



Section A Kraljick was the first to identify that a company's supplier strategies depended on:

Supply Risk
Profit impact

One can view this as a four stage approach:

- 1) Identify all products in terms of supply risk and profit impact
- 2) Weigh your own bargaining power on the supplier, and suppliers bargaining power on you
- 3) Identify strategic products
- 4) Develop purchasing strategies



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The essence is dependence. The strategy we choose depends on whether we have power over supplier, or if it is the other way around. With high interdependence, strategic partnership might be a fruitful alternative.

One must therefore weigh buyers dependence vs suppliers dependence. Their dependence is shown in the Kraljick Matrix:

| | | Supply Risk | |
|---|------------------|---|--|
| | | LOW | HIGH |
| P o u r c h e r s d e p e n d e n c e | H I G H | Leveraged Items (exploit PurchPower) | Strategic Items (form strategic partn.) |
| | L O W | Non-critical Items (Ensure efficient supply) | Bottleneck items (Assure Supply) |



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Leveraged items - The buyer has purchasing power on supplier (Supplier's dependence is bigger than buyer's dependence). The profit impact on supplier is high, but the supplier risk for the buyer is low. In example, Supplier will lose a lot of revenue if they lose buyer, but buyer can easily switch to another supplier (without using too much resources/costs). A possible strategy in this case for the buyer might be to exploit PP on supplier, and have the upper hand in negotiations, and so on.

Strategic Items - Interdependence is high. Both parts are dependent on each other, and it is in both's interest to continue their relationship. A possible strategy in this case might be to form a strategic partnership, which both will benefit from.

Non critical items - Neither of the parties are particularly dependent on each other. In other words, the supplier can drop buyer without losing much revenue, and buyer can easily switch to another supplier. A possible strategy in



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This case might be to ensure efficient supply, even though dependence of both parts are low. Ensuring efficient supply will be in both parties interest, and it might be the best solution for the buyer (make the best out of a difficult situation)

Bottleneck items - Buyers dependence is greater than suppliers dependence. In example, There are only a few suppliers in the market, Switching supplier would be expensive and difficult. The buyer does not have much profit impact on the supplier, therefore the supplier "is in charge". A possible strategy in this case might be to assure supply, make sure we keep going with this supplier, even though the supplier is the dominant party. The reason why this is a possibility is because losing this supplier can be devastating for buyer. One considers cost of switching / finding new suppliers greater than cost of staying in a ~~retention~~ with dependence situation



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Now lets take a look at the practical usage of this matrix.

As mentioned, one needs to weigh buyers dependence vs suppliers dependence in order to know how to behave. One will not benefit from strategic partnership as much with non-critical items as with strategic items. Placing your product in the matrix gives you a better picture of how to treat the particular situation.

Another practical usage is that the matrix gives us valuable information regarding our product, the market and our value in the market

- Are we valuable to our suppliers?
- Are we at risk of losing suppliers?
- Who is the dominant party?

These are some of the questions answered by the matrix. We can assess what types of risks that are most likely to occur in our situation - and develop mitigating strategies. The buyer-supplier relationship must be monitored continuously - things might change... FAST!



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Section B
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Supply Chains apply different strategies when it comes to logistics and Supply Chain design. First of all I want to explain the difference between logistics and SCM

"logistics is the process of planning, implementing and controlling the effective efficient flow and storage of goods, services and related information from point of origin to point of consumption."

Logistics - Right product to the right customer, in the right way, in the right time and at the right price

SCM (Supply Chain Management) is the management of upstream and downstream relationship with customers and suppliers in order to deliver superior customer value at less cost to the SC as a whole (1)

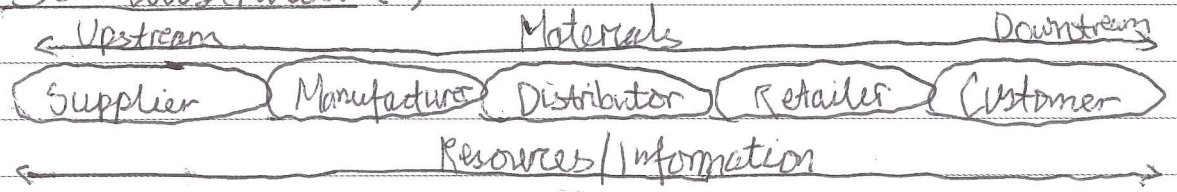
Logistics strive to minimize the total cost of serving customers with a product / production focus (intra org issues)

SCM strives to increase profitability by managing suppliers and serving customers according to their needs.

