

Digital supply chain management assignment



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| CLICK AND MORTAR TO PURE PLAY| HOW APPLE AND DISNEY ARE MAKING THE MOST OF THEIR DIGITAL SUPPLY CHAINS A Management Information Systems Project Assignment: Select two organizations in the same industry and study their SCM. Prepare a report on how the companies are managing their customers and suppliers. Make some recommendations as to how they can improve their efficiency. Submitted to: Sir Waqas Saeed Submitted by: Muhammad Babar Suleman Hassan Irshad Atif Murtaza Arslan Sadiq Arslan Zafar Ran Amjid Mehmood Ehtisham-ur-Rasool 01. INTRODUCTION 1. 1 AMR SUPPLY CHAIN TOP 25: STRONG SHOWINGS BY APPLE AND WALT DISNEY

Apple stays on top with an unbeatable combination of killer financials and stellar opinion scores. AMR Research The AMR Research institute recently published its list of the companies boasting the best Supply Chain Management procedures (see Appendix 01). Two of the top 25 players represented a radical departure from the traditional Supply Chains. Apple tops the list with a supply chain which is as much a revolution for traditional supply chains as it is a negation of almost everything the supply chains have previously been characterized by. For one, Apple's supply chain for its online store iTunes is completely digital in nature.

It is the apex and materialization of what Management Information Systems and Information Technology Disney combines demand-driven advancements had hinted at. Another company in the top 25, the entertainment giant Walt Disney combines a digital supply chain with a streamlined traditional one with spectacular results. replenishment with new collaborative models for pure content distribution. AMR Research As lines between companies' offers of physical and digital products become blurred, Apple and Disney are the

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forerunners of what will be the future of supply chains: The Digital Supply Chain.

Additionally, both the companies' supply chain models are based on the "demand driven excellence" model which is the modern solution to meeting the needs of the global market.

1. 2 GROWING IMPORTANCE OF CONTENT AND INTELLECTUAL PROPERTY

The reason why the supply chains of Apple and Disney were able to rank so high is because both the companies were able to recognize the immense significance of digital content and Intellectual Property in the modern era. The music industry has by far experienced the most significant effects (positive AND negative) of digitization of music (in the form of mp3s and other digital formats).

However where piracy quickly became the biggest challenge for the industry, sales of digital music have exploded over the past couple of years, thanks to Apple's ubiquitous online store iTunes. iTunes started with 99 cents per song- now it's a thriving market leader that encompasses music, movies, TV shows, apps, eBooks, podcasts and so much more. Disney benefits from "the best of both worlds" (as the title character of its popular Hannah Montana TV show would say) by combining a digital supply chain with its traditional practices such as that of supplying stores such as Blockbuster and Netflix with DVDs of its movies and TV shows.

2. THE DIGITAL SUPPLY CHAIN

2. 1 WHAT IS THE DIGITAL SUPPLY CHAIN?

At the core of Apple and Disney's fantastic success is the digital supply chain. The question arises as to what the digital supply chain is and how it differs from traditional supply chains. Before getting into the specifics, it is important to define the digital supply chain. According to Wikipedia: " Digital supply chain is a new media term <https://assignbuster.com/digital-supply-chain-managment-assignment/>

that encompasses the process of the delivery of digital media, be it music or video, by electronic means from the point of origin (content provider) to destination (consumer).

Similar to how a physical medium must go through a supply chain process in order to mature into a consumable product, digital media must pass through various stages in processing to get to a point where the consumer can enjoy the music or video on a computer or television set. " All supply chains work within the same framework- the delivery of product from its origin to the hands of the end-user, while being worked on in every step on the way. Broadly, the digital supply chain involves the process of transferring digital content (music/video) from the content provider to the end consumer online and in a suitable format.

The digital supply chain is different in four major ways: 1) 2) 3) 4) It exists solely online and for digital items. It is highly compressed and shorter. It has lower attached costs. It has an unbeatable inventory turnover rate.

Recognizing the market forces and new technologies that are reshaping the industry, Capgemini has introduced its practice of digital supply chain, the content value chain: Capgemini is not the only company that has invested in digital supply chain solutions. HewlettPackard (HP) offers Digital Entertainment Services- solutions for digital supply chain needs of companies.

