; legal, quasi-legal and regulatory factors; political and socio-cultural factors.

Gereffi (1994, p. 97) drew a distinction between two types of driver that were production-driven and buyer-driven chains. In producer chains trans-national corporations (TNCs) or other large enterprises played a central role in controlling backward and forward linkages. The administrative headquarters controlled the supplies in these
chains. In buyer chains it is large retailers, brand named merchandisers and trading companies that play the pivotal role setting up decentralized production networks as in the example of Tesco and mange tout peas. More and more so in western markets it is the market that drives the supply chain and this is the raison d’être for this book. One could argue as Gereffi and others did that producer-driven chains existed in capital- and technology-intensive industries such as automobiles, electronics, computers and aerospace. However, one could also argue that these industries are also ultimately subject to the markets they serve. Business history is littered with a kaleidoscope of examples of failed products that were essentially producer-driven and in some cases technically superior to products that they were competing with and that the market determined a success. This is why it is essential to consider supply chain strategies from the customer perspective. Organizations need to adopt a customer-focused view of how their supply chain strategies are structured and how relationships and customer interactions are managed for the benefit of the customer. By focusing upon the customer’s needs the supply chain becomes market-driven rather than producer determined. Organizations locked together in customer-focused supply chains must search for efficiencies to drive cost down and to add value for the customers they serve.

New technologies and innovation

It is well known that being first to market can determine the lifetime income for the product and that products that get to the marketplace on time may earn on average between 7 and 10 times in revenue streams that products which are late achieve. Being late may generate cost rather than profit and there have been classic product development errors in many industries. For example, the late development of a particular aircraft was estimated to have cost the developers more than twice the expected revenue stream for the aircraft in its market lifetime. It is not simply the time for new product developments but also time compression in procurement and production cycles. This is why we have seen many organizations thinning their supply base to work more closely with fewer organizations with the capability to respond faster. Replenishment lead times not just first-order lead-times need to be responsive. Systems need to be able to communicate accurate response data between the buyer and supplier.

Consider the example of colouring processes in textiles. Digital supply chain technologies have enabled sampling process times to be cut or even eliminated on some products. There are essentially three areas
where technical experts in colour can maximize impact with retailers and become suppliers of first choice. These areas are:

1. Colour creation
2. Colour communication
3. Colour control

By managing this aspect of the supply chain effectively and efficiently the retailers concerned can achieve the following benefits:

- Save time in sampling processes and production.
- Time = money.
- The retailer can also become more responsive to changes in consumer behaviour because they have a reliable supplier and they can be confident of accurate response not simply quick response.
- Suppliers who can communicate error-free colour data that their dyers and colouring houses can use to create a perfect production match to the design colour will be the one’s who benefit. Again saving time and cost.
- Finally, consistency through the application of standards for matches, and wash and wear performance are a pre-requisite of accurate response systems.

Some of the biggest changes have occurred in Information and Communication Technologies (ICT) using open platform technologies. Companies no longer need to buy into proprietorial legacy systems but may use standard platforms of technology to build systems integration that meets standard requirements to exchange their documents, sounds, pictures and spreadsheets. These developments have revolutionized businesses and made the world even more of a global marketplace. e-Business although in its infancy is maturing fast. The crash of 1999–2000 was but a blip on the evolution chronology.

So how have new developments in ICT helped and what are these supply chain processes that organizations seem to have become obsessed with managing and why are they important? ICT developments have given firms the opportunity to integrate systems that can be applied to manage the whole organization’s processes and to link with their suppliers and customers. This integration as it is referred to enables time compression, error-free data transmission opportunities, waste avoidance, cost efficiencies and opportunities for value enhancement and value adding activities for the customer. Flows of information, goods and money can be managed seamlessly and processes become transparent. This visibility enhances the service suppliers and customers can expect and achieve.
Conclusions

The nature of supply chains in most industries is that they may be both global and local. Supplies are sourced from a variety of locations throughout the world to make a product that is demanded by consumers who may also be located globally. Markets are both local and global. Commercial, industrial and organizational contexts determine the shape of national, inter-regional, intraregional and international supply chains. Production, distribution and consumption are a global phenomenon. There are of course great variations in developed and lesser-developed economies. Economic change is rapid and market conditions are shaped by demographics, psychographics (lifestyles, attitudes and values) and geographics. Nevertheless, it is important to recognize that some supply chains remain local for political, social and economic reasons. Local markets may be supplied globally and locally, just locally or just globally. Nevertheless, there is evidence to suggest that as world trade grows so to do the opportunities to source, procure, produce and consume more globally. Byrom and Medway (2003) identified a unique manifestation of this in a remote small local island community engaging in global trading activities as a consequence of using Internet technologies. Residents in the Pitcairn Islands (a remote island in the South Pacific), descendents of the ‘HMS Bounty’ crew, had developed a number of new products for Internet tourists. Items could be ordered and delivered anywhere in the world. Fulfilment and delivery times leave something to be desired since they use the mail ship that passes by every 6 months to carry merchandise to the markets where demand is. Thus the death of distance is not quite upon us and geography still has meaning even in the virtual world of commerce. Nevertheless, global enterprise and local production and innovation have been fuelled by technological innovation in web-based e-commerce.

