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Supply Chain Management: Past and Future[1]

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Introduction

In this article I will summarize a presentation given at the annual American Agricultural Economics Association meetings. This paper was presented at a session dedicated to the discussion of supply chain management in the U.S. produce industry. This session was organized by members of S-222, a regional research committee organized to study issues affecting all firms from seed to table in the U.S. fruit and vegetable industries.

The presentation began with a generic view of supply chain management: One that is based on teachings common to many business schools across this country. The paper offers one vision for the future of food retailing based on the work of Glen Terbeek.[3] The paper concludes with a summary of an interview with Jim Cunningham[4] of Publix Super Markets, Inc., regarding supply chain management and the produce industry.

The traditional view of a company and its component parts has been one of an organization with distinct functional departments. These functional areas are traditionally identified as procurement, production, distribution, retailing, and customer service. The key tenant of this traditional view is that the company is an island, an organization unto itself that relies primarily on its own ability to craft strategies that make it competitive in the marketplace. Anyone who has worked in an organization with multi-organizational layers understands how easy it is for functional areas within companies to become isolated (the island concept) from both the outside world and other functional areas within the same company. Supply chain management was born when managers and business practitioners sought ways to improve the effectiveness of communication and coordination between functional areas within companies. Organizations that were able to increase communication and coordination (the notion of everyone having an oar in the water, rowing in the correct direction at the correct time) were ultimately more successful in the marketplace.

Supply Chains Defined

Supply chains are also known as value chains or demand chains. A supply or value chain can be defined as all the links involved in managing the flow of products, services, and information in the agri-food system from seed to table. The real measure of supply chain success is how well activities

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coordinate across the supply chain to create value for consumers, while increasing the profitability of every link in the supply chain. In other words, supply chain management is the integrated process of producing value for the end user or ultimate consumer.

Early supply chain management success included improved relationships between warehousing and transportation within companies as a result of reduced inventory and better response times to customer requests for products and services.

Supply chain management then entered a logistics stage where other functional areas within companies joined forces to incorporate manufacturing, procurement, transportation, distribution, and marketing to more effectively compete in the marketplace. This stage was aided by the use of telecommunications, electronic data interface, and other technological advances that made the transfer of information more transparent across the functional areas between companies.

Scholars call the current state of supply chain management the "Integrated Supply Chain Management Stage." Coordination and information are now transmitted within functional areas of companies and to functional areas of other companies in the value chain. It is most common for firms to form supply chains with other firms that are one-two stages upstream or downstream. For example, a food manufacturer may be supplying a retailer based on just-in-time inventory, and, at the same time, this manufacturer may be contracting inputs from its suppliers.

Supply chain management's next logical progression is referred to as "Super Supply Chain Management." In this phase all functional areas within companies become part of a larger chain working with all functional areas of all companies involved in bringing products and services to market from seed to table. Specific characteristics of this stages include:

- inclusion of product development, marketing, and customer service
- product designers facilitate manufacture of customized product versions
- pre-order and order information will be sent to all supply chain participants
- material/product receipt triggers invoice-less supplier payments.

The bottom line of supply chain management: it is no longer good enough, in today's competitive business environment, to be a stand-alone company, even if the company is currently profitable. Long-term success in today's changing business environment may ultimately be determined by value chains.

Agentry Agenda™

The grocery industry has undergone dramatic changes in the 1990s. The success of the Wal-Mart model of logistics and distribution has many grocery retailers wondering if they can compete. To this end the ECR (Efficient Consumer Response) initiative was born. A major study reported that an estimated $30 billion dollars could be cut from the system if the industry improved product development, replenishment, assortment, and promotion. While the grocery industry has become more efficient, many question the overall effectiveness and emphasis of the ECR movement. One such person is Glen Terbeek. Mr. Terbeek is a retired managing partner of Anderson Consulting's Food and Packaged Goods Industry Practice and author of *Agentry Agenda™: Selling Food in a Frictionless Marketplace*. The following comments are a summary of the key points made in his book.

Terbeek's vision of the future of retailing and, in effect, supply chain management centers around a concept he calls *Agentry Agenda*™. Agents are the retailers of the future who will match revenues with value created instead of relying on trade dollars from manufacturers and suppliers. Retailers will pay for a product when it is received since they are ultimately responsible for merchandising to the end-user. Retailers will receive an activity-based fee for virtual sales via the Internet. Promotion monies will only be paid by manufacturers for real store performance, instead of the current practice of paying promotional monies on products ordered (which may or may not sell during the promotional period). This will be tied to actual sales as measured by scanner data from

store checkouts. Manufacturers will assume all costs until the product is "arrives in real store" or is "sold virtually."

