

Solution Manual for Managing Supply Chain and Operations An Integrative Approach 1st Edition Foster Sampson Wallin Webb 0132832402 9780132832403

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Chapter 2: Supply Chain and Operations Strategy

Chapter Outline

1. Generic SC&O Strategies and Alignment
 - a. Generic strategies
 - b. Alignment
 - c. Assessing Customer Value
2. SC&O Strategy Process and Content
 - a. Hoshin Kanri Strategic Planning
 - b. SC&O Strategy Content
 - c. The Resource-Based View
3. Competitive Landscapes and Porter's Five Forces
 - a. Threats of New Competitors
 - b. Treats of Substitutes Products or Services
 - c. Bargaining Power of Customers and Suppliers
 - d. Intensity of Competitive Rivalry
4. Supply Chain Strategy
 - a. Changes in Strategy
 - b. Types of Relationships
5. Strategy Execution
 - a. Aligning Strategic Levels

- b. Aligning Incentives
 - c. Focusing on Process
6. Strategic Metrics and Measurements
 - a. Correct Strategic Behavior
 - b. Actionable and Predictive Metrics
 - c. Commonly Used Supply Chain Metrics
 - d. Systems Thinking
 7. The Changing Strategic Environment: Globalization, Sustainability, and Innovation
 - a. Globalization
 - b. Sustainability
 - c. Innovation

Chapter Learning Objectives

1. Understand and Use Generic SC&O Strategies
2. Explain How to Apply SC&O Strategy Process and Content
3. Describe and Understand How to Use the Competitive Landscape and Porter's Five Forces
4. Explain How Managers Use Supply Chain Strategy to Build Relationships
5. Execute Strategy
6. Understand and Apply Strategic Metrics and Measurements
7. Describe the Changing Strategic Environment

1. Generic SC&O Strategies and Alignment

1. A leader establishes vision and through such leadership, comes the firm's **strategy**, a long-term plan that defines how a company will operate.
2. **Supply chain strategy** is the supply chain portion of the general strategic plan.
3. **Operations strategy** focuses on allocating resources *within* the firm.
4. **Generic strategies**
 - a. **Cost strategy**—concentrating on reducing costs, e.g. Walmart
 - b. **Focus strategy**—concentrate on a specific market, e.g. Amazon
 - c. **Differentiation strategy**—concentrate on specific products and services, e.g. Bed, Bath, and Beyond

TEACHING TIP

Have the students list various businesses that they frequent in town and ask them which of the above generic strategies are employed by these firms

5. **Alignment**—Each SC&O decisions matches capabilities with the supply chain needs of the firm’s strategic direction
 - a. **Fisher strategy model**— differentiate between products sold and customer needs based upon the firm’s strategy
 - b. The **importance of agility**—the ability of the supply chain to respond quickly to short-term changes in demand and supply
 - c. **Adaptability**—the capability to adjust a supply chain’s design to a structural shift in the market
 - d. **Order winners and order qualifiers**—order winners are those attributes that differentiate a company’s products, while order qualifiers are the necessary attributes that allow a firm to compete in a market.
6. Assessing Customer Value
 - a. Key customers must be a firm’s focus.
 - b. Lifetime Value—more value in a customer relationship than just a onetime transaction; not allowing returns for defective product may lose a customer for life.
 - c. *Pareto’s law* states that 20 percent of the customers provide 80 percent of the business; thus, your best service must be slanted toward this 20 percent.
 - d. Your customer determines your long-term success.

2. SC&O Strategy Process and Content

1. SC&O Strategy and Content—there are two main components of SC&O strategy: *process and content*.
 - a. Strategy **process** is the method pursued for creating strategy.
 - b. **Strategy content** is what construes the strategy and includes generic strategies, relationships, competitors and strategy successes and failures.
 - c. **Operational subplans** are portions of the strategic plans pertaining to differing functional areas of the firm.

TEACHING TIP

One of the best methods to discuss strategy and its content is to discuss some failures made that the student’s lifetime and how the company survived. One of these is the Netflix pricing debacle when the company initiated separate pricing for DVDs and streaming and how the company — and its president—survived by listening to its customers.

2. Hoshin Kanri Strategic Planning
 - a. **Hoshin Kanri Planning**—Policy deployment through a strategic planning process that uses project-based improvement.
 - b. **Catchball**—Strategic back-and-forth dialogue between successive levels of management and their teams.