In reality a variety of supply chain decisions are conditioned by their environmental conditions, economics, politics, social, cultural and technological factors. These factors influence the decisions taken by organizations and not necessarily in equal measure or in rational logic. However, the most important influence should be the customer. Any supply chains raison d’être must be to serve the customer and the final consumer.

Globalization as a phenomenon is itself a consequence of competitive pressures that have led producers towards an endless search for ways to lower production costs first through efficiency measures often internal to a single organization or network of organizations locked in a continuous supply chain. Second, the search for lower cost sources of
supply shifts production and organizations controlling production to offshore locations throughout the globe where conditions are more favourable than in the home market where the products will be sold and consumed. Often these global shifts have a devastating impact upon domestic markets where production jobs are lost, investment declines and the trade balance worsens. Investment declines not simply as a consequence of production erosion but also in relative terms for those organizations that remain locked into industrial decline because investors and governments are unwilling to take the financial and political risks that investment in the future requires. This reduction in investment is a consequence of perceived increasing uncertainties.

Economies of scale are often an important factor in determining the success of retailing organizations since they are able to extract additional value from their suppliers owing to their size and market power position and secure further economic efficiencies through economies in distribution of the merchandise to consumers. Being large when markets are saturated in domestic economies requires retailers to develop beyond their own geographical boundaries. For the very large retailing groups it is a matter of who can get to the future first and who can dominate market share. These large retail groups have enormous purchasing power and are able to extract economies of scale from their operations and economies of scope from their existing and developing supply chains. Change is not only identified through economic shifts but also through cultural and social transformation that has been hastened by rapid communication and transportation infrastructures. Consumer behaviour has changed as markets have converged. Consumer behaviour patterns are changed not simply by consumers themselves but by the professional purchasing and procurement officers of retailing groups who exert enormous influence over consumer choice. For example, professional retail buyers make decisions about what merchandise and brands to purchase or replenish and these decisions can limit consumer choice as well as expand it. Adopting an integrated marketing approach is a necessary condition to achieving consumer satisfaction. Supply chain structures, strategies and processes are interdependent upon and a corollary of consumer demand patterns identified through market intelligence and marketing information. Supply chains are in effect the corollary of demand chains.

Figure 1.3 presents a conceptual model of factors influencing customer-focused supply chain strategies. The conceptual model illustrates key influences that shape the conditions in which customer-focused supply chain strategies are formed. Environmental conditions (PESTEEL) influence the conditions that impact upon the increasing trend to globalize and determine levels of investment and investment opportunities that
in turn determine the velocity of change in developing integrating ICT and the propensity to innovate. However, globalization and integrating ICT have an impact on each other in determining the velocity of change and the desire for change. These three influential factors shape the conditions in which all industries and organizations operate. They also influence the market conditions that prevail at any point in time. It is market conditions that drive markets and determine exchange values through supply and demand. Market conditions are also influenced by environmental conditions (e.g. political and legal regulatory frameworks). In the model the market conditions on the supply side drives supply chain organizations towards particular supply chain strategic choices, e.g. supplier selection, procurement, inventory policies. Supply chain organizations are influenced by all the factors both directly in the firm’s immediate that is their microenvironment and directly or indirectly through changes occurring in the macroenvironment. Supply chain organizations must develop supply chain strategies that use resources efficiently and effectively to satisfy their end customer by having customer-focused supply chain strategies.

The next chapter examines strategic concepts and the notion of customer-focused supply chain strategies further.
Discussion Questions

1. Explain the term globalization.
2. Discuss the implications of globalization for organizations designing and developing their supply chain strategies.
3. Identify the key drivers of change that affect supply chain strategy.
4. ‘Any supply chain strategy involves risk’. Discuss.
5. Discuss the importance of regional trading blocs in developing supply chain strategies.
6. Discuss the influences of technology and innovation on global supply chains.
7. Explain what is meant by supply chain strategy.
8. Discuss how organizations are often pushed into supply chain strategies through operational activities.
9. Explain the importance of manufacturing industry in a post-industrial society.
10. ‘Global markets need global supplies’. Discuss.

