

MASTERING

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Supply chain management is the new critical competence.

By Quintus R. Jett, David F. Pyke, and M. Eric Johnson

Among the biggest threats to the survival and growth of minority and women's business enterprises are supplier consolidation and outsourcing. Although supplier diversity programs have greatly increased in number and have become more organized in recent years, many corporations have reduced their number of suppliers, developing longer-term relationships with fewer suppliers. Meanwhile, more and more corporations have increased their use of global suppliers—the most well-known examples being the sourcing of products from China and services from India—to significantly reduce their costs and remain competitive in global markets. As a result of both of these trends, many minority and women business owners have found



Joel Nakamura

it more difficult to win contracts and others have even lost business with established customers.

To respond proactively to supplier consolidation and outsourcing, a growing number of minority and women business owners are learning to master the supply chain. What is a supply chain? Think of all the steps involved in fulfilling a product or

service request: the raw materials; the production; the warehousing and transportation; the participation of a distributor, wholesaler, and/or retailer. The supply chain of a product or service includes them all.

In manufacturing, supply chains literally extend from digging raw materials out of the ground to the home of the final consumer. In the past, one company may have

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performed most activities in a supply chain, but today, most conduct only a subset of supply chain activities in that chain.

Consider the Ford Motor Com-



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pany, for example. In the early 20th century, it owned most steps in its supply chain for producing automobiles, from mining metal for raw materials

to rolling automobiles off the assembly line. Today, however, there are many others involved in the Ford supply chain; tiers of suppliers, including the regional distributors which make local customization decisions, such as what specific features to put on Ford trucks in Texas, as well as a huge network of independent car dealerships.

Consumer needs, competition, regulation, and technology are among the factors which affect the supply chain activities that a company will perform itself. Although a company may be positioned within a particular set of supply chain activities today, it may decide to integrate additional supply chain activities in the future. Or, it may decide to shut down specific activities within its supply chain portfolio in order to focus the company on other supply chain activities that offer greater potential for contracts and business growth.

It's important to understand that a company's position within a supply chain has a strategic value, affecting today's contracts and business op-

portunities in the future. With this in mind, it's clear that being able to manage the supply chain is *the* new critical competence for minority- and woman-owned businesses.

Supply Chain Management: The New Critical Competence

Supply Chain Management (SCM) often refers to the supply chain technologies and skills used to improve a company's operations, but there is also a strategic component to SCM that business owners must understand in order to remain competitive and grow their businesses. From a near-term perspective, all kinds of business owners are surprised by the magnitude of cost saving and enhanced performance of their operations once they commit to implementation of leading-edge SCM practices. Some of the leading corporations in the U.S. have used SCM practices to improve internal operations, such as controlling production and inventory costs, while using SCM strategies to effectively outsource or serve customers on a global scale. In fact, the supplier consolidation and global outsourcing seen by minority and women business owners is a result of the growing attention to supply chain management and the experience of how supply chain skills and strategies will affect a company's viability and growth.

With the increased access to both consumers and suppliers in other countries, more corporations have become adept at applying a multinational perspective to supply chains and building strategic relationships with both suppliers and customers in distant locations. As a consequence, the challenges to minority and women business owners will increase unless they are similarly adept at supply chain management and applying it to the globalization

of supply chains.

Minority and women's business enterprises that survive and grow significantly in the future will demonstrate a competency with global supply chains. Even in businesses created to serve local neighborhoods and cities, owners will need to take a global perspective. They will have to expand to either customers and/or suppliers in other countries as a standard way of keeping their businesses viable and growing.

While there are a number of factors, such as access to financial capital, that also play a significant role in viability and growth of a minority- or woman-owned business, SCM adds directly to new capabilities which companies must demonstrate in today's economy. In particular, competing on price and quality is no longer enough. A company must now also serve customers at the right time, in the proper form, and with the sufficient scale that regional and global customers demand. By mastering the lessons of supply chain management, minority and women entrepreneurs can meet this new standard. SCM provides the means to build operations that deliver high volume and a variety of products quickly through distribution channels that are regional and/or global.

