Answer on Question #47827, Management, Other

Discuss the role of an effective supply chain management system in an organization, and provide two examples of companies that have vertically integrated their supply chain. Examine the financial synergies that have resulted.

Explanation:

Effective organization of material flow management system aims to reduce the time and cost of delivery of material resources in order to minimize the duration of the production and commercial cycle of the enterprise. Detection of reserves to reduce the cost of inventory management and implementation help to strengthen the competitive advantages of the enterprise. Diversified production is characterized by a wide variety of consumption of material resources.

Transformation of logistics systems of retail trade enterprises in recent years is largely related to the transformation of relations in the context of the elements of the logistics system. The necessity for transformation of relations in logistics systems due to the dynamic development of retail related to constantly changing environmental factors and increased competition.

Under the system of supply chain management, it should be understood "a single, integrated, client-oriented (buyer) function planning, management and optimization of intra- and extra-branded material and related information flows in order to achieve the optimum result in the formation of a network of value added. The formation of this system comes from the primary source of raw materials, including production and focused on the end consumer of finished products. In this case, the functional significance of logistics in supply chain management is provided by the unity of planning, management and optimization of internal and external movement of material and information flows.

The movement of materials along the supply chain - is the main stream, but other flows are equally important. With regard to materials, there is the model of the product for which the increases of its reserves will facilitate the supply. Perfect model is a linear flow in the system, focused on single, simple goods. Such a system can be developed extremely efficient, but it will not have sufficient capacity to flexible response to changing consumer demand. A more flexible approach (at least, if the organization is "close" to the end user) will be the formation of «TV-structure in which the vertical line corresponds to the production line of standard parts or modules, and the horizontal line represents a very wide range of seemingly diverse products which is created by combining various modules. We can implement the configuration of such goods for the purpose of compliance with the exact requirements of the client, and for the time, as close to the time of occurrence of demand. From the viewpoint of the supply chain such systems are effective, as a result of their choice are available to the client application, and provides for efficiency of production processes. Other models give rise to a larger number of logistical problems, if they involve a significant shift the decision about the final configuration to the top of the supply chain. If this happens, the decision is usually necessary to take pa based on projections, taking into account all the risks mentioned above.

If it is found that in the supply chain there are long duration of the projects means that we must look for ways to reduce them. One method is a schematic representation of the supply chain, wherein the steps of adding value occurs, represented in the form of horizontal strips graded, and then each of the points where it is supposed storage or delay circuit applied vertical strip, which value will be displayed time delays. The creation of such a scheme, will display the areas where we can make changes and improve the ability of the response of the whole chain. However, all parties need to come to an agreement as between the distributed investment and effort required to improve the situation, and how to distribute the benefits to be derived as a final result.

An alternative approach is to display the aggregate value in monetary terms, the vertical and total implementation of the time horizontally. In this case, we can see the financial obligations in fulfilling orders, which are suppliers located above the supply chain, as well as to see what the consequences would entail a reduction of the order.

Optimization of production technology is an additional computerized approach to enterprise resource planning. In this case, a more complex model of the business process, aimed at optimization (financially) bandwidth relatively few "bottlenecks" and resources with limited capacity. Thus, it is determined and defined by the upper limit of the volume of production and operation of the system is carefully planned. Optimization of production technology is an alternative to traditional methods based on the calculation of costs. In this case, the system is considered to be more integrated and requires balance. This approach is more characteristic of a selective distribution of time and resources, and through the identification of "bottlenecks" can prioritize the required quality and performance improvements. Optimization of the production technology can be used along with the ERP system, and both these techniques are ideal for more complex products and processes. The best solution would be a combination of these approaches, which depends on the particular requirements of the market.

Vertical integration is an approach when all links chain owns one organization. At the same time minimizes the costs of the transaction, such as the interaction of sellers with buyers. In this case, control and communication will be improved, and costs reduced, but the sole proprietorship can not ensure the pursuit of the best possible customer service and even track the changes in the external environment. Negative financial effect (which is often associated with response factors) can be significant, and sometimes the organization's assets no longer meet the changing market.

The decision not to acquire all the component elements of the chain means that those features of a product or service that customers demand, but that we have not considered core to its business, it is necessary to acquire. They can simply buy in the "free" market, but it involves transaction costs in finding a suitable supplier, matching the price and other details. Forming partnerships allows you to get many of the benefits of vertical integration, but only through collaboration and cooperation, rather than through ownership. In addition, when a single market transaction, each party will seek to maximize profit potential as another opportunity to get it will not. However, if such transaction will eventually become regular, which is often the case, we can expect a well-deserved reward for repeated transactions. Once the parties depart from the practice of counting debt and its subsequent repayment, it becomes possible to develop a trusting relationship built on goodwill. This comes at a time when one of the parties is ready to do more than simply meet the needs of the client. This is done without any negotiations for the immediate receipt of remuneration, but with the certainty that this contribution was appreciated both parties and will be credited. As soon as the goodwill, the timing response of both sides will decrease, because it will not be postponed until the conclusion of the agreement, and action will be taken simply because they are useful to support the relationship.

Between the "pure" market and vertical integration, there are many mixed forms, and many of them can be considered partnerships. Joint ventures are similar to a formal partnership in the sense that in order to achieve certain objectives established a new company (which may eventually become a limited liability company). In the joint venture will have its own staff, its management structure. Theoretically it is easier to manage. However, sometimes it happens that the understanding between the partners is not reached and the joint venture becomes another form of competition in which both sides often suffer losses. Such enterprises are often created for the development of any technology or access control on the market. In this case, the alternative is a partnership. Companies, organizing a joint venture, by definition, is jointly owned by the newly formed company, but nothing prevents the partners own a part of the shares of each other. This situation can also occur in strategic alliances, where there is no intermediary (as in the case of a joint venture), but that can be successfully used to achieve the same goals. Undoubtedly, some organizations enter into strategic alliances, betting on a successful product or new technology.

We consider the following examples of Vertically Integrated Companies. Zara, a Spanish clothing and accessory company, has more than 1,000 outlets worldwide. The secret to their success is vertical integration – from design to manufacture to retail. Zara makes most clothes of its own. 60% of its goods are made in house. This helps the company manage its inventory with extreme efficiency. It also allows the company to respond to seasonal and fashion changes very quickly. Zara can introduce a new line of clothing in two to three weeks. The firm can respond quickly to any market contingency.

The next, example of AB InBev, the world's largest brewer created from the 2008 merger of Anheuser-Busch and InBev. AB InBev announced anticipated synergies in its huge merger that were higher than what could be expected from scale alone. But unlike so many others, they entered the merger with both a track record for high synergies and a solid plan to back up their claim. They ultimately beat the ambitious announcement by generating synergies of $2.25 billion, much more than what could have been expected from scale. On average, merging consumer products companies increase EBITDA by 3.2% of target net sales. In the case of the AB InBev merger, those synergy gains contributed to a 16.8% improvement over a three-year period following the transaction.

While operational KPIs are useful in evaluating synergies, they fall short when it comes to assessing perhaps the most important determinant of M&A success: organizational culture. Take, for example, Walt Disney Co's proposed $7.4 billion acquisition of Pixar Animation Studios, announced in January 2006. The mutual benefit of this acquisition is obvious: Disney improves its competitive position in the growing feature-animation business, while Pixar gets the distribution capabilities of one of the world's leading media companies. However, a true hallmark of success in this combination will be whether Disney, reputed for having a highly regimented culture, can integrate Pixar into its family of businesses without altering the latter's unique, free-spirited, independent work dynamic, which has made it so successful.