Supply Chain Simplification

The term **Supply Chain Simplification** means to make the “series of processes involved in supplying a product or service to someone” \(^1\) less difficult or complex in order to enhance the overall performance of a product line and reduce the related costs. Information technology is a central enabler of the effective supply chain management. **Supply Chain** processes are typically recorded and illustrated in **Supply Chain Management Systems**. Nevertheless, only after the main process areas in the supply chain are determined, a simplification development can be examined.

The Supply Chain Process

The process of supplying a product to the customer includes several, intermediate internal processes with different business partners, depending on the nature of the product. A **simplification** of the supply chain can be realized through strategic reorientation, collaborative processes, reduction of strategic suppliers, reduction of **inventory** and/or distribution locations/channels, internal shared data information systems, new computer-aided processes or adaptation of rules and regulations concerning business relations. \(^2\)

Problems in Supply Chain Management

**Problems** along the supply chain appear mainly due to uncertainties and due to the need to coordinate several activities, business functions and business partners. Typical problems can be: \(^3\) \(^4\)

- A major source of uncertainty is matching the supply and demand; the latter can be influenced by competition, prices, technological development, and customer behavior,
- Untuned series of processes and tasks,
- Uncertainties in delivery times,
- Quality problems of materials and parts may also create production delays,

How to approach a desired Supply Chain Simplification

In order to reduce complexity in the supply chain it is important which factors influence the performance of activities. The table of **simplification techniques** below \(^5\) can help to structure a simplification approach and assist to categorize and deploy the designated simplification techniques. It distinguishes between five performance levers which might need to be adapted and four supply chain process elements for the product or service to be delivered to the customer in accordance with the **Supply Chain Operations Reference Model (SCOR)** \(^6\) by the American Supply Chain Council Inc. \(^7\) Other approaches to supply chain simplification can be a competitive benchmark or applying a balanced scorecard.
Simplification Trends

In the last years, a common problem has challenged many companies: the growing amount of data within the company. In order to better administrate the large amount of information, companies tend to implement standardized processes and tools. Furthermore, many large- and medium-sized enterprises use today integrated multi-planning Electronic Data Interchange systems. As history shows, the data management systems have been changing substantially in the past few decades and even new systems are emerging. However, the main challenge in supply chain management was and still is to reduce production and administration cost, amongst others by preventing imbalances of supply and demand. The current trends show the following development:

- Standardization of company-wide processes and tools → Cost reductions
- Companies continuously link partner information systems → Improved and accelerated information flow
- Integrated Electronic data interchange → Increasing supply chain visibility
- Reduction of strategic suppliers → Closer buyer-seller relationships
- Affiliated relations of subsidiaries to place joint orders and receive better product conditions an example for large enterprises is the joint venture between Deutsche Telekom and France Telekom/ Orange → Global supply chain operations
- Tailoristic classification of value adding activities - Outsourcing specific activities of the value chain

Conclusion & Future Outlook

Although Supply Chain Management Systems are broadly used in large- and medium-sized companies there is still much inefficiency in the supply chains of products which need to be adapted individually. An excessively complex supply chain, especially in multi-tier supply chains, is not adaptable to changing demands. Every company has different internal processes and has different adaptation needs. An optimized solution for one company does not necessarily promise an optimization of another company’s supply chain. The different industries also need to be differentiated. The supply chains in the e-commerce and the manufacturing industry, for example, differ fundamentally and cannot easily be compared. Considering the simplification techniques above, a manufacturing enterprise might need to focus on the product configurations and on manufacturing technologies, whereas an online retailer might want to concentrate on its e-commerce portal or on the processes which can be cheaply outsourced to due limited on-site space. An interesting e-commerce example is the direct B2C distribution process of Dell computers. With a comparably small, direct distribution channel, the company has saved time and money for the computers to be delivered to the end customer for a competitive price.

However, the most difficult decision of management is to decide for a certain extent of information exchange as well as how the information is documented for designated persons who have the access. The next question is how the information can be linked to processes and activities. It is advisable to have at least a designated person (or for medium-sized and larger companies even a designated department) analyzing and monitoring the business operations. This will allow a central source of knowledge like a Vice President Logistics and Supply Chain Management to overlook the overall performance and initiate measures for supply chain simplifications, where necessary.
Further References and Examples

- Supply Chain Simplification in the Logistics Industry - The HP Way
- Simplifying supply chain @ Dell
- Dell - Four Key Trends in affecting OEM Supply Chains
- SAP Supply Chain Solution Services
- IBM Supply Chain Solution Services
- Price Waterhouse Coopers Global Corporate Simplification Services
- ...

— Jennifer Teßmann 2011/05/05 12:32

1) MacMillan Online Dictionary | http://www.macmillandictionary.com
2) Dr. Strader, Troy J.; B2B E-COMMERCE: SUPPLY CHAIN MANAGEMENT AND COLLABORATIVE COMMERCE. Des Moines, USA: Drake University, 2011.
6) http://supply-chain.org/scor
7) Cohen, Shoshanah; Roussel, Joseph; Strategisches Supply Chain Management. Berlin: Springer Verlag, 2005

From:
http://en.ecommercewiki.info/ - E-Commerce Wiki

Permanent link:
http://en.ecommercewiki.info/logistics/supply_chain_simplification

Last update: 2012/12/10 14:20