The reason why the digital supply chain works is because of the immense increase that digital content has seen in its adoption. The results of a recent IBM digital consumer survey show a high trend towards digital content in

every leading economy. Online access to digital content is most common in: Media and Entertainment (Music, Movies, Games, eBooks etc). E-learning Software Given the evolution in media, technology and the marketing scenario, the supply chain to manage this evolution requires a new set of complexities and metrics.

Warehouses are being replaced with data centers, boxes replaced by bits, and trucks replaced by bandwidth. And it may very well be an easier supply chain to manage, with no inventory carrying costs, purchase orders, supplier scorecards, MRP, trucks, excess and obsolete, or quality issues, but it will take a new way of thinking. Long gone is the plan, buy, and make functions supply chains have been built on. Within the digital supply chain, you receive one item into inventory and sell it a million times over without restocking. Vendors can be paid for each digital asset sold, without having to stock inventory that may never move.

Combine the enormous growth of the mobile market, a highly fragmented market expertise, and the asset costs to build and maintain a digital supply chain, and it's clear the model is transforming traditional practices. So far, digital supply chains have been controlled by the innovators. But with the amount of digital content increasing dramatically and the Internet providing a point-to-point access for customers, the following will become increasingly important: Innovation—This goes for product and supply chain delivery methods.

Time to market—Since digital products can be made once and sold many times, speed of collaboration between design and delivery will be a major

measure of success Customer service—This includes quality of the transaction and product, speed of activations, and ease of refunds.

2.2 THE DIGITAL SUPPLY CHAIN PROCESS

The digital supply chain involves three players: Content Provider (Task: Encoding and Ingesting) Content Processor (Task: Vaulting and Processing and Transformation) Digital/Physical Retailer (Task: Packaging and Distribution)

Intermediate components include processes like Quality Control, Digital Asset Management, Metadata entry, Digital Rights Management and the Content Delivery Network.

- Media is converted from source to file. Vaulting
- File based media mezzanines are stored and backed up.
- Content is processed and transferred according to consumer needs. Packaging and Distribution
- Media files are packaged and delivered to customers over the network.

Encoding and Ingesting Processing and Transformation Apple and Disney both have a high degree of streamlining at every step of the process.

The main functions of a digital supply chain are as follows: True on-demand product availability Ease of use and speed for content search and activation Pricing and subscriptions Quality management built on licensing and refunds

One thing to remember is that there is no ONE digital supply chain. It's as dynamic as it is flexible as you can see from the table below: Different media types Different business models Different technologies Different maturity of markets Different distribution models Audio / Video / Software / Games / Books Electronic sell through / subscriptions / free content Devices / offline vs. online usage / formats / DRM Established structures vs. new models Direct-to-consumer / Aggregation

2.3 COMPARISON WITH TRADITIONAL SUPPLY CHAINS

The following table compares the digital supply chain with the

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traditional structure on the basis of some key processes associated with SCM. Value Addition Because of the inherent structure, each step of the digital supply chain has a higher percentage of contribution to the value delivered. As mentioned earlier, computer storages have taken the place of physical warehouses.

The digital supply chain is at a high risk of security issues because of problems relating to piracy, hacking, viruses and data mishandling. Virtually, self-replenishing and never runs short! Because of superior communication, time costs are reduced. Disney is a good example of how on-demand product availability made possible by digital supply chains Increasing Download Speeds, Content Quality, Speed of Activation and Ease of Refunds are some of the benefits offered by the digital supply chain that give it an edge over the traditional supply chains when it comes to Customer Service.

Physical Storage Security Stocking Time to Market On-demand product availability Customer Service 03. DEMAND DRIVEN EXCELLENCE The “ Demand Driven Excellence” model has three overlapping areas of corporate responsibility: Supply Management (Manufacturing, logistics and sourcing) Demand Management (Marketing, sales and service) Product Management (R&D, engineering and product development) Basically, Apple and Disney’s strength is that they don’t treat their supply chain as an isolated business process.

It is a crucial part of what makes the entire thing work and in order for its maximum efficiency, management of demand and products is essential simultaneously. Only thus, the supply chain is able to give such top-notch

results. With visibility, communication and reliable processes all these three functional units can be made to work together for optimum performance. When these overlapping areas work together, thanks to compatible and efficient business processes, businesses are able to respond directly, quickly and efficiently to opportunities arising from demands from the market or the customers.