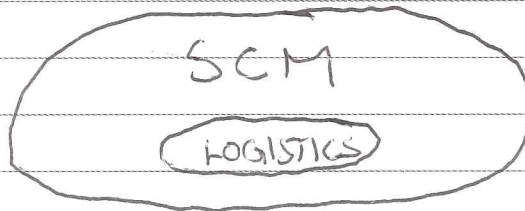


We consider logistics as a part of SCM (2)

SC illustrated (1)



(2)



Logistics environments (strategies)

Different types of Logistics

Make to stock (push) - Manufacturer produces goods in anticipation of customer demand. Inventory held as finished goods. In example, groceries

~~Make to~~ Assemble to order (pull) - Manufacturer inventories standard components. Inventory held as standard components. Assembly only required. In example, dell computers.

Make to order (pull) - Manufacturer does not start until order is received. Inventory held as raw materials. Typically Tailor-made suits



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Engineer to order (pull) - Manufacturer does not start until order is received. Inventory purchased after order is received. "Special products" such as bridge-construction.

We now take a look at the different types of SC designs:

Lean SC - concept is to eliminate all waste from customer's point of view

Eliminate waste of: Overproduction, waiting, transporting, unnecessary inventory, unnecessary motions, inappropriate processing and defects.

Principles of lean thinking:

- 1) Identify value stream (Track all processes in SC)
- 2) Create production flow (reduce/minimize delays etc)
- 3) Specify Values (from customer POV)
- 4) Pull scheduling (Respond to customer demand)
- 5) Perfection (Big JIT-philosophy, improve all parts of the SC)



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Agility design - The ability to quickly and continuously adjust organizational structure, information systems, processes, mindset and HR. It also includes being able to quickly and accurately to customer requirements (in quality, cost, quantity etc)

Concept of Agility

- 1) Customer Responsiveness
- 2) View the SC as a network of partners who will collaborate
- 3) View the network as a system of business processes
- 4) Create Virtual SC through the use of information technology

JIT (Just in time) - Eliminating all waste and continuously improving productivity. Pull based system where production is determined by demand. get the product in the right time - not too early and not too late.



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Now that we have discussed the different types of logistics and SC design, we want to discuss why different SC may apply different strategies.

The main reason for this is that a SC should be built according to the product.

One has to consider the nature of demand for a product, before designing SC. Far too many SC fail because of the mismatch between SC and product. We can categorize two types of products:

Primarily functional - Stable demand and long life-time, low profit margins. Typically groceries.

Primarily innovative - Unpredictable demand and short life-time, High profit margins. Typically the very newest in the market.



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A functional product will need an efficient supply chain in order to get any profit margin at all. The reason why efficient is a good choice is because of the stable demand.

An innovative product will need a flexible and responsive SC because of the uncertainty in demand.

This shows that SC depend on product, and its characteristics.

In order to compete in the marketplace the right SC design according to the product is crucial in order to meet customer demands and maximize the performance of the entire SC.

In order to outcompete competitors, SC has to be designed according to the "triple A supply chain" presented in class. I will not explain this any further because of the time constraint.

Conclusion - SC might apply different strategies for competition in marketplace because of their product.



