

SUPPLY CHAIN ALIGNMENT- EUROPEAN STYLE

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Abstract:

Europe has proven to be an engaged and testing environment for dynamic alignment. Some practical lessons from Europe to help organizations in their quest towards alignment include the following. There are four different types of alignment (strategic, customer, internal and supplier) which interact to determine an organizations's dynamic alignment. In a business to business environment, demand profiling is usually the start point for developing supply chain strategy. Supply chain strategy should be extended into the supply base- this is the heart of supplier alignment.

Key words: supply chain, organization, alignment, customer, strategy

JEL classification: D, D 2, D 20

Introduction

The core of dynamic alignment is developing a supply chain strategy that is aligned to the needs of the marketplace. Implicit in this definition is an assumption that Europeans have a common understanding of what supply chain and Supply Management (SCM) actually mean. In reality is rare for two individuals within the same company to define these terms the same way, let alone two people from different organizations. A recent study by Burgess supported this view and concluded that these terms lack consensual definition which indicates the lack of maturity in this field. Further indicators of the immaturity of supply chain strategy in the following:

- There is a limited presence of supply chain directors in the top management teams of European companies. Those who do exist rarely have the responsibility for the full scope of the supply chain, manufacturing being the most notable exception. They are more commonly rebranded logistics or purchasing directors.
- The vast majority of organizations still have "one- size- fits-all" approach to developing supply chain strategy, and it is not customer-driven.
- The most common from a customer segmentation is account value – a method that has not direct link to supply chain strategy, either in terms of design or execution.

European companies with superior levels of alignment were found to have three things in common:

1. They had one of two contrasting organizational structures. They were either vertically integrated or virtual organizations. These organizational designs force clarity in terms of the supply chain design, and more specifically provide clear accountability of "who manages the supply chain". In vertically integrated organizations this was typically the supply chain director. In a virtual context, this was usually a fourth- party logistics provider.
2. The supply chain had been specifically designed to meet the needs of the business context in which it operated. For vertically integrated organizations this was achieved through a supply chain redesign. Given the relative youth of the

virtual supply chains studied, they had been designed from the outset to leverage the opportunities of the new economy.

3. Business and customer focus were at the heart of their organizational cultures. This was reflected in their performance measurement systems which revealed a balance of functional and cross- functional measures. The cross – functional measures focused on business- wide financial performance and customer service. Employees within these organizations took an active interest in these measures and might even monitor them on a daily basis. So, for those still encouraged to pursue an agenda of dynamic alignment there follows some practical insights from Europe to get you started.

