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INDEX OF RESEARCH PAPERS

SR. NO.	TITLE	PAGE NO.
1.	Power Sector Reforms in Gujarat State..... Dr. P.N. Shende (<i>BMCC, Pune.</i>) & Samita Kher, (<i>SIOM, Vadgaon (Bk), Pune.</i>)	1
2.	The Influence of Knowledge Management on Organizational Performance Dr. Sharad T. Patil (<i>Dr. D Y Patil School of Management, Lohegaon, Pune.</i>)	16
3.	Mobile Public Library Services in Pimpri-Chinchwad Area..... Mr. Sanjay Kumbhar, (<i>Matrix School of Management Studies, Ambegaon (Bk), Pune.</i>)	24
4.	A Report on Social Media an Important Key to The Future of Marketing..... Neeta Deepak Narang, (<i>Branch Manager HDFC LTD, Nashik.</i>)	35
5.	Organisational Politics and it's Behavioral Impact On Impression Management and Defensive Behaviour Dr. E.B. Khedkar, (<i>Dean Faculty of Management & Director, Dr. D Y Patil School of Management & MCA, Lohegaon, Pune.</i>) & Dr. O.P. Haldar, (<i>Dr. D Y Patil School of Management, Lohegaon, Pune.</i>)	45
6.	Supply Chain – A Success Mantra..... Dr. Satish Ubale, (<i>Director, Matrix School of Management Studies, Ambegaon (Bk), Pune.</i>)	57
7.	Innovative Entrepreneurship – Catalyst for A Successful Turn Around in Small Scale Industries..... Deepali Choudaki, (<i>Modern college of Engineering; MBA. Department, Pune.</i>)	64
8.	Foreign Direct Investment in Retail Market in India: Challenges and Issues Maheshkumar Shankar Kedar, (<i>SIOM Research Center, Vadgaon, Pune.</i>)	70
9.	Major Issues of Cement Industry..... Nagesh S. Magar, (<i>Dattakala Group of Institutions, Faculty of Management. A/P- Swami Chincholi, Tal-Daund, Dist-Pune.</i>) & Dr. Joe Lopez, (<i>Matrix School Of Management Studies, Ambegaon (Bk), Pune.</i>)	82
10.	Reverse Logistics: A review paper to understand the basics of reverse logistics Rita Dangre, (<i>Indira Institute of Management, Wakad, Pune.</i>)	100

Supply Chain – A Success Mantra

Dr. Satish S. Ubale ¹

Abstract:

The focus of this article is on supply chain conditions in industries that has enormous long-term growth opportunity with certain challenges that has impacted supply chains and presented even greater uncertainty around the industry. The researcher has surveyed 20 supply chain professionals on the topic and identified win-win strategy that should be adopted. The other outcome of the survey is presented in terms of supply chain challenges and opportunities for the industries. The paper stressed on forward-thinking of companies that demands to invest in the right processes, technology solutions and partnerships that helps the industry to successfully navigate current and future challenges in the coming year.

Companies across all industries are facing challenges of maintaining balance between demand and supply of good with the fluctuations in the supply of raw material. Year 2013 brought a number of challenges that significantly impacted supply chains and mandates, compounded by the continued presented even greater uncertainty around the industry. Industry were forced to adapt to a slow recovering economy and increased regulatory pressure to cut costs and maintain service levels – all with effective planning for the future.

Organisations must recognize the need to improve supply chain, analyzing the opportunities and threats so as to adapt to changes in the marketplace in the field as they head into 2014. To begin with let us understand what is supply chain? A supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities transform natural resources, raw materials, and components into a finished product that is delivered to the end customer. In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable (reverse logistics).

