

Strategy for logistics and supply chain management business essay



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The basic objective of this paper is to fix the confusion of making a strategic choice by Coats NA about lean and agile logistics. Different studies have revealed different advantages, disadvantages and scenarios for adopting a lean or agile strategy for logistics and supply chain management. Coats NA (UK based parent company) were facing the problem of reformulating and redesigning its supply chain management systems due to the recent trends in the marketplace and the radical change (Mobility of Target market and change in regional turnovers). The company was struggling to survive and it needed a change in logistics and supply chain management strategy to survive in the market. The company took some changes in 1974 but still the problem persisted. I attempted to recommend agile strategy for Coats NA because it solves the tension and problems faced by Coats NA. Diverse demands and changing market dynamics would be tackled effectively and efficiently because the local manufacturing sites of this organization are more aware of marketplace than the central bodies. Inventory handling costs, demands and market sensitivity, lead times and product quality will increase. Organization expertise to tackle future changes will increase due to increased knowledge sharing and formation of local knowledge banks within the organization. The study is concluded by the limitation that we have just took one sided view of the problem while in the real business world different strategies are combined to make hybrid for tackling business challenges.

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Introduction:

Efficient logistics and supply chain management system of an organization is a sustainable competitive advantage because it is not imitable by competitors but also it is not easy to effectively manage the logistics and supply chain management system of an organization because it requires some challenging tasks associated with different kinds of risks. Today, we are surrounded by dynamic business world where three kinds of changes take place very rapidly which are as follows:

Customers' needs, wants, demographics, experiences, preferences and associations change rapidly

Competitors come up with a new marketing or business strategy due to the recent developments in technology or knowledge

Social, economic, political and technical conditions are changing very quickly. (Roger J. Best, 2008)

To be a viable concern, it becomes imperative for any organization to keep intact with the changes in order to sustain/improve its position and existence in the business world. The same challenges are faced by organizations in the area of logistics and supply chain management. In this case, to anticipate changes, an organization has to choose a successful logistics or supply chain strategy to tackle the market dynamics and changing market conditions. (Hau L. Lee, 2002)

Two significant strategies are used to deal with the changing market and business needs in the area of logistics and supply chain management – Being Lean or being agile. Logistics refers to “ Managing, controlling and organizing the physical flow goods and services from their point of origin to their point of use”. Supply chain management is a broad concept which can be stated as “ It starts from purchasing right procurements (Inbound logistics), production process and the delivery of finished goods to the point of use (Outbound logistics)”. (Dale S. Rogers, Ronald S. Tibben-Lembke, 1998)

Agile supply chain management system is characterized by market sensitivity. It possesses the qualities of assessing and anticipating according to the changing demands of market. The lean refers to delivering something more by utilizing the less. It mainly concerns with inventory management, time and costs. This term is mostly commonly used with productions, enterprises and logistics. (Christopher, M. and Towill, D. R., 2000)

In this paper, we will analyze a case study stating an incident faced by Coats NA which mainly deals in thread and it is a strategic division of its UK-based parent corporate. The most important customers for the company are business to business (B2B) customers because a large stream of company revenues depends on B2B transactions.

In 1990, due to change in market dynamics, Coats faced the problem of rapidly changing turnover by region with an increased challenging need of restructuring, reformulating and redesigning of its supply chain management systems. In this paper, we will analyze the changing market dynamics and we will attempt to suggest an efficient supply chain management strategy to

optimize and maximize the company's profitable position with a loyal customer base accompanied with increased profitability and decreased costs. The structure of this paper includes introduction which we have discussed now, literature review, analysis, evaluation and finally conclusion based on our analysis and evaluation.

