

Chapter 2.17

Integration of Global Supply Chain Management with Small and Medium Suppliers

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ABSTRACT

The purpose of this chapter is to develop a conceptual insight and an integrated framework to global supply chain management through strategic aspects of business philosophy as it pertains to the small- to mid-sized supplier. Primary consideration is given to characteristics of the integrated supply chain and the necessity of adaptation in managing the supply chain in order to attain competitive advantage. A review of the current literature and an analysis of the supply chain in changing global markets emphasize the relative importance of strategically managing the supply chain process given the limited resources of the small- to mid-sized firm. It is argued that managing the supply chain through the development of market specific strategies allows the small to mid-sized firm to be anticipatory as opposed to being reactive in its strategic planning, which can greatly benefit customer satisfaction levels and

thus enhance the performance of the firm.

INTRODUCTION

Supply chain management (SCM) as a strategy for competitive advantage has gained prominence in both large and small organizations. An understanding of the supply chain management concept from the perspective of suppliers and, in particular, small and medium enterprises (SMEs) is crucial to the study of vertical integration of global SCM. This understanding will better formulate internal business strategies of suppliers by supporting both the objectives of the supply chain and their own businesses. About 80% of the supply chain members are SMEs, and a major impact and savings may well be found with the SMEs within the supply chain (Smeltzer, 2002). By taking advantage of their position and criticality in the supply chain, SMEs can add value and

contribute to the vertical integration essential in the supply chain. This creates advantages not just for themselves, but also for other members within their supply chain.

By some definitions, a supply chain is a network of facilities that performs the functions of procurement of material, transformation of material to intermediate and finished products, and distribution of finished products to customers (Lee & Billington, 1995). The supply opportunity analysis technique (SOAT) moves away from a reactive to a proactive mode by taking (determining) the suppliers' perspective (Bhattacharya, Coleman, & Brace, 1995). When customers demand customized products, products often become increasingly complex. In addition, the development and manufacturing of such products demand even greater resources that need to be shared by the supply chain members. In addition, the development and manufacturing of such products by the original equipment manufacturing (OEM) partners require supply chain members to increasingly share available resources as virtual partners (Rota, Thierry, & Bel, 2002). To the suppliers, these virtual partnerships can provide both opportunities of growth and threats of becoming obsolete from the supply chain. A supplier is usually involved with multiple customers and therefore in several supply chains. The supplier receives both firm orders and forecast orders. To be successful, the supplier needs to negotiate these firm orders and the forecast orders with its suppliers. To deliver customized products with short delivery times and high due-date observance, to plan for the supplier's own raw material requirements, it is important for the customer to effectively share information (Rota et al., 2002).

The transformation from reactive to proactive procurement parallels a transformation in relationships between suppliers and buyers. Suppliers have developed partnerships with customer firms. This partnership has turned into collaborative relationships or strategic alliances (Burt, Dobler, & Starling, 2003). The rising cost

of product development, globalization, and shorter product lead times have been cited as important reasons for supplier collaboration (Bruce, Fiona, & Dominic, 1995; Helper, 1991; Lamming, 1993). The involvement by partners has a positive impact on strategic purchasing, and strategic purchasing has a positive impact on a firm's financial performance (Masella & Rangone, 2000). Even though there are many benefits from this collaborative or alliance network between suppliers and customers, there are obstacles. Trust plays a critical role in such collaborative or alliance relationships between suppliers and customers (Burt et al., 2003). However, such collaborations and alliances enable information flow across the supply chain.

To answer questions such as why a supplier was not treated according to its capabilities or why did engineering think it had capabilities when it did not, the characteristics of the supplier has to be clearly articulated (Nellore, 2001). Developing visions for suppliers can help OEMs to create clear expectations and thus better the core capabilities of the buyer and supplier firms (Nellore, 2001). OEMs also increase supplier involvement in product development and the share of inbound just-in-time (JIT) deliveries. However, while suppliers increase their outsourcing and globalization of production and product development activities, OEMs do not (von Corswant & Fredriksson, 2002). By outsourcing certain activities to specialized suppliers, companies can focus on those products and activities that they are distinctively good at (Venkatesan, 1992). This specialization, enabling a reduction of the capital base, implies improved return on invested capital (Quinn & Hilmer, 1994) and the possibility to benefit from economies of scale. However, outsourcing means that important activities are placed outside the boundaries of the firm (Richardson, 1972). In addition, coordination of these activities demands vast resources, and many companies therefore strive to reduce their supply bases (Cousins, 1999). A cooperative strategy between OEMs and suppliers is needed

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