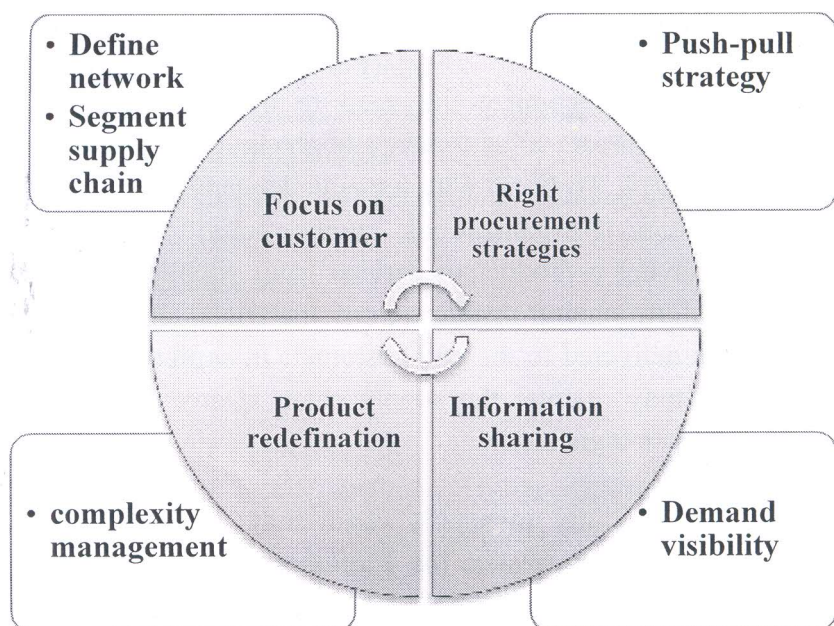
The cause of instability in supply chain may be because of Forrester effect or **bullwhip effect**. Jay Forrester, the Professor Emeritus of Management in System Dynamics at the MIT Sloan School of The cause of instability in supply chain may be because of Forrester effect or **bullwhip effect**. Jay Forrester, the Professor Emeritus

¹ Director, Matrix School of Management Studies, Pune.

of Management in System Dynamics at the MIT Sloan School of Management observed that when demand at retailing level increased drastically, suppliers couldn't catch up with demand which lead to the instability of the whole supply chain.

The bullwhip effect is an observed phenomenon in forecast-driven distribution channels. It refers to a trend of larger and larger swings in inventory in response to changes in customer demand, as one looks at firms' further back in the supply chain for a product. The concept first appeared in Jay Forrester's *Industrial Dynamics* (1961) and thus it is also known as the Forrester effect. Since the oscillating magnification upstream of a supply chain is reminiscent of a cracking whip, it is known as the bullwhip effect. The ripple effect of small changes in customer demand is magnified upstream through a supply chain all the way from the customer/retailer to distributor to manufacturer.

It is so named because of the resemblance to a bullwhip as the variability of demand increases sharply when you progress up the supply chain. The Bullwhip effect is common as long lead times, high variability, promotions and many other factors in any complex supply chain conspire to drive inventory. However, some steps can be taken to mitigate the Bullwhip effect:



1. **Focus on the customer** - Finalise an optimal network design centered on the customer and their requirement with consumption pattern about product. Divide the supply chain depending upon network designed and a clear picture of your value proposition.

2. **Right procurement strategy** - Optimize your inventory allocation process based upon an understanding of demand certainty. If stable demand is observed for some products, a push strategy can be employed. But where demand is uncertain, a pull strategy will need to dominate the policy. Often organisations will be somewhere in the middle with a push-pull strategy
3. **Information sharing** - No matter where organization fits in the supply chain, costs rise when there is a lack of visibility to demand shared along the supply chain. Encourage information sharing amongst trading partners and be a catalyst and good example of information sharing. An often overlooked opportunity is working with suppliers on reducing lead times and improving on time delivery.
4. **Product redefinition** - Evaluate the costs associated with the products and efforts must be placed to reduce the complexity of the product. Complexity management is much more than a one-time, revenue and activity-based costing exercise. It is not only a thorough evaluation of the products in your portfolio, but also a joint agreement with product development, product management, marketing, ops and finance on the criteria and guidelines for new product introduction (NPI) and the refinement of the product management process and metrics to ensure the company adheres to these decisions. It's certainly not an easy task, but well worth the effort.

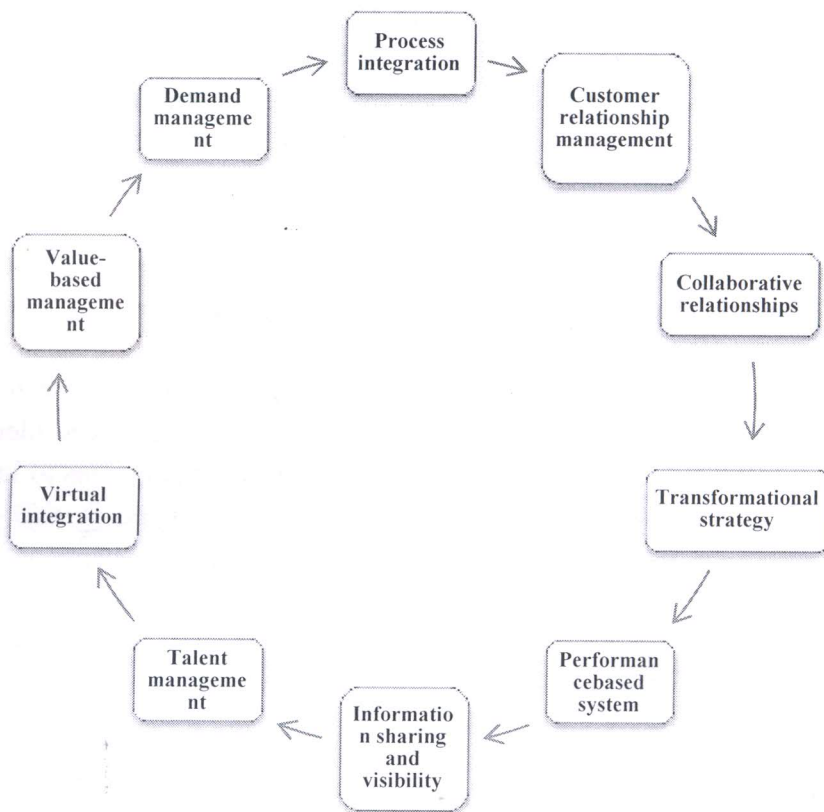
To study the winning strategies, challenges and opportunities for the industry the researcher has surveyed 20 supply chain professionals on the topic and identified and tracked the trends. The outcome of the survey can help the companies to improve the performance of their supply chains. Companies surveyed ranged in size of revenue from Rs. 10 million to Rs. 25 million. Thirty percent of the participants were retailers, forty-seven percent were manufacturers, and twenty three percent were service providers. The study highlights some of the latest trends that companies must consider as they look to the future, while there have been strides made to address such issues as cross-functional integration and collaboration, companies need to be even more diligent about how they leverage new sources of data to address the unique needs and economics of different customer and product segments. The outcome of the survey is presented as win-win strategy for industry.

Demand management-No one buys a company's stock because of the company's ability to forecast. Yet increasing forecasting accuracy along with integrating the demand and supply functions across the supply chain can drive higher revenue, lower working capital, and decrease costs. Leading companies are leveraging big data and new approaches to better forecast demand.

Process integration-Of great concern to supply chain organizations is the functional silos that still exist and disrupt supply chain performance. When processes are integrated and silo walls are eliminated, the results are staggering. One opportunity

that can have tremendous impact is integrating purchasing and logistics. Although both functions are traditional supply chain functions, the research confirmed significant payback when these two areas align their objectives and operating plans.

Customer relationship management-Leading companies are successfully segmenting their products and customers and developing tailored supply chain solutions for each segment. This approach allowed one firm to eliminate nearly half (43 percent) of its inventory while still improving on-shelf availability from 92 percent to nearly 100 percent.