Literature Review:

Key Aspects of lean:

For the purpose of being lean in supply chain management or logistics, first of all, we need to develop a lean thinking and philosophy which is the root of all lean operations. It is important to note here that the basic key aspect of lean is that in lean thinking we primarily focus on value. But to enhance value, cost can play an important part. According to James C. Anderson, James A. Narus (2008), " Value is the worth in monetary terms of social, technical, economic and service benefits of a market offering which a customer receives in exchange for the price paid (In B2B context)". Lean is considered as one of the most influential new paradigms for supply chain and logistics management. (Hines, P., Holwe, M., Rich, N., 2004)

It is important to understand that basic focus of lean logistics is to optimize inventory, cost and time. It is all about managing wastes related to supply chain management for example perfect inventory handling with no push and pull to efficiently manage cost and time. Due to global competitive environment, it becomes imperative for an organization to implement lean logistics and supply chain management systems for optimizing inventory, cost and time. (Robert Martichenko, no date)

More precisely, lean logistics is the removal of any extra waste in the supply chain management to increase and enhance speed and physical flow. The basic objective of the lean is to remove all the extra tasks and wastes in the supply chain management system. One of the most common examples for lean logistics is to bring down inventory handling costs which are extra costs for an organization and it can be done by eliminating the variations in the supply chain management system. Inventory handling costs can be minimized by removing that inventory which is not required to by customer or not needed to provide assistance in operations by following the principle of lean logistics. Moreover, we can also save our time by removing extra activities and activities. It is important to note here that, in Lean logistics, we focus on Total cost of ownership rather than focusing on small cost factors of transportation or warehousing. (Robert Martichenko, no date)

Key Aspects of Agile:

When we talk about agility, then agility is all about flexibility. It is a common mistake that some experts believe that agility resembles to leanness because these two are totally different concepts. Lean focuses of getting more out by putting less. But it does not mean that if we are going lean then we are also agile. (Christopher, M. and Towill, D. R., 2000)

It is important to note that the strategic decision to be lean or agile depends totally on marketplace dynamics and needs. Agility totally focuses on availability based on customer needs and demands. We adopt a very market sensitive and flexible approach in agile logistics and supply chain management systems. It is the trait of the market winners to actively

anticipate according to the market place requirements and to be a viable
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concern an organization needs to develop in itself market place sensitivity. In order to capitalize market place sensitivity, the organizations need to develop an agile logistics and supply chain management system.

(Christopher, M. and Towill, D. R., 2000)

The key aspect of agile logistics system is that it is market sensitive because it has the capability of responding by sensing actual market demand rather than old traditional forecasting method (Christopher, M. and Towill, D. R., 2000). One of the most important examples of agile logistics management system is the development of Electronic Data interchange by Wal-Mart Stores. This device requires efficient transfer of knowledge and information among suppliers and Wal-Mart Stores for anticipating and responding to actual market demands. Modern information technology systems directly complements the agile logistics and supply chain management system.

Trade-offs between the choice of being lean or agile:

As we already discussed, the lean and agile logistics decisions totally depends on marketplace requirements and changes therefore there are some trade-offs for making a strategic choice of being lean or being agile. These two strategic choices are totally different from each other. Lean thinking focuses on total costs. All of the efforts are focused on bringing down total costs with a weak focus on marketplace. On the other hand, agile thinking totally depends on availability and its primary focus is on making good and services flexibly available to the marketplace and customers. In today's dynamic business world, some organizations are using a hybrid model of logistics and supply chain management which combines both lean

and agile approaches and this system is called le-agile. (Christopher, M. and Towill, D. R., 2000)

Analysis:

Problem Statement:

Coats NA (UK based parent company) are facing the problem of reformulating and redesigning its supply chain management systems due to the recent trends in the marketplace and the radical change. The company is struggling to survive and it needs a change in logistics and supply chain management strategy to survive in the market.

Facts and Figures:

The recent trends are as follows:

There is a radical change in industry in the form of change in industry's structure

Its Customers moving to Asia, Mexico, the Caribbean and Central America.

The organization mostly relied on B2B transactions but it found that 70% of its production facilities are in US but only 20% of the customer factories are now in US.

There is misalignment of Customer and asset base due to changes in turnover by region which is very frustrating and challenging for the organization.

Organization used an MRP- based scheduling approach with large proportions of make to stock inventory and small proportions for make to order inventory which was consuming a lot of extra time in weeks.

Global manufacturing facilitates operated independently to meet local market needs.

Different structural changes were made to match the changes of marketplace.

But there was a need for reallocation to manufacturing sites.

Adoption of SAP enterprise resource planning

Some improvements came by adoption of SAP ERP in the form of lead-time, inventory handling, and availability but still there was a need of improvements.

