

# Value Propositions in Supply Chain

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## **Abstract**

*In the cut throat era of competition retailer's has to be fast as the product life cycle of the product is short for perishable goods. The big question is to how to reduce the lead time & educutions are necessary due to shorter and shorter product life cycles, greater product variety causing more fluctuation in demand calls for high responsiveness in supply chains, and the ever increasing need for shorter lead times continues. However, as a result of the power that comes with control over consumer contacts, retailers today have the opportunity to organize the work in their supply chains in suitable ways. This paper focus on how retailers organize their supply chains in light of how they choose to compete in consumer markets, and asks the question: how are supply chains affected by retail value propositions? Major focus in this paper is to utilize cost-based competition & time-based competition, and how companies organize their activities in order to deliver their specific value propositions. The study's findings are in line with theories in this field, i.e. that the nature of products' demand pattern is crucial for that which should be focused on, and that physical efficiency is important in cost-based competition and market responsiveness in time-based competition.*

**Keywords: Retailer's Value Proposition, Supply Chain Management**

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## **Introduction**

Our time is extraordinary - competition has never been fiercer and changes never more innovative! The message is always the same, but on the other hand hard to argue against. Globalization, deregulations of markets, and IT developments are major changes that clearly influence our societies, and the environment wherein companies function.

During the last century, when demand became changeable in both quantity and quality, when international markets became too vary and thereby difficult to forecast, and when the pace of technological change made single-purpose production equipment outdated, the mass-production system became too costly and too rigid. Emerging technologies now allow for the

renovation of assembly lines characteristic of the large company into easy-to-program production units with product flexibility perceptive to market differences and process flexibility perceptive to changes in technology.

Organizations have adapted to the new environment and the main shift is characterized as the shift from vertical bureaucracy to horizontal corporations. Seven major trends characterize such corporations:

*“Organizing around process, not tasks; a flat hierarchy; team management; measuring performance by customer satisfaction; rewards based on team performance; maximization of contacts with suppliers and customers; information, training, and retraining of employees at all levels”*

Existing business life is process driven and chain oriented; thereby incorporation has become a core-question for companies. The problems with the traditional vertical cooperation between organizations are widespread, instead of cooperating, actors dependent on each other have been seeking to achieve cost reductions or profit improvements at the expense of someone else in the supply chain. Companies engaging in transferring costs upstream or downstream perhaps do not realize that such strategies will not make them more competitive as all costs will eventually make their way to the market in form of increased end consumer prices. It is therefore believed that increased coordination across company borders alleges the greatest opportunities for the future.

### **Purpose of the Study**

Due to the power that comes with control over consumer contacts, sellers are often dominant in a supply chain. Closeness to end consumer markets gives retailers fast and precise information about matters such as shifting fashion first choice and attractiveness of competitor's offerings, equivalent to continuous market research. Even though power is no end in itself, it does include the opportunity to organize the supply chain in a suitable way.

Many challenges face vendors today. Expanding product variety, greater rise and fall in demand, and shorter and shorter product life cycles make time-to-market reductions

necessary. The ever-increasing need for reduced lead times continues. Maximum coordination of work in and between companies is therefore necessary, as otherwise it will lead to higher costs as well as to longer lead times.

There is however no single best way to manage a supply chain; the way retailers compete in consumer markets control what should be focused on. As no company can be everything for everyone, there is interdependence between what a company sets out to be for a consumer, i.e. the company's value proposition, and that company's supply chain.

A requirement for sustainability is that there is a match between what is offered to consumers and the organization of the supply chain activities. It is not enough to be knowledgeable about competitors and customers' preferences to perform well. Supplying consumer goods in a disorganized or incompetent manner will wipe away the chances of making profits. This was evident in the dot com death where so called e-retailers lacking logistical expertise were driven out of business; left are more or less traditional and knowledgeable store based sellers and mail order companies who have added just another sales channel - the web. Profound understanding about how factors such as type of product, fashion content, demand pattern, assortment width, service level, and location is related to supply chain work, are therefore crucial.

## **Questionnaire**

The overall research question is as follows: **how are supply chains affected by retail value proposals?** There are two sides on this question; one that has got to do with what retailer are vis-à-vis its customers, and one that has got do with how retailers organize their supply chains. The connections between these two parts are central in this study.

A good framework to use for this purpose is Porter's (2003) "Tests of a strategy"; on that base, we set out to analyze how different retailers' supply chains are tailored to deliver their specific value propositions. The following sub questions will be used for this purpose:

- What is the company's value proposition?
- What kinds of needs are being satisfied?
- Who are the customers?

- What product assortment is offered?
- What does the company-customer interface look like?
- What is the relative price level?
- How is the supply chain tailored to deliver the value proposition?
- What is the configuration of activities?

The research questions provide the structure of the research, but they will not be clearly answered. Important to keep in mind is that with this framework, comparisons of companies in different industries are not really meaningful, since the essential unit of analysis is the industry itself. The industry structure lays out the overall rules of competition and the relative position within the industry is the source of competitive advantage (Porter, 2003).

### **Research Methodology**

Being aware of the latent analysis of management research in general, and case studies in particular (e.g. Gill & Johnson, 1997), we are certainly aware of the fact that our individual subjectivity does interfere, therefore we consider ourselves as a variable in this paper's research design, which should be kept in mind by the reader. However, we have tried to exercise subjective judgments and critical reflections in all our observations and analyses, while trying to realize our own perceptions, paradigms and selective perceptions at all times.