3. SC& O Strategy Content
 - a. **Capabilities** are a network of people, knowledge, information systems, tools and business processes that create value.
 - b. **Core competencies** are a company's abilities to compete with competitors that are difficult for competitors to replicate.
4. The **Resource-Based View (RBV)**
 - a. RBV is when a firm achieves competitive advantage by applying tangible and intangible resources to operate effectively.
 - b. RBV suggests that there are four aspects for core competency: value, rarity, imitation proof, and substitution proof. Apple has all of these aspects.
5. Dynamic Capabilities and Retaining Value
 - a. **Dynamic capabilities** are the firm's ability to design and reconfigure competencies to address rapidly changing environments.

3. Competitive Landscapes and Porter's Five Forces

Even when a firm has the proper capabilities, the firm must understand its competitors and their strategies before moving forward in the market

1. **Porter's five forces** is a model used to analyze competitive environment and considers the following elements:
 - a. Threats of new competitors
 - b. Threat of substitute products and services
 - c. Bargaining power of customers
 - d. Bargaining power of suppliers
 - e. Rivalry within the industry
2. Threat of new competitors—A profitable market attracts new competitors; market share will be decreased, as will profits, by participants unless the incumbent's strategies adjust to the new competition.
3. Threat of substitute products and services—Consumers have many biases and these biases can impact either the addition into a market segment or the retention of market share if a different product comes into the market. The consumer's perceived level of product differentiation must be considered by the firm. When consumers have a difficult time in differentiating similar products, a firm's sales will be negatively impacted by substitution.
4. Bargaining power of customers and suppliers—if a customer can put a firm under pressure, you have a *market of outputs*. Product pricing will be sensitive to customer demands. If a supplier can put pressure on a firm, you have a *market of inputs*. When suppliers have such power, they can demand high prices or even not wish to work with a firm.
5. Intensity of Competitive Rivalry—for most industries, the intensity of competitive rivalry is a major determinant of industry competitiveness. Creating a niche in a competitive market with product differentiation is a successful strategy to be successful.

TEACHING TIP

Discuss the soda industry and the major competitors and how a small company was able to break into this market.

4. Supply Chain Strategy

1. Companies realize that creating and maintaining important business relationships must be included in their strategic planning.
2. Changes in strategy have moved from the within the four walls of the firm to a globally connected world. Much of this change was precipitated by the prevalence of the Internet, where firms that were once isolated from their suppliers have them as close as a computer screen.
3. The book *The World Is Flat*, by Friedman, should be read to understand the significant phenomenon of this global environment and its far reaching impact on a firm's supply chain strategy.
4. Relationship management both domestically and globally is vitally important to a successful sustained competitive advantage
5. There are three main reasons for this supply chain strategy: leverage relationships to reduce costs, create relationships with complementary core competency companies, and establish long-term relations to create synergistic value.
6. Three different types of relationships help in leveraging relationships. The one used is dependent upon the firm in which one has business dealings:
 - a. **Transactional relationships** are an arm's length relationship, primarily centered on cost control, e.g., bidding for sales.
 - b. **Complementary relationships** is a relationship where there is core competency in one area, say research and marketing, but not in another, say manufacturing, therefore both firms work together to satisfy a consumer's need. The relationship between Apply and Foxcom is this relationship.
 - c. **Synergistic relationship** is a relationship between companies to bring the product to market over the long term. This relationship primarily consists of companies and their suppliers where the relationship has been worked and tested over the years.

TEACHING TIP

Read a summary of the Friedman book and use modest excerpts to point out the ramifications of the Internet on the supply chain. Discuss the Honda Corporation in terms of this globalization.

5. Strategy Execution

1. Aligning Strategic Levels
 - a. **Strategies** are the long-term goals that define how the company will succeed and prosper.

- b. **Functional strategies** or **operational sub plans** are one- or two-year goals that help the company “win a battle, but not necessarily the war” and include such things as improving supplier relationship for cost savings.
 - c. **Functional tactics** or **tactics** are short-term steps in implementing functional strategies.
 - d. Operations are daily activities that a firm must perform to tie into their tactic and ultimately to their strategies
2. Aligning Incentives—Good strategy aligns the incentives to both a sales team and the SC&O team to create greater profits for the firm and not work at cross-purposes.
- a. There are many alignment issues that must be addressed in a firm.
 - b. Manufacturing and sales—products need to be defined and prioritized.
 - c. Information systems—what data elements are necessary and which are not?
 - d. Logistics—how does shipping align with manufacturing? Are there conflicts?
 - e. Suppliers—who are the preferred suppliers? Do they source globally?
 - f. Inventory Management—much inventory is needed? Does it link to sales and finance strategies?
3. Focusing on Process
- a. The SCOR model—the managers must focus on processes throughout the supply chain.
 - b. The SCOR model has three main points of emphasis: process modeling, performance measurements, and best practices. The SCOR processes are plan, source, make, deliver, and return.
 - c. The SCOR model helps managers view the supply chain for the benefit of its customers. By doing so, the firm does better and achieves its objectives.