Case Analysis:

It is important to note here that we can use lean concept if demand is stable in the marketplace but now there is dramatic change in the market in the Coats NA. In this case, the Coats NA needs to develop an agile strategy because it has to meet the changing needs of the marketplace. It is important to note that business needs changes globally. For example, a person living in Middle East may have different needs and wants from a person living in America or Canada. In this case, an organization has to adopt a different approach to tackle different kinds of customer and marketplace

needs to compete and survive globally. In this way, agile strategy provides can provide an opportunity for Coats NA to enter new markets and locations.

America - Turnover - (\$586m) 36% in 2008

Europe - Turnover - (472m) 29% in 2008

Asia - Turnover - (\$588m) 36% in 2008 We can do process mapping to analyze this Coats NA business scenario which is as follows:

APO software

Plant Traded Independently

Plants Traded Independently

Plants Traded independently

Non - predictable lines are made locally - No APO software running

Non - predictable lines are made locally - No APO software running

Predictable lines in Romania only - APO software runs in Austria

Diverse Customer demands

Diverse Customer demands

Diverse Customer demands

By looking at the above diagram, we can easily identify the issues associated with the current structure of supply chain management of Coats NA. The basic problems with this current scenario are:

Customers have diverse demands due to the change in demographics, psychographics and geographies but this organization is unable to meet these demands because of the centralized looking structure of logistics and supply chain management as the predictable lines are only made in Romania while APO software runs in one instance only in Austria.

The manufacturing sites can operate independently to meet the industry needs of their local markets but their true potential is still not utilized by offering them decentralization in the form predictable and non-predictable production to be manufactured locally.

Major turnovers are in America and Asia but the production facilities are facilitated more in Europe???

As a result, the organization is still facing the issue of high inventory costs, lead times and low inventory turnovers.

The Coats NA needs to adopt agile logistics and supply chain management system by bring flexibility and market sensitivity in the following way:

Due to the diverse marketplace requirements, the APO software should be expanded globally in America and Asia because the market demands and needs are analyzed by APO which currently runs in Europe only.

Both predictable and non-predictable production lines should be made locally to enhance high quality and low costs because shipping the product lines from Europe to America or Asia incurs high costs and time consumptions. By moving the productions locally is also not difficult because the manufacturing sites are already operating independently to match local market needs.

Local manufacturing facilities can understand and sense market demands more efficiently and effectively and these facilities can easily cope with market requirements to adopt a successful agile strategy.

It does not make sense to focus more on Europe because the major turnovers are coming from America and Asia. It will save money, time and costs and deliver superior value to customers.

There is need for knowledge management and knowledge sharing all around the organization to tackle future uncertainties and current market needs.

The lean logistics strategy is less efficient because it totally focuses on costs and by adopting a lean strategy, we will lose market or customer focus and rely more on inventory management rather than market management. The organization is also following a lean looking strategy and it is failure. (Ruth Banomyong, Nucharee Supatn, no date)

Evaluation:

By changing from the traditional strategies to suggested agile logistics strategy of logistics and supply chain management system, following will be the consequences or the outcomes for the Coats NA:

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Diverse demands and changing market dynamics will be tackled effectively and efficiently because the local manufacturing sites are more aware of marketplace than the centre.

Inventory handling costs, demands and market sensitivity, lead times and product quality will increase because we do not need to ship from Europe to match a local need of American or Asian customers which consumes more time, incurs more costs and increases inventory sometimes due to weak market sensitivity.

Organization expertise to tackle future changes will increase due to increased knowledge sharing and formation of local knowledge banks within the organization.

Conclusion:

There are diverse views of experts about advantages and disadvantages of lean and agile strategies. Lean eliminates wastes while agile relies on market sensitivity. In the case of Coat NA, we have suggested the organization to adopt agile logistics strategy because of the change in marketplace requirements and to abandon its traditional methodology. This strategy will automatically solve basic problems of this organization like cost, time and inventory.

The limitation of our study is that we have only chosen one strategy that is agile but in the practical business world organization sometimes use multiple strategies to solve a basic business problem. The most common example is the adoption of leagile logistics and supply chain management systems.