Because all the three areas are able to rise up to any occasion of business opportunity and the tasks keep shifting back and forth among the units as required, in a hybrid, dynamic web of solution formation, Apple and Disney are Defining characteristics of supply chains built able to achieve superior results while each to this design [demand driven excellence] of their functional area benefits from include the ability to manage demand rather collaboration with the other two. AMR Research cites the demand driven excellence model as the reason why companies like Apple and Disney are able to perform so well.

The new phrase that's making the rounds in the corporate world is that "pull" is the new "push". Creating solutions and coaxing customers to purchase them is fastly becoming a redundant technique. The modern business strategy is responding dynamically to consumer needs and making your solutions fit their demands than just respond to it, a networked rather than linear approach to global supply, and the ability to embed innovation in operations rather than keep it isolated in the laboratory.

The demand-driven model is inherently circular and self-renewing, unlike the push supply chains of our factory-centric industrial past. AMR Research like a

glove. The focus is to make them want what you are offering- and not wanting them to purchase what you've put out. Apple's iTunes store is the perfect example. Previously, record labels put out albums out on the market and they were expected to sell based on the couple of singles released to the airwaves. The albums were " pushed" to the customers. These days, iTunes allows consumers to purchase individual tracks- and only the ones they want to- from any album.

That way they are shifting control of the purchase entirely to the customer and it has only helped in mutual growth. The demand driven global supply chain is assessed by two key measures: Operational Excellence (Key Metrics: Perfect Order Rate, Total SCM costs) Innovation Excellence (Time to Value, Return on New Product Launch) The relationship of demand driven excellence and the key measures can be see in the following table which differentiates between market leaders and losers on the basis of their performance in the above mentioned areas. 4. APPLE AND DISNEY 4. 1. SPECIFICS Apple's digital supply chain comprises procuring content from record labels and television networks (among others), processing the content to digital format and then making it available on its iTunes store. eBooks, Podcasts and Applications for its iPod and iPhone devices also form a big portion of the content that is distributed on its digital supply chain.

The success of Apple's digital supply chain is due to " an intoxicating mix of brilliant industrial design, transcendent software interfaces and consumable goods that are purely digital", according to the authors of an AMR Research write-up. The authors also note that " the mechanical and financial benefits of this approach include extremely high inventory turns, minimal material or

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capacity limitations to growth, and excellent margins. ” Following is an excellent article by a blogger on how iTunes manages suppliers and customers.

ARTICLE 01: By Cara Smith As far as iTunes is concerned, both upstream and downstream supply chains apply. I feel iTunes use both strategies simply because in the case of upstream, iTunes acquire the vast majority of its digital content from well known music labels and film producers, who will trade with iTunes who will then use a downstream approach in order to sell their products and services onto their customers. Push vs pull supply models Nowadays with the digital music market at an all time high with sales hitting the roof, customers are experiencing a new way of purchasing.

In terms of iTunes we can see that ‘ pull’ is the new ‘ push’ simply because customers are able to purchase individual tracks produced by an artist rather than having to purchase the entire album to only like one or two songs from the track listing. This then gives the customer the opportunity to customize their very own iTunes library or playlists with a range of songs made by various artists meaning that customers will want to hear what is in that playlist without having tracks or items pushed towards them.

With the pull strategy concentrating solely on the customer the main importance of the company is to ensure they provide value and ensure the service will be one in order to ensure customer satisfaction as well as attracting new customer leading to a broadened customer base as well as increased sales rather than to deter customers from purchasing or visiting at

all. Vertical integration vs disintegration vs virtual integration I would say that iTunes would most likely operate using 'Virtual Integration'.

I feel iTunes would operate using this strategy in its day to day running simply because they rely on management activities being undertaken and controlled by outside sources such as the record labels, film producers, application developers and many others, supplying them with all their up to date, high quality digital media and services of which their customers will purchase or subscribe to.

Due to dealing with so many widely known record labels and film producers etc, iTunes always ensures to maintain a strong relationship in order to help secure any future deals these labels may offer as well as trying to broaden their supplier base at the same time.

Evidence of value networks In terms of value networks I would say that by ensuring their customers are well looked after by providing them with everything they need and are satisfied with the products and services they are receiving, including the time in which it takes for a product to download or the quality of their purchase, iTunes will always maintain a good relationship with its customer and supplier base in terms of how they work in partnership with each other.