Contrary to traditional supply chain literature, which often has a manufacturer point of view that looks upon supply chains as means of reaching targeted market segments, we have had a retail perception throughout this study, investigating the interdependence between supply chains and retailers' value propositions.

In this part we will go through the steps we have taken to get from our research questions to our conclusions, via theoretical frame of reference, empirical data, and analysis. Setting out to design this research endeavor, we relied upon the guidelines for case studies in management research by Patton and Appelbaum (2003), describing case studies as empirical inquiries investigating existing phenomenon within real-life contexts, where perhaps the boundaries between phenomenon and context are not yet clearly defined. Following our

chosen area of research - supply chain management - and our descriptive purpose, we believe the described view to be the most beneficial one for the purpose of this study.

### **Objectives of the study**

This process has been presented in the introductory part, where problem area, research purpose, and research questions makes up the object of study.

Following the needs for our study regarding relevancy of value proposition in the supply chain.

### **Literature Review**

The theoretical frameworks have been built through a literature review within the area of study, consisting of secondary sources from academic articles and books. In order to make it easier for the reader, the relevant theories are presented as close to the case's empirical findings as possible.

### **Supply Chain Management**

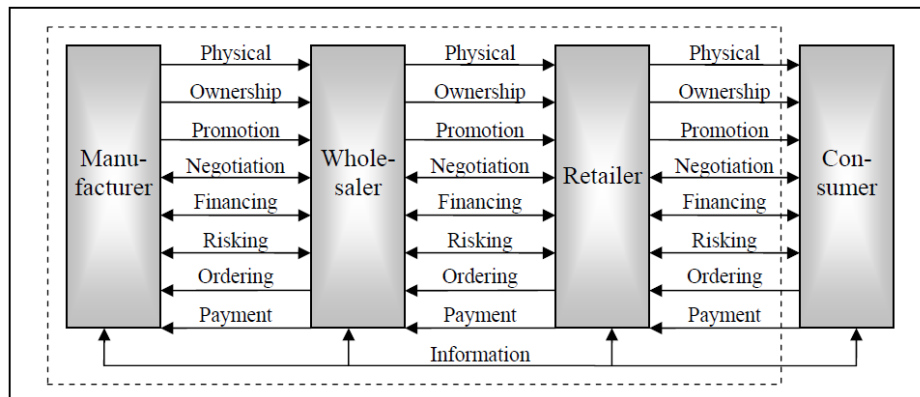
#### **Definition - Supply chain**

“A supply chain is the set of unit that collectively manufactures a product and sells it to an endpoint.” (Stern et al, 2001, p.513) The ultimate beginning point is where raw materials are being extracted and the end point would be where goods and services are being consumed, or perhaps even recycled. However, this view is awfully comprehensive and obviously very difficult to put into a practical context. Therefore, the business view on supply chains is somewhat arbitrary, leaving managers to decide their own boundaries of the supply chain. (Ibid) The alignment of firms is in the literature alternating called a supply chain, a demand chain, a value chain, or a marketing channel.

#### **Work in a supply chain**

The work in a supply chain includes the performance of what Stern et al (2001) label marketing flows. Nine generic flows between channel members are identified and illustrated

in figure below. Some of the flows move forward through the channel (physical, ownership, promotion), some move backwards (ordering and payment), whereas other flows move in both directions (negotiation, financing, risking, information).



Flow of Marketing Channel

The activities in figure need to be matched to the demands of the targeted market segment. Stern et al (2001) refer to early distribution channel researcher Louis P. Bucklin's theory for end-user preference. Even though this framework is almost 40 years old, we consider it to be highly relevant for our case studies, as it can be used to describe a retail-customer interface in a structured way. Bucklin specified four generic service outputs for a marketing channel: bulk breaking, spatial convenience, waiting or delivery time, and product variety.

- *Bulk-breaking* refers to the opportunity for consumers to buy in small lot-sizes, allowing them to transform purchases easily into consumption, thus reducing the need for consumers to carry unnecessary inventory.
- *Spatial convenience* denotes that products are being supplied close to the consumer, thereby reducing transportation and search costs. Examples of channel forms with spatial convenience are neighborhood supermarkets and vending machines.
- The longer the *waiting or delivery time*, the more inconvenient it is for consumers, who are required to plan consumption in advance.
- Finally, the greater the *product variety* available to the consumer, the higher is the service output. Greater assortment usually entails carrying more inventories, which is reflected in higher distribution costs.

All things being equal, consumers will choose products with higher service level. The higher the service output, the higher is the value for consumers, but the higher are the costs for channel members and, consequently, the higher is the price for consumers.

## **Data Collection**

The case specific empirical data gathering has been performed through semi-structured expert interviews with key personnel at our case companies. The interviews have all been quite long, about two to three hours, and during that time we have managed to cover all areas of interest. The people interviewed at the different companies have been holding somewhat similar positions, enabling us to structure the interviews accordingly. All interviews were conducted at the interviewee's work places. After gathering this information we have had the opportunity to, via e-mail and telephone, get questions answered and also get additional information.

**Primary Data** - It has been collected through the expert interviews has been complemented.

**Secondary Data** - Information sources, such as annual reports, websites, and magazines.

## **Analysis & Conclusions**

The gathered data is then discussed and analyzed throughout each case chapter which means that there are no separate results or analysis parts. The material presented in the case chapters is a combination of interview findings and the complementary sources of information, as interpreted by us. It will also be evident, without over-clarifying headings, when it is our own analysis and when the text is based upon empirical findings. In the concluding chapter we will bring the analysis to a higher level, where we relate the findings of the study to the theories used.

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