WIN-WIN STRATEGY

Collaborative relationships-Win-win collaboration between supplier and customer may be rare, but it can produce amazing results. These collaborations should be built on a foundation of common metrics, shared benefits, and trust. This results increase revenue by more than 18 percent, achieve product availability to more than 93 percent, significantly decrease inventory by 29 percent, and save more than few lakhs in logistics costs.

Transformational strategy-Only seven percent of firms have a documented multiyear supply chain strategy; yet developing these strategies can produce spectacular results.

Performance-based system-Simply changing the performance measurement and goal-setting system inside a firm can greatly enhance the overall performance of the supply chain.

Information sharing and visibility-Firms are changing the game by sharing and linking together masses of information from multiple sources and interpreting the data using business analytics expertise.

Talent management-Talent management is the number one requirement for transforming a supply chain.

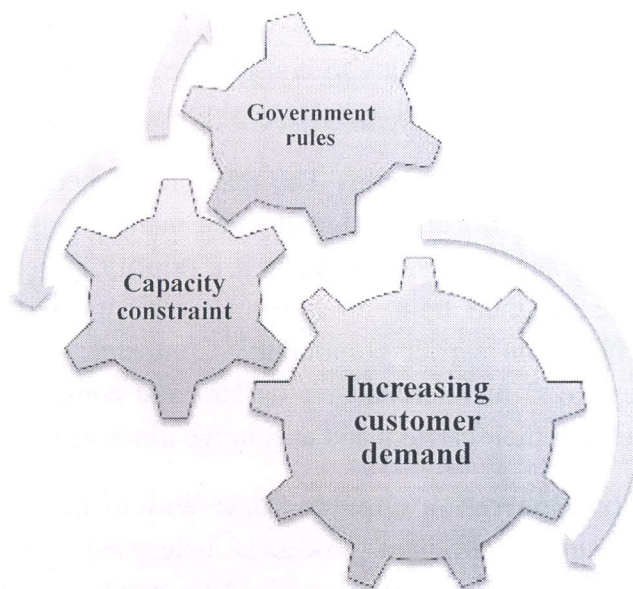
Virtual integration-One of the fundamentals of a great supply chain is for a company to stick to what it does well—its core competencies—and leave the rest to world-class service providers. When outsourcing, firms should create a win-win vested outsourcing framework with its service providers.

Value-based management-Supply chain excellence is the key to creating shareholder value. On average, the supply chain controls 100 percent of the inventory, manages 60 to 70 percent of cost of goods sold, and provides the foundation to generate revenue by delivering outstanding availability.

The other outcome of the survey is presented in terms of supply chain challenges and opportunities in the coming years which are represented in model below.

Supply chain challenges

Companies are going to face challenges in the coming year with the increase in pressure of timely delivery at lowest cost and also by taking care of all government rules.



1. **Government rules:** The impact of the government rules will be seen in coming days and transporters will be forced to change their logistics strategies to avoid cost increase and disruptions in the transportation of goods.

2. **Capacity constraint:** While the economy has been slow to rebound, there have been several indicators of modest recovery as retail sales– hitting a new all-time high – manufacturing is up year-over-year and auto sales reached its highest levels. If this trend continues, companies could see a tightening of capacity during produce season in late April and early May, extending into the summer months. Capacity constraints will be further exacerbated due to productivity lost because of government rules.

3. **Increasing Customer Demands:** More than ever, companies are looking at the supply chain as a significant opportunity for cost savings. As a result, many forward-thinking retailers are putting processes in place to create more efficient, cost-effective supply chains. These retailers are implementing supplier compliance initiatives with tight delivery windows – including penalties for not delivering shipments on-time – adding increased complexity to the supply chain for consumer packaged goods (CPG) companies. The challenge of adapting to the changing customer demands are compounded by the push for CPG companies to become lean and cut costs within their own operations.

