



Steffen Wütz (Autor)
Joerg S. Hofstetter (Autor)
Wolfgang Stölzle (Autor)

Corporate Supply Chain Management Organization and Governance

A Guidebook with benchmarks of the actual status quo and best practices



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Telefon: +49 (0)551 54724-0, E-Mail: info@cuvillier.de, Website: <https://cuvillier.de>

1 EXECUTIVE SUMMARY

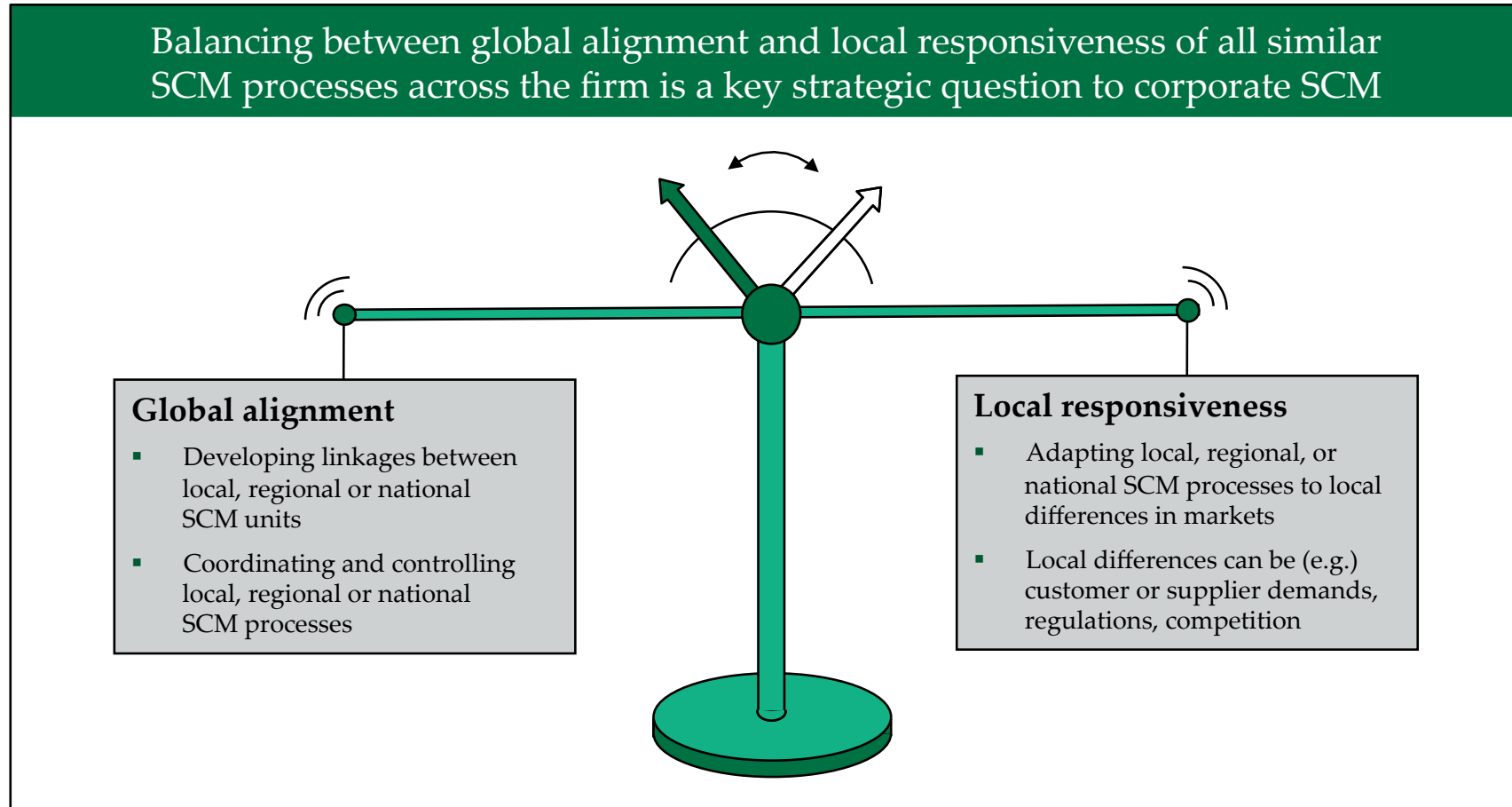
Within companies, supply chain management (SCM) focuses on aligning the activities of business functions involved in material, information and financial flows from material sourcing to product distribution along SCM processes. Generally, firms have implemented SCM processes on local levels.