Under the *Agentry Agenda*™ model, many barriers will be eliminated regarding information and product access currently driven by the size of potential buyers and sellers. All retailers will have equal access to all national brands through a barrier buster. A barrier buster is a giant distribution center serving multiple grocery retailers in a given geographic area. For example, Federal Express acts like a barrier buster when various companies use its services to ship their products. Federal Express does not take ownership of these products, but rather facilitates the movement of products between buyers and sellers. Manufacturers will have instant access to consumers through the barrier buster, and retailer size and scale will not be the determining factor in buying pricing power. Industry conflicts can be minimized by charging standard prices for national brands to all retailers regardless of size. Remember, customers will have equal access to manufacturers as a result of web-based technology, and may choose to buy directly from manufacturers if their local grocery retailer is not adding value to the transaction. Money flows between manufacturer and retailers are easily transferred by the barrier buster. Retailers will select manufacturers as category experts and partners in ways other than the amount of available promotional dollars.

Agentry Agenda™ believes the playing field will be leveled in the future because availability, access, and cost will not play to the advantage of any retailer or manufacturer. Competition will be reduced to innovation and creating market desire for the shopping experience and the best products. All participants in the value chain will have equal access to information; what is done with it will lead to differentiation and competitive advantage in the marketplace. Innovation will be encouraged and retailers will become more decentralized. The false distribution profits tied to trade promotions will be eliminated, and retailers and manufacturers will work together locally versus corporately.

Successful grocery supply chains in the future will build real loyalty for both the retailers and manufacturer brands. The more the shopper shops, the greater the rewards for the shopper and greater the profits for retailers and manufacturers. Real barriers to switching stores and brands will be created through virtual relationships between the consumer, retailer, and the manufacturer. Finally, organizations will begin to align with consumer values. Retailers will be organized around local customers and manufacturers organized around local retailers, leaving barrier busters to focus on efficient logistics.

Supply Chain Management: A Retailer's Perspective

The following comments are a result of an interview conducted with Jim Cunningham of Publix Super Markets, Inc. Jim Cunningham is the Business Development Director of Produce/Floral for Publix. Publix is a regional grocery chain of over 640 stores located in the southeast United States. Currently, Publix is the ninth largest grocery chain in the U.S. based on sales volume.

Cunningham defines supply chain management as all of the activities and processes involved in bringing products from seed to table. This includes providing product attributes such as taste and quality. According to Cunningham, a successful supply chain takes into account the final consumer and his/her needs. At Publix, supply chain management is coordinated through category managers. These people are responsible for knowing everything they can about products in their category, including sourcing, promotion, pricing, and profit potential. Supply chain management is the over-arching concept and category management is part of the SCM toolkit.

Cunningham concurs with SCM scholars that, in the future, supply chains will compete rather than firms competing. The influence of Wal-Mart on grocery retailing has been profound. Cunningham noted the increasing grocery mentality of firms producing and shipping produce. For example, pre-cut lettuce is often sold and merchandised like grocery products. When asked what stage of the grocery value chain has the largest role to play, Cunningham's response was "Retailers have a large role to play in any supply chain because of their closeness to the consumer, and their access to buying data."

Cunningham believes it is very difficult for most small commodity groups to be the key player in a produce supply chain. Commodity groups (or their members) almost have to become part of a larger system of supply (e.g., affiliation with processors). The limiting factor is often a producer's or commodity group's inability to handle the increasingly complex needs of retailers and increasing volumes of retailers. Cunningham cited the Washington Apple Commission as a commodity group that effectively works with retailers to increase sales of Washington apples.

When asked what Publix looks for from a supply chain partner, Cunningham answered “Quality of the product is a must, consistency in the product (i.e., same size, etc.), and continuity of service (year-round availability).” Price is a secondary consideration if these three key factors are met. When asked to describe what supply chain partners do to get them in trouble with Publix as a supplier, Cunningham answered that partners who do not deliver quality, consistency, and continuity will not be supply chain partners for long. Cunningham reflected on how often he is approached by commodity groups offering promotional monies. These promotional monies are well-meaning attempts by commodity groups to gain market access, but Cunningham questioned their effectiveness to generate increased consumption. In the end, Cunningham believes that smaller commodity groups may need to become part of a larger system to increase sales in the consolidating grocery food system.

Conclusion

In summary, the trend of fewer and larger firms throughout the food system will continue. Even though supply chain partners must provide quality, consistency and continuity, there is an increasing need for retailers to have backup suppliers. To remain competitive, smaller producers and commodity groups need to look at becoming part of a larger supply system. One such system could well be the *Agentry Agenda*™ model of retailing.

I hope that you have enjoyed this article. Your comments and suggestions are always welcome and you may email me directly at wysocki@fred.ifas.ufl.edu or respond via my extension web page at http://webct.nerdc.ufl.edu:8900/public/WysockiExtension/index.html. As the need arises, I will post and respond to reader comments and questions regarding wholesaling and retailing.

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Additional Notes:

3. Mr. Terbeek is a retired managing partner of Anderson Consulting's Food and Packaged Goods Industry Practice and author of *Agentry Agenda: Selling Food in a Frictionless Marketplace*.

4. Jim Cunningham is the Business Development Director of Produce/Floral for Publix Super Markets, Inc., a regional grocery chain of over 640 stores located in the southeast United States.