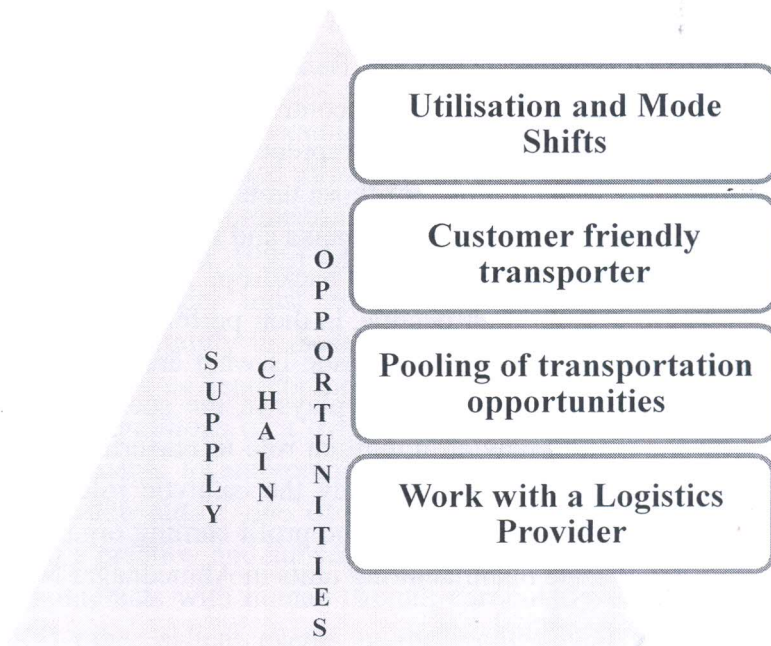
4. Supply Chain Opportunities

There will be tremendous opportunity in coming days for companies to evaluate their transportation operations and develop strategies that address current pain points and prepare for future challenges. There are a number of best practices shippers can establish in their supply chain, including:

- i. **Utilisation and Mode Shifts:** Transporters should examine their transportation network and identify opportunities to consolidate truckload and expand their mode utilization. This will be an effective strategy to reduce transportation costs.
- ii. **Customer friendly transporter:** The relationship between a transporter and its carrier network can be critical to achieving and maintaining quality, efficient supply chain operations. Transporter should make it a priority to become the top choice for carriers by evaluating their transportation management processes and measure what value they bring to the carrier community. Companies should implement carrier-friendly policies, good fuel surcharge programs and consistent freight volumes, and be collaborative with their carriers and encourage innovation.
- iii. **Pooling of transportation opportunities:** With many of the traditional methods of establishing strong, efficient processes exhausted, shippers are looking for alternative methods to drive better results. As a result, companies have been more

willing to engage in collaborative shipping as a way to deliver cost savings, improve customer service and make a sustainability impact.

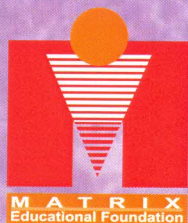
- iv. **Work with a Logistics Provider:** In the face of rising costs and increased customer demands, many shippers are partnering with a third party logistics (3PL) provider to optimize their transportation management. An effective 3PL partner relationship can offer shippers a wider range of transportation network options, as well as strong expertise regarding transport
- v. lanes and modes, knowledge about federal and state regulations and a range of technology-based solutions tailored specifically to their needs



While future will have its challenges, forward-thinking companies that invest in the right processes, technology solutions and partnerships will be in a position to successfully navigate current and future challenges in the coming year.

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The Matrix Educational Foundation's
Matrix School of Management Studies - (MSMS)

S. No. 9/2/4, 9/1/5, 9/1/4, Near Westernly Bypass Road, Next to Sinhgad Science College,
Vadgaon, Ambegaon (Bk.), Pune - 411041.

Phone No: 020 - 24356637, Fax : 020 - 24356639