Corporate SCM aims at aligning all similar SCM processes on a corporate level that were previously run independently on a smaller scale on diverse local levels individually. Benefits are a fast implementation of global best practices and economies of scale through the streamlining of tasks. At the same time, external relationships with customers, suppliers and other stakeholders require local adaptation of SCM processes, which limits the scope of global alignment.¹

Balancing between global alignment and local responsiveness is a key strategic question to corporate SCM (see Figure 1). This guidebook proposes a new governance approach to identify and implement the appropriate degree of alignment of local, regional or national SCM processes across the company for an appropriate corporate SCM organization. Based on our accompanied scientific survey, we also show benchmarks and best practices on how companies organize their corporate SCM to date.

¹ Firms vary substantially in their organizational establishment of corporate SCM, occasionally being a central department, a set of norms and rules, a common mindset, joint corporate objectives, or a mix of all.

Figure 1: The balance between global alignment and local responsiveness of SCM processes across the company

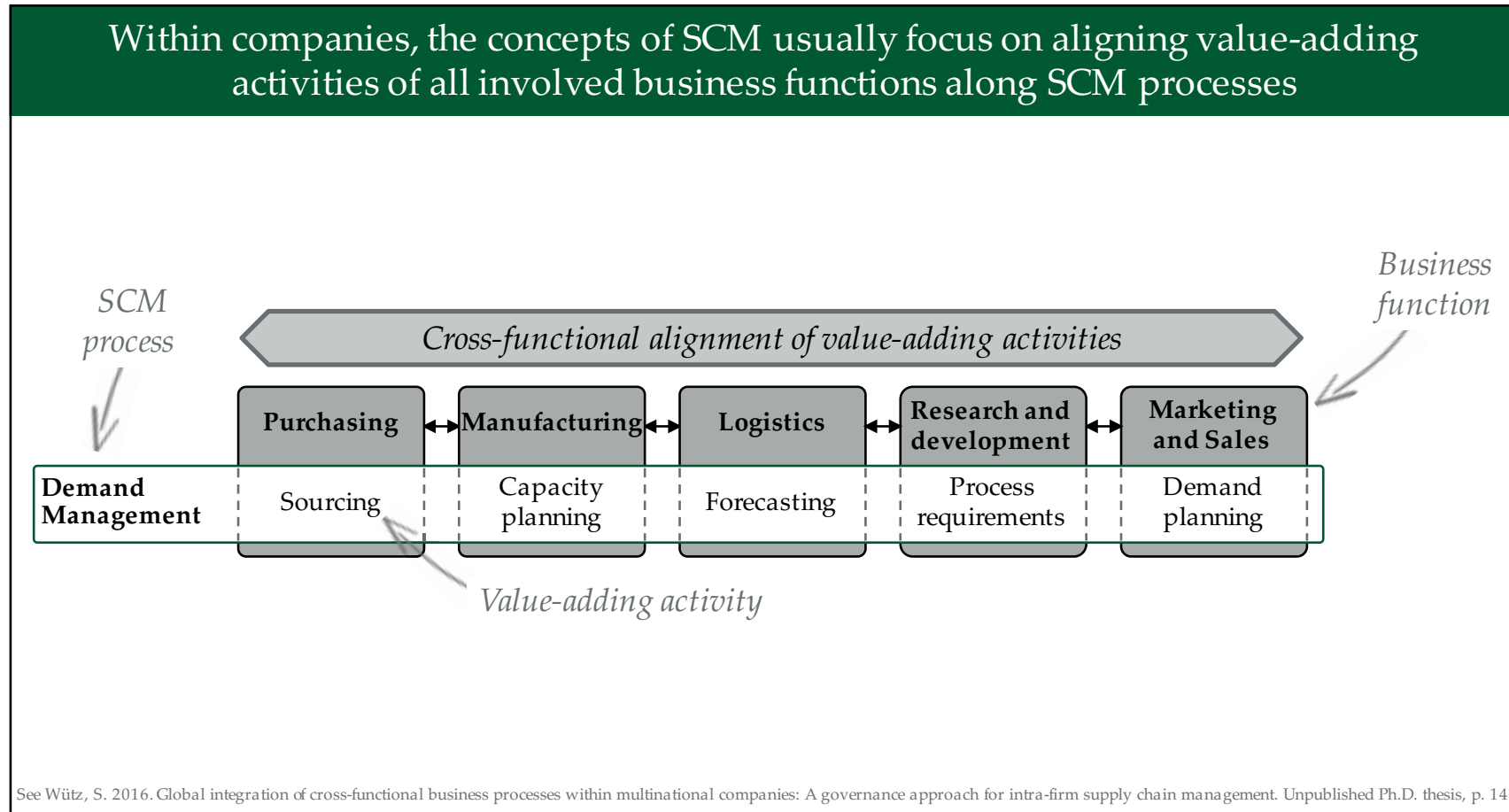


2 A TRADITIONAL PERSPECTIVE ON CORPORATE SUPPLY CHAIN MANAGEMENT

Within companies, the concepts of SCM usually focus on aligning value-adding activities of all involved business functions along SCM processes: from sourcing of material and services to distributing finished goods and services. Companies apply a portfolio of distinct SCM processes, each connecting and aligning various activities of different business functions towards joint objectives. For instance, sourcing activities of the purchasing function, capacity planning of the manufacturing function, forecasting of the logistics function, process requirements definition of the research and development function and demand planning of the marketing and sales function are all brought together and are coordinated by the demand management process (see Figure 2).

