Supply Chain Management: Past and Future

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Introduction

This paper begins with a generic view of supply chain management (SCM), based on teachings common to many business schools across this country. The paper offers one vision for the future of food retailing, based on the work of Glen Terbeek (1999). The paper concludes with a summary of an interview with Jim Cunningham (2000) of Publix Super Markets, Inc., regarding SCM and the produce industry.

The traditional view of a company and its component parts has been that of an organization with distinct functional departments. These functional areas are traditionally identified as procurement, production, distribution, retailing, and customer service. The key tenant of this traditional view is that the company is an island, an organization unto itself that relies primarily on its own ability to craft strategies to make it competitive in the marketplace. Anyone who has worked in an organization with multi-organizational layers understands how easy it is for functional areas within companies to become isolated (the island concept) from both the outside world and other functional areas within the same company. SCM was born when managers and business practitioners sought ways to improve the effectiveness of communication and coordination between functional areas within companies. Organizations who were able to increase communication and coordination (the notion of everyone having his/her oar in the water, rowing in the correct direction at the correct time) were ultimately more successful in the marketplace.

Supply Chains Defined

Supply chains, also known as value chains or demand chains, can be defined as all the links involved in managing the flow of products, services, and information in the agri-food system, from seed to table. The real measure of supply chain success is how well activities are coordinated across the supply chain to create value for consumers while also increasing the profitability of every link in the supply chain. In other words, SCM is the integrated process of producing value for the end user, or ultimate consumer.

Early SCM success included improved relationships between warehousing and transportation within companies as a result of reduced inventory and better response times to customer requests for products and services. SCM then entered a logistics stage in which other functional areas within companies joined forces to incorporate manufacturing, procurement, transportation, distribution, and marketing to more effectively compete in the marketplace. This stage was aided by the use of telecommunications, electronic data interface, and other technological advances that made the transfer of information more transparent across the functional areas between companies.

Scholars call the current state of SCM the "Integrated Supply Chain Management Stage." Coordination and information are now transmitted within functional areas of companies and to functional areas of other companies in the value chain. It is most common for firms to form supply chains with other firms that are 1–2 stages upstream or downstream. For example, a food manufacturer may be supplying a retailer based strictly on in-time inventory while, at the same time, this manufacturer may be contracting inputs from its suppliers.

The next logical progression of SCM is referred to as "Super Supply Chain Management." In this phase all functional areas within companies become part of a larger chain that works with all functional areas of all companies involved in bringing products and services to market, from seed to table. Specific characteristics of this stage include: (1) the inclusion of product development, marketing, and customer service; (2) product designers' facilitation of the manufacture of customized product versions; (3) mailing of pre-order and order information to all supply chain participants; and (4) material/product receipts' triggering of invoice-less supplier payments.

The bottom line of SCM: It is no longer good enough, in today's competitive business environment, to be a stand-alone company, even if the company is currently profitable. Long-term success in today's changing business environment may ultimately be determined by value chains.

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Agentry Agenda

The grocery industry has undergone dramatic changes in the 1990s. The success of the Wal-Mart model of logistics and distribution has many grocery retailers wondering if they can compete. To this end, the Efficient Consumer Response (ECR) initiative was born. A major study reported that an estimated $30 billion could be cut out of the system if the industry improved product development, replenishment, assortment, and promotion. While the grocery industry has become more efficient, many question the overall effectiveness and emphasis of the ECR movement. One such person is Glen Terbeek. He is a retired managing partner of Anderson Consulting's Food and Packaged Goods Industry Practice and author of *Agentry Agenda: Selling Food in a Frictionless Marketplace*. The following comments are a summary of the key points made in his book.

Terbeek's vision of the future of retailing and, in effect, SCM centers on a concept that he calls "Agentry Agenda." Agents are the retailers of the future who will match revenues with value created instead of relying on trade dollars from manufacturers and suppliers. Retailers will pay for product when it is received since they are ultimately responsible for merchandising to the end-user. Retailers will receive an activity-based fee for virtual sales via the Internet. Promotion monies will only be paid by manufacturers for real store performance as opposed to the current practice of paying promotional monies on product ordered (which may or may not sell during the promotional period). Promotion monies will be tied to actual sales as measured by scanner data from store checkouts. Manufacturers will assume all costs until the product arrives in real store or is sold virtually.