Mastering the Supply Chain for Growth

To call attention to the importance of supply chains for minority business enterprises, the **Minority Business Development Agency (MBDA)** selected "Mastering the Supply Chain" as the theme of last year's **Minority Enterprise Development (MED) Week**. At the **Tuck School of Business at Dartmouth College**, we developed a paper, "Mastering the Supply Chain: A Perspective," that focused on this

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theme.

We set out to develop a road map for mastery of the supply chain, so that minority business owners could learn what is required to remain competitive within industries increasingly dominated by consolidation and global outsourcing.

The Tuck School of Business at Dartmouth College has run an executive program for minority business owners since 1979. Participants in the Minority Business Executive Programs have created viable and successful companies, without having an MBA or academic coursework in business. At Tuck, there is a history of facilitating the exchange between the raw experiences of minority entrepreneurs and the latest business-education knowledge. In developing our paper for MED week, we drew on this history and

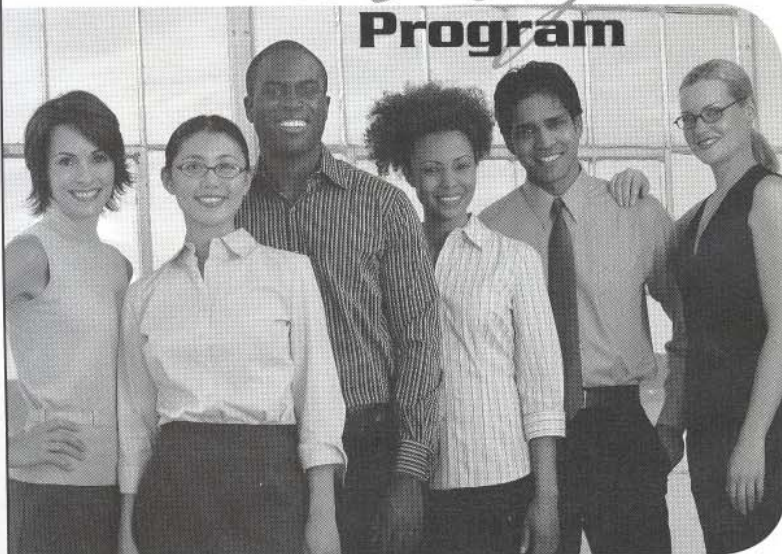
new courses that focused specifically on teaching business owners the skills and strategies of the supply chain. In addition, we drew upon the latest minority business research sponsored by the Kauffman Foundation; the latest data from the U.S. Census of business owners; and insights from specialists who are actively involved in minority business and supplier diversity programs. Furthermore, we performed a case study of several minority-owned businesses in different industries.

The struggles to understand supply chain management are not limited to minority business owners. Many kinds of business owners struggle with understanding what the skills and strategies are for supply chain mastery. Through our research, we found a number of minority business owners (usually those who

were already running growing and mature manufacturing businesses) who already understood the value of supply chain management and saw the need for new learning in this area to maintain a competitive edge. However, we also found minority business owners of early-stage and service companies, some of significant size and scale, who were unaware of the characteristics and complexities of the supply chain and the impact of supply chain management techniques and strategies. In addition, we found those who saw the complexity and impact of supply chains, but fell short of appreciating supply chain management as a necessary component of business strategy. Nevertheless, greater numbers of minority business owners need to see the supply chain as a means of growing their businesses and overcoming

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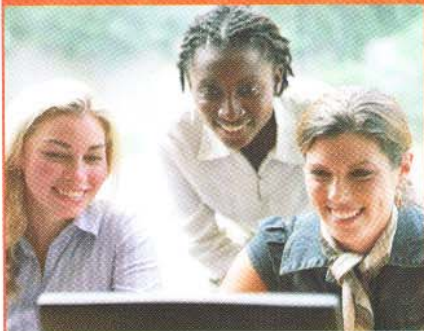
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the threats of supplier consolidation and outsourcing.