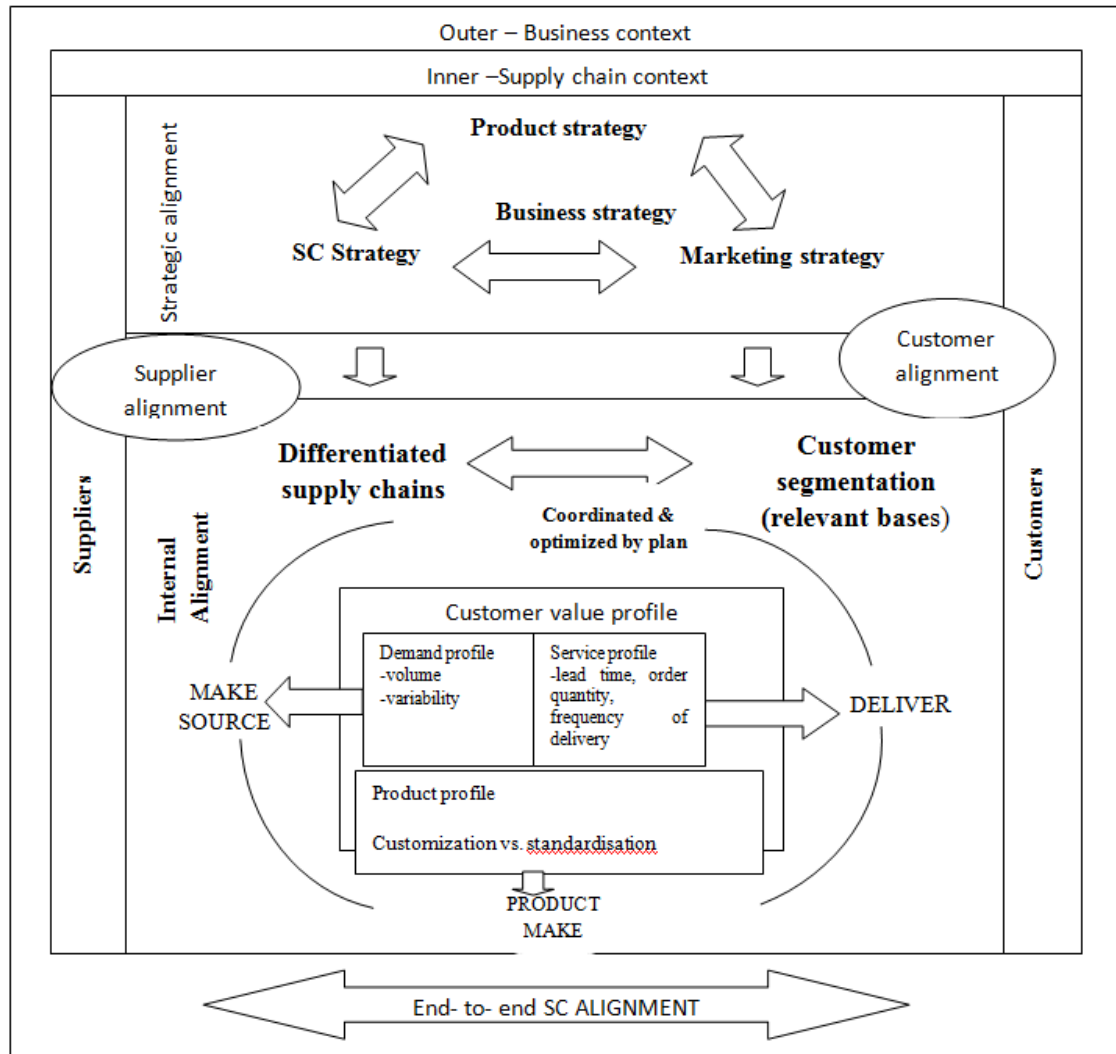
Five types of alignment

The dynamic alignment model is elegant in its simplicity. Unfortunately, as with many models, the application is not so straightforward and requires expansion of the underpinning framework. Given the broad scope of dynamic alignment and its relative immaturity within Europe, it was found that companies found it useful to break the concept down into a number of more manageable chunks. These served not only to aid understanding of the concept, but also to help the organization embarking on the journey to understand where pockets of good practice might exist within its supply chain. The result was the identification of five types of alignment (strategic, customer, internal, supplier and end – to – end) as illustrated in *Figure 1*.

1. Strategic alignment is the alignment between the core elements of business strategy – product, marketing and supply chain. The strategies are mutually reinforcing and there are for in place to proactively manage trade-offs between the functions to optimize the benefit to the business.
2. Customer alignment is the alignment between the supply chain and its primary customers. It is achieved by identifying the relevant bases of segmentation for the customer base that defines the resultant customer value profiles, and provides a link to supply chain strategy.
3. Internal alignment is the alignment between the core supply chain processes (plan, source, make, deliver) and the customer value profiles to deliver the defined differentiated supply chain strategy.
4. Supplier alignment is the alignment between the internal differentiated supply chains and the supplier base. It looks beyond traditional approaches to supplier management to identify ways in which the internal supply chains can be extended to suppliers.
5. End- to – end alignment is a sum of the previous four parts, with the intention that the sum is greater than the constituents. It seeks to ensure the overall alignment of the supply chain and avoid conflict or sub- optimization between the different elements.

These are the core building blocks of dynamic alignment.

Figure 1.



Supply chain strategy is crafted, not copied.

Supply chains are highly complex living systems that span the boundaries of many different organizations. No two supply chains are the same and best practices cannot be directly copied or transferred from other supply chains. Organizations need to define their own set of 'best' or 'tailored' supply chain practices that support the delivery of their business strategy.

For example, the retailer Tesco has an every day low price business strategy. The proposition to consumer is "lowest cost" which it can only deliver by having a supply chain strategy that is focused on achieving lowest operating cost. The focus for the supply chain, both internally and externally, is on minimizing cost and passing those savings into the consumer. Tailored practices include vendor collaboration with co-managed inventory programs and flow logistics and distribution (including cross-docking, direct store delivery, and differentiated flows). There is a congruence between the supply chain strategy and the overall business strategy.

This key learning point from Europe is supported by the latest finding from the Massachusetts Institute of Technology (MIT) Supply Chain 2020 project. Supply chain strategy is context-specified. It has to be developed to support the business strategy of a specific organization and cannot be copied. This is the key to strategic alignment.

A good business strategy has a clearly identified set of customers to which it responds, and these, it could be argued, are the customers for the supply chain. Unfortunately, the real world is more complex, particularly where a supply chain has many different customers. The end- customer of the extended supply chain is the consumer, but the supply chain it is the end-market commercial organization.

European companies did not have an appetite for managing more than three supply chain. Practically, they perceived little difference in the continuous replenishment and lean supply chain types and adopted the lean type to deal with both base and semi-wave demand types.

Leading practice in Europe has seen organizations beginning to measure the degree of supplier alignment. This involved a two- prong assessment to identify alignment gaps, a supplier alignment questionnaire and process gap analysis.

The output of the assessment was used to identify joint alignment improvement projects. Assessing supplier alignment was a time –consuming and involved process, and its applications was limited to strategic supplier. It is an interesting concept and one that could be extended to all five types of alignment.

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