Usual foci are the effective bridging of interfaces between business functions along material, information and financial flows as well as the increase in efficiency of operative business practices in SCM. Cross-functional alignment allows overcoming silo-mentality, aligning vision, goals, and targets and increasing cooperation and information sharing between business functions. Also joint planning and interconnected operative execution reduces inefficiencies between involved business functions. This enables companies to maximize capacity utilization, optimize working capital and achieve higher levels of customer satisfaction.

Figure 2: The concept of SCM within companies



2.1 EIGHT CORE SUPPLY CHAIN MANAGEMENT PROCESSES

Companies have frequently implemented eight core SCM processes (see Figure 3).² First, customer relationship management provides the structure for how relationships with customers are developed and maintained. Second, customer service management provides the single source of customer information, such as product availability, shipping dates and order status. Third, supplier relationship management is the mirror image of customer relationship management. This process defines how a company interacts with its suppliers. Fourth, demand management proactively balances customers' requirements with the capabilities of the supply chain and executes the plan with minimal disruptions. Fifth, order fulfillment ensures the compliance of customer-need dates, achieves high order-fill rates, and integrates the firm's manufacturing, distribution, and transportation plans. Sixth, the manufacturing flow management process deals with making the products and establishing the manufacturing flexibility needed to serve the target markets. Seventhly, the product development and commercialization process integrates customers and suppliers into product development in order to reduce time to market. Eighthly, the returns management process organizes the returning, treatment and recovery of assets to a useful status or disposal of equipment destined for scrap and waste.

² Alternative reference processes for SCM can be used analogously to the eight core SCM processes stated in this guidebook (e.g., the SCM processes of the Supply Chain Operations Reference (SCOR) model developed by the Supply-Chain Council).