Note

James Dyson’s comments are taken from In my opinion ‘Leading the way to a new economic miracle – Unless we take steps now, China with its mantra work over profit, will be the workshop of the world’, RSA Journal, June 2003.

References

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1 Chapter 1 Globalization - global markets and global supply strategies


Mattelart, A. (2000). Networking the World, 1794-2000 (trans. Liz Carey Librecht and James A. Cohen). Minneapolis, MN: University of Minnesota Press. Discussion Questions 1. Explain the term globalization. 2. Discuss the implications of globalization for organizations designing and developing their supply chain strategies. 3. Identify the key drivers of change that affect supply chain strategy. 4. ‘Any supply chain strategy involves risk’. Discuss. 5. Discuss the importance of regional trading blocs in developing supply chain strategies. 6. Discuss the influences of technology and innovation on global supply chains. 7. Explain what is meant by supply chain strategy. 8. Discuss how organizations are often pushed into supply chain strategies through operational activities. 9. Explain the importance of manufacturing industry in a post-industrial society. 10. ‘Global markets need global supplies’. Discuss.


Chapter 2 Strategic concepts and the customer-focused, market-driven supply chain


Chapter 3 The emergence of supply chain management and supply chain strategy as a critical success factor for organizations


Chao, C. N. and Scheuing, E. (1992). An examination of the relationships between levels of purchasing responsibilities and roles of those in purchasing decision making. First PSERG Conference, Glasgow.


Coase, R. H. (1937). The nature of the firm. Economica, V,


4 Chapter 4 Market-driven and customer-focused supply chain strategies


Rathmell, J. M. (1974). Marketing in the Services Sector. Cambridge, MA: Winthrop. 6. Identify the key differences between a service and a product and explain how these differences may be accounted for when designing supply chain strategies. 7. Applying the “Ansoff Matrix” to organizational supply chain strategies requires managers to focus attention on the customer and in so doing the organization must be sure that it has the necessary
competencies to implement the chosen strategy.' Discuss.

8. Select an organization of choice and identify key success factors in relation to their total supply chain and assess how successful the organization has been in choosing and implementing appropriate supply chain strategies over the previous 5-year period. 9. ‘The notion of order winners and order qualifiers is important for organizations to understand how they might be able to generate more business and to do so the organization must develop appropriate supply chain strategies to meet customer requirements.’ Discuss.

5 Chapter 5 Supplier sourcing, procurement and evaluation


Porter, M. E. (1980). Competitive Strategy – Techniques for Analyzing Industries and Competitors. New York: Free Press. 10. ‘The recent trend towards supply base rationalization has caused many organizations to re-evaluate their risk profile.’ Explain what you understand this statement to mean and why it is important, if not essential, to consider risk in reducing the number of suppliers.
Chapter 6 Supply chain structures and relationships


Aoki, M., Gustafsson, B. and Williamson, O. E. (1990). The Firm as a Nexus of Treaties. London: Sage. 3. Explain why purchasing may be considered to be of both operational and strategic importance to an organization of your choice. 4. Purchasing may be critical to the survival and profitability of an organization. Discuss when this might be the case and explain why. 5. Purchasing decisions revolve around the five R’s say what these are and discuss their relative importance to the buying decision. 6. This chapter identified another three R’s that were required from a supplier. Identify the additional three R’s and discuss their relative importance to the buyer. 7. Identify and explain the types of information required before a purchase can be made. 8. ‘Supplier relationships may be determined by organizational structures within each of the organizations involved in a supply chain.’ Explain why integration is necessary to reduce total supply chain cost and give examples of how integration may be achieved. 9. Explain the difference between different collaborative approaches in developing supply chain strategies. 10. ‘Ultimately organizations involved in the supply chain must be competitive.’ Explain how co-operative arrangements can be competitive and describe conflicts that might occur through supply chain co-operation.


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Chapter 7 Supply chain integration and e-business strategies


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Johnson, L. K. (2002). The real value of customer loyalty: Customer lifetime value is more than a metric; it's a way of thinking and doing business, Sloan Management Review, 43, Winter, 14-16.


8 Chapter 8 Strategic supply chain cost, value and measurement


9 Chapter 9 Inventory management


Chapter 10 Supply chain profitability, quality and world-class organizations


11 Chapter 11 Logistics and fulfilment strategies


12 Chapter 12 The supply chain challenges – strategies for the future