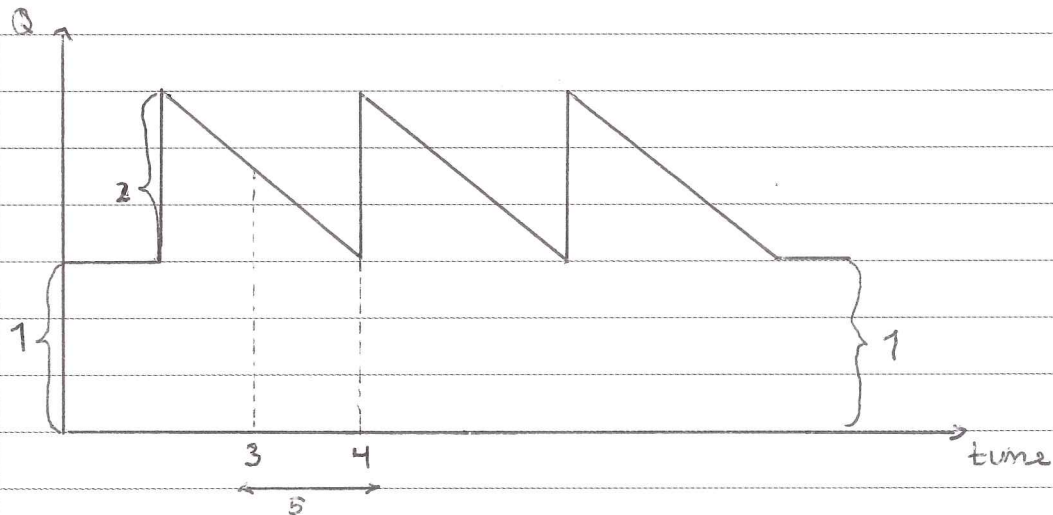
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Section B
(3)

Safety stock is protection against uncertainty in supply. Safety stock covers the quantity uncertainty

Safety stock depends on the following:

- Uncertainty in demand (during lead time)
- Desired service level
- Number of orders (lead time)
- Cost of holding inventory



- 1 = Safety stock
- 2 = Quantity ordered
- 3 = Order point (Demand during lead time + Safety Stock)
- 4 = Order receipt
- 5 = Lead time



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lets discuss some favors related with having high levels of safety stock :

In a supply chain, the customer (end user) is the boss. By creating customer value, we get customer loyalty in return. By having high levels of safety stock we can at any time serve the customer, with the quantity desired. This keeps customer happy, and he/she is more likely to buy our product again.

When we can guarantee on-time delivery, we build a reputation as a reliable, stable and secure actor. This might attract new customers!

Risk of disruptions and delays are two risk categories presented in one of the articles examined in class. With a higher level of safety stock, we reduce both these risks. If a disruption occurs, or there is a delay from our supplier, we can still provide service (because of the high safety stock) until the SC has been brought back to its



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original state. The risk decrease is very beneficial for us. The SC Vulnerability decreases, and we don't have to use time and resources on stress-testing, because we always have good "back-up"

The main pros are therefore:

- Guaranteed service
- Increased customer satisfaction \Rightarrow new customers
- Reduced vulnerability to disruption/delays

Let's take a look at some of the "drawbacks" of having high safety stock

One of the ~~the~~ six key developments in SCM is the desire to reduce inventory. This is because having inventory on hand is expensive! Increased safety stock will increase inventory cost in the SC. In a tough market, it is important to reduce costs where one can. Having a high level of inventory cost, is therefore "against the rule" of minimizing cost in all parts. And it might also turn out to be useless to have high level



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of safety stock, if nothing unexpected happens.

We mentioned earlier that higher safety stock reduced risk of disruptions and delays. At the same time it increases risk of inventory. Sales might decrease or remain stable, making the large number of safety stock more of a disadvantage than an advantage. The main essence is that even though increased safety stocks decreases some risk-categories, it also increases other risk categories.

The Bullwhip effect is the trend of increasing inventory "backwards" in the SC, due to demand fluctuations. With increasing safety stock the inventory level backwards in the SC will reach levels that might be fatal for the SC. Large inventories will grow even bigger, and this is not beneficial.



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The main cons are therefore:

- Very expensive
- Also increases risk in some areas
- Might lead to enormous safety stocks backwards in the SC

Every SC should weigh these pros and cons according to their SC structure and product. In example, it might be more fruitful with a larger safety stock if your lead time is long!