Based on our research, we identified three steps for mastering of the supply chain: (1) Managing the Fundamentals of the Supply Chain; (2) Addressing the "Fear Factor;" and (3) Transcending Today's Supply Chain.

Step One: Managing the Fundamentals of the Supply Chain

Effective supply chain management involves multiple functions: product and business development, sales and marketing, operations, distribution/logistics, finance, and customer service. In particular, it involves effective coordination among these functions. For example, if a marketing person informs the company's suppliers of promotion plans, the suppliers can prepare capacity and inventory for the anticipated surge in demand. These suppliers, in turn, can communicate these production plans to their own suppliers so that components are delivered in time for final production.

Effective coordination with supply chain partners, either within a company or between companies, can significantly reduce working capital while increasing capacity and delivery performance. Conversely, neglecting this coordination can lead to the waste of working capital, such as when the failure to communicate a slowing demand results in writing off large amounts of inventory.

In today's business environment, achieving proper supply chain coordination and partnership requires online exchange. Years ago, the ability to link electronically into the systems of another company offered a competitive advantage, and it was a differentiator that created business opportunities. Today, this ability to link electronically with other com-

panies' systems is a requirement for supply chain participation in many business sectors and a prerequisite to be considered for a contract bid. Developing trust and aligning incentives are obviously essential for effective coordination and partnership, but technological competency is also critical. The proper kinds and levels of sophistication for electronic business-to-business collaboration must be present to perform supply chain agreements.

When learning to manage the fundamentals of the supply chain, a business owner's critical threshold is knowing the kind of supply chain in which his or her business operates. A specific kind of product or service defines a supply chain. Hence, a business may belong to multiple supply chains, consistent with its different offerings. For instance, supply chains may have either established versus differentiated customer offerings. Or, they may have either mature or evolving production and distribution systems. Each supply chain type has its own specific problems, and therefore, the solutions employed for each type must be chosen appropriately. Even for commodity products with well-established production and distribution channels, handling supply chain problems and solutions require attention and care.

Not long ago, managing supply chain fundamentals was sufficient for business growth. However, in today's globally competitive environment, this supply chain skill is becoming increasingly a requirement for a business to remain viable and competitive in many industries.

Step Two: Addressing the "Fear Factor"

Today, many large multinational companies experience significant anxiety that global supply chains will be disrupted or that supplier quality

ill degrade, resulting in very dissatisfied customers and lost market share. While many companies have successful experiences with global suppliers, managers at a number of these firms have experienced long lead times, poor quality, and other problems associated with outsourcing to companies in distant countries.

Nevertheless, minority business owners can profit by addressing this fear factor. By offering flawless execution and performance, short lead times, cost efficiencies, and excellent quality, a minority business can become a valuable alternative to distant global suppliers. When multinational companies recognize the potential risks of global sourcing, a U.S.-based supplier can add real value to their customers by becoming a form of insurance.

Reminding buyers that global supply chains face considerable costs when there are disruptions in either delivery or quality is a means of selling the *total value* that a minority-owned business can bring to a domestic buyer. Combined with the skill of managing supply chain fundamentals, the minority business owner can address the fear factor of multinational companies while having the necessary skills to deliver on a total-value promise.

Step Three: Transcending Today's Supply Chain

A final step on the road to mastering the supply chain is learning to adapt to the value migration that takes place in supply chains. For instance, globalization and competition have rapidly shifted value away from