By ensuring that their customers are always happy with what they are receiving it will be hard for iTunes to lose many of its customers at any one time unless some new top of the range platform was developed with extraordinary features of which iTunes has never thought of. Through continuously updating its platform and interface, whilst adding new and

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improved features and services iTunes always has something new for customers to explore giving them a sense of ease as they know customers will always be around to check out what new meaning that they are more likely to stay around and use its facilities.

Evidence of efficiencies in supply chain As Apple iTunes continuously strive to provide the best quality service and produce top of the range goods they are always making changes to the way in which they deliver products and services to customers. With iTunes being considered the ' Number 1' music platform and online digital retail store, iTunes have proved they can be successful in every way possible by exceeding cashflow and turnaround targets through the huge demand for online digital content of which many of music record labels and film producers supply and give permission for iTunes to sell on to its customers at price.

With this success iTunes will do anything and everything in order to keep its existing customer and attract new customers in, so with their ideas of continuous new and improved updates to the iTunes interface and by introducing better ways of syncing and managing your iPod or iPhone contents on the iTunes platform. In terms of ensuring customer have all the content they require iTunes it always up to date with the current charts and applications, however when a customer has made a purchase the item(s) will automatically start to download and will be accessible to listen to or view as soon as the download is complete. <http://csmithcom425.wordpress.com/2009/10/30/week-6-supply-chain-management/>

Apple's revolutionary digital supply chain (nurtured by its demand driven excellence focus) is in addition to its distribution of its own physical products, the aforementioned <https://assignbuster.com/digital-supply-chain-managment-assignment/>

iPod and iPhone as well as Macs and Macbooks. Whereas the line between the products that travel through Apple's digital supply chain (music, movies, eBooks) and the ones that are distributed through its traditional supply chain (iPods, Macs) is quite distinct, Disney has a more blurred array of products offered on its digital and traditional supply chains.

While it maintains its practice of maintaining top-notch physical distribution channels with its retailers (such as Blockbuster which carries Disney DVDs) the same content is also offered through its digital network (on-demand movies, online premieres, digital books), albeit not in the same format. The simultaneous existence of both the supply chains is necessary for Disney even though the content distributed differs only in format because the modern market demands ask for digital content whereas it has to fulfill the continued, if diminishing, demands of its physical retailers and varied businesses such as the supply chain needs of its theme parks. The Arvato Digital Services model can be used to understand how Disney manages the distribution of the same content across the two channels, digital and physical. Also, see the model on the next page for more detailed insight on how the Digital Supply Chain relates to Disney and other entertainment industry players.

4. RECOMMENDATIONS Our recommendation for both the companies would be to draft better licensing deals, capitalize on the immense potential of the digital supply chain, and use the internet to distribute digital content worldwide and not a select list of geographic locations. People in third world economies like Pakistan can make online purchases and download digital content as well. Without incurring significant additional costs, Apple and Disney can make their entire repository of digital

content and access available without exceptions on the basis of location, and reap the financial benefits that will surely come.

Apple has been doing a fantastic job of managing its supply chains but whereas its physical chain is finally sounder than it once was, the company needs to be careful not to underestimate the incredible popularity of its online content. Recently, during the rollout of a new iPhone, the physical supply chain was able to endure and accommodate the rush of early purchasers but the digital supply chain became overtaxed with demands of device activation and content synchronization which led to a slew of wait times, customer service issues and of course, unhappy customers.

Disney should start preparing for a future where distribution of its content, that can be provided digitally, would be extinct. That would pose several new challenges for the company- Should it form lucrative liaisons with online retailers like Apple's iTunes or sell its own content such as the TV Network NBC? An analysis of the pros and cons of both the alternatives could make better decisions possible in planning its supply chain strategies for the future. The biggest challenge we've been confronted with, preparing for, and have every expectation we'll be successful in is how technology will dramatically change the way consumers worldwide enjoy entertainment content," DVD sales are already facing a slump (they slid by - Bill Patrizio, senior VP of 6.9% last year). Studios are facing the dilemma of strategic sourcing and devising profitable solutions for the new age while procurement for Disney. trying to maintain profitability from the decreasing momentum of the cash cow that was the DVD market.

Our recommendation in this respect would be to brainstorm a fresh business model instead of trying to teach the old dog new tricks. A complete overhauling of the way the company thinks of content could be the solution for the problems that are sure to arise in the near future. The rumored “Keychest” could be a step in the right direction. Disney has always shown business savvy (as is obvious from the quote from 2005 display above) and we’re sure the company has some smart strategies thought out.

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