Under the Agentry Agenda model, many barriers will be eliminated regarding information and product access currently driven by the size of potential buyers and sellers. All retailers will have equal access to all national brands through a "barrier buster." A barrier buster is a giant distribution center that serves multiple grocery retailers in a given geographic area. For example, Federal Express acts like a barrier buster when various companies use its services to ship their products. Federal Express does not take ownership of these products but rather facilitates the movement of products between buyers and sellers. Manufacturers will have instant access to consumers through the barrier buster, and retailer size and scale will not be the determining factor in buying pricing power. Industry conflicts can be minimized by charging standard prices for national brands to all retailers, regardless of size. Remember, customers will have equal access to manufacturers as a result of web-based technology and may choose to buy directly from manufacturers if their local grocery retailer is not adding value to the transaction. Money flows between manufacturer and retailers are easily transferred by the barrier buster. Retailers will determine manufacturers as category experts and partners in ways other than the amount of available promotional dollars.

Agentry Agenda assumes the playing field will be leveled in the future because availability, access, and cost will not play to the advantage of any retailer or manufacturer. Competition will be reduced to innovation and creating market desire for the shopping experience and the best products. All participants in the value chain will have equal access to information; what is done with it will lead to differentiation and competitive advantage in the marketplace. Innovation will be encouraged, and retailers will become more decentralized. The false distribution profits tied to trade promotions will be eliminated, and retailers and manufacturers will work together locally versus corporately.

In the future, successful grocery supply chains will build real loyalty for both the retailers and manufacturer brands. The more the shopper shops, the greater the rewards for the shopper and the greater the profits for retailers and manufacturers. Real barriers to switching stores and brands will be created through virtual relationships between the consumer, retailer, and the manufacturer. Finally, organizations will begin to align with consumer values. Retailers will be organized around local customers, and manufacturers will be organized around local retailers, leaving barrier busters to focus on efficient logistics.

Supply Chain Management: A Retailer's Perspective

The following comments are a result of an interview conducted with Jim Cunningham (2000) of Publix Super Markets, Inc. He is the Business Development Director of Produce/Floral for Publix. Publix is a regional grocery chain of more than 640 stores located in the southeast United States. Currently, Publix is the ninth largest grocery chain in the United States, based on sales volume.

Cunningham defines SCM as all of the activities and processes involved in bringing products from seed to table—including the provision of product attributes, such as taste and quality. According to Cunningham, a successful supply chain takes into account the final consumer and his/her needs. In Publix, SCM is coordinated through category managers. These managers are responsible for knowing everything they can about products in their respective categories, including sourcing, promotion, pricing, and profit potential information. SCM is the over-arching concept, and category management is part of the SCM toolkit.

Cunningham concurs with SCM scholars that, in the future, supply chains—not firms—will compete. The influence of Wal-Mart on grocery retailing has been profound. Cunningham noted the increasing grocery mentality of firms producing and shipping produce. For example, pre-cut lettuce is often sold and merchandised like grocery products. When asked what stage of the grocery value chain has the largest role to play, Cunningham responded, "Retailers have a large role to play in any supply chain because of their closeness to the consumer and their access to buying data."

Cunningham believes it is very difficult for most small commodity groups to be the key players in a produce supply chain. Commodity groups (or their members) almost have to become part of a larger system of supply (for example, affiliation w/processors). The limiting factor is often a producer or commodity group's inability to handle the increasingly complex needs of retailers and increasing volumes of retailers. Cunningham did credit the Washington Apple Commission as being a commodity group that effectively works with retailers to increase the sales of Washington apples.

When asked what Publix looks for from a supply chain partner, Cunningham said, "Quality of the product is a must; consistency in the product (that is, same size, etc.); and continuity of service (year-round availability)." Price is a secondary consideration if these three key factors are met. When asked to describe what supply chain partners do to get themselves in trouble with Publix as a supplier, Cunningham said that partners who do not deliver quality, consistency, and continuity will not be supply chain partners for long. He said that he is often approached by commodity groups offering promotional monies. These promotional monies are well-meaning attempts by commodity groups to gain market access, but in the end, Cunningham questions their effectiveness to generate increased consumption. In the end, he believes that smaller commodity groups may need to become part of a larger system to increase sales in the consolidating grocery food system.

Concluding Remarks

In summary, the trend of fewer and larger firms throughout the food system will continue. Even though supply chain partners must provide quality, consistency, and continuity, there is an increasing need for retailers to have backup suppliers. To remain competitive, smaller producers and commodity groups need to look at becoming part of a larger supply system. One such system could well be the Agentry Agenda model of retailing.

References

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