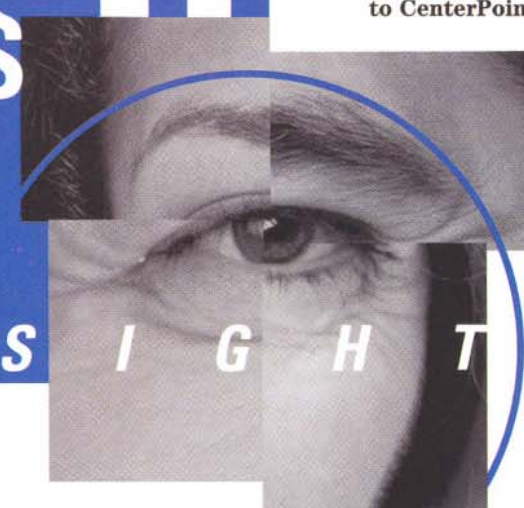
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U.S. domestic suppliers that compete predominantly on price. This has forced many domestic suppliers to upgrade the value propositions they can offer to customers. Mastery of the supply chain involves migration of a business from customer offerings that have decreasing profit margins and market potential toward offerings that have higher profit margins and increasing market potential.

New regulatory mandates are one source of

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INSIGHT



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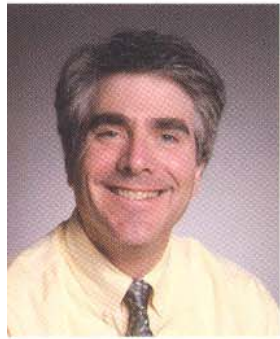
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identifying opportunities for higher profit margins and market potential. Many companies are facing new regulatory issues as they become global, and multinational



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companies have an increasing variety and complexity of regulations to manage. Different countries, of course, have different regulations to which foreign companies must adapt, and furthermore these regulations are continually changing. Although it may at first seem counter-intuitive, such regulatory constraints are in fact creating business opportunities.

David Morgan, CEO of the D.W. Morgan Company,

a minority-owned supply chain consulting, transportation, and logistics firm, sees the additional constraints that many of his clients are facing due to the diverse set of regulations they encounter across countries, and he is making it his business to focus on the supply chain issues that arise from these complex sets of legal requirements.

Aspen Group Inc., an African American-owned, full-service human resources management firm, has also made connections for global partners by following the escalating expectations of large multinational clients. Led by president and CEO Armentha "Mike" Cruise, Aspen Group serves clients such as IBM, Bank of America, and Lockheed Martin, and its services include supporting them in addressing staffing needs in other countries. The Aspen Group works with the **National Minority Supplier Development Council (NMSDC)**, which has counterpart organizations in several other countries that can facilitate networking to assist minority businesses in developing partnerships abroad.

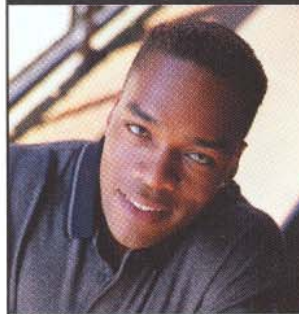
Even within the U.S., new broad-based legislation can simultaneously impose constraints while creating new opportunities. For instance, the financial disclosure requirements of the Sarbanes-Oxley Act of 2002 may present new opportunities for minority businesses and others who are looking to solve leading-edge problems, which offer higher profit margins. Providing inventory visibility and accountability is no longer a luxury. It is a requirement, and firms that can assist with this visibility offer a valuable service. In concert with the ongoing value migration that occurs through competition, escalating expectations and mandates create a market for new value

propositions that offer higher margins and opportunities for business growth.

In conclusion, the mastery of the supply chain is an area where minority- and woman-owned businesses can achieve impact, but it will put the management skills of many of them to the test. Even when supply chain strategies are understood, much ingenuity and persistence is required to implement solutions to supply chain problems, which are prevalent in most industries. In response to this challenge, numerous minority and woman business owners have already dedicated themselves to the additional learning they need and the expansion of their support networks to master the supply chain. Many small and medium-sized companies will need to rely on partnering and teaming with other companies through alliances, joint ventures, or mergers and acquisitions. Through these different approaches, modest-sized companies can most quickly assemble the means to deliver greater value to customers with the appropriate scale and geographic reach. ♦

To request a copy of "Mastering the Supply Chain: A Perspective," visit www.tuck.dartmouth.edu/exec/forms/supplychain.html.

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