TEACHING TIP

Discuss the examples of Ford and Harley Davidson outlined in the book. These examples are pertinent to the students because they should be familiar with the products and the companies involved.

6. Strategic Metrics and Measurements

1. Correct Strategic Behavior
- a. There is a significant difference between strategic behavior and the **correct** strategic behavior. Discuss the lawnmower gas cap example in the book.
 - b. Great metrics, or measuring results, drive not only strategic behavior but also the correct strategic behavior.

- c. The firm must measure innovation by the needs of the customer, not by the needs of the firm.
- 2. Actionable and Predictive Metrics
 - a. A good metric allows managers to make a decision based on facts.
 - b. A clear action plan with a cause-and-effect result can help managers understand the actions necessary to achieve their goals.
- 3. Commonly Used Supply Chain Metrics
 - a. **Strategic metric**—purchased from a supplier to sustainability help define this metric
 - b. **Financial metric**—from dollar revenue generated by supplier to asset utilization help define this metric
 - c. **Relationship metric**—degree of trust to the satisfaction level of the relationship define this metric
 - d. **Operational metric**—from defects in the processes to the productivity rates and timeliness of orders define this metric
- 4. Systems Thinking
 - a. Holistic thinking takes the strategy alignment, incentive alignment, and metrics analysis and combines them to work for the benefit of the entire company.
 - b. An effective SC&O manager is no longer a functional expert but a strategic team member, leading the entire supply chain.

7. The Changing Strategic Environment: Globalization, Sustainability, and Innovation

- 1. Globalization
 - a. With advances in communication, helped along by the Internet, globalization has helped multinational companies increase their sales from \$3 billion in 1990 to nearly \$10 billion in 2010.
 - b. Real time information from supplies needed to manufacturing output to payment has been speeded up significantly over the past 20 years.
 - c. But globalization has also created problems with supply chain disruptions, such as fires in China manufacturing plants to a tsunami in Japan, which hindered supply chains and caused numerous problems all over the world.
- 2. Sustainability
 - a. There are unintended consequences to working in areas where the ability to operate must take into consideration methods of production and logistics that do not threaten future generations.
 - b. SC&O practices must consider not only the public relations issues of sustainability but also the methods used to work in this environment profitably.

- c. Because of regulatory pressure, all companies understand that they must include environmental concerns in their strategic plans.
- d. **Sustainability management** means improvement based on environmental management systems.
- e. **Life-cycle costing**, a technique in environmental management, must be considered as one reviews product development.
- f. **Scorecard** is a tool to communicate strategic metrics.
- g. **Reverse logistics** is a tool used to move products UP the supply chain, often used in managing recycling.
- h. Customer preference—A strategic planner must decide if the product preferred by the customer, but environmentally negative, will continue to be made or changed to a less desirable product for the consumer but environmentally better.

3. Innovation

- a. SC&O world is getting into the world of innovation. The days of just being involved in cost controls and product quality is now including innovation of new products and services.
- b. Tomorrows SC&O managers must not only be good at functional tactics, they must be culturally astute, sustainability minded, and innovative.

TEACHING TIP

Discuss the new aluminum body Ford F-150 truck body, the reverse logistics of the aluminum waste in forming the body (as much as 20 percent), how it is recycled and sent back to the supplier (resold for reprocessing),and then sold back to Ford for the production of a new vehicle.

In Class Activity

1. As a group, have students' select ten items that they use on a daily basis. Discuss the country origin, either domestic or global, of each item, why it is built where it is, and if the county of origin ever be changed (and why or why not).

Class Discussion Questions

1. Discuss the current problems that McDonalds's is having in market share with its competitors. Does Porter's Five Forces influence the next strategies for their growth?
2. Ask the students if there is a difference in their minds between buying a hamburger at McDonald's or at a competitor. Compare McDonald's strategy to a competitor's, such as Hardee's or Sonic.

Video Suggestion

Discussion Topic: What are the current problems with the fast-food market? What strategies are firms like Chipotle using to obtain market share?

Search the Internet for MSN's "5 Problems that'll Challenge McDonald's No Matter Who's CEO" for a video on the topic. Running Time: 42 seconds.