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Managing a Global vs. Domestic Supply Chain

By AndreaMacDonald

Variables like border crossings and multiple hand-offs make for more uncertainty, but experts say it all comes down to managing information.

Truth be told, there are very few solely domestic companies left these days. Businesses are either directly sourcing overseas or their suppliers are; fewer and fewer companies are not selling their goods in international markets. And, even if your strategy is to stay wholly domestic, your competition is coming (or will soon come) from every area of the globe.

“There are very few companies that are not touched by global issues; if not directly, then through their suppliers or customers,” says Mike Peters, First V.P., ProLogis Solutions Group. Yossi Sheffi, Director, Center for Transportation and Logistics, MIT, takes the concept one step further. “Even if a company only has domestic suppliers and domestic customers, it must always be analyzing whether it would be better to go overseas. And companies are always subject to global competition, they must be conducting constant analysis of their global competitors,” he says.

So, if the focus is global and companies are sourcing, selling or manufacturing overseas, does the domestic supply chain still exist? Or, on the other hand, has formerly domestic components simply become part of a larger, overall global supply chain?

The answer isn’t clear cut. While almost everyone agrees that companies must function in a global marketplace, there is far less agreement on how this context translates when it comes to managing the supply chain. Although companies may think globally in scope, when it comes down to actual tactical operations there’s a lot of local blending going on.

Sheffi and Peters both agree that there are certain elements that are required to manage any supply chain regardless of whether it’s domestic or global. Things like visibility, technology and flexibility are basic ingredients that need to be incorporated seamlessly in order for a supply chain to function efficiently regardless of the length of the chain.

“Technology is crucial. It speeds the supply chain and creates visibility,” says Sheffi. He believes that technology is becoming more aligned as standards are coming into place that allow different systems to communicate and share information. This is an issue that companies must address whether they operate in the U.S. or around the world.

Visibility is another key element. “You need to know where the goods are,” says Peters. This is particularly critical in order to allow companies to manage their supply chain strategically, identifying various points throughout the supply chain where goods can be held to reduce the risk of delays. And, with capacity issues still a concern in North America, a delay-reduction strategy applies across the board.

Jack Gross, VP & GM International, Schneider Logistics, also suggests that flexibility is critical to the

success of the supply chain. Companies need to ensure that both their supply chain and their partners can readily integrate alternate locations should circumstances dictate quick response. For instance, if the goods normally come into the Port of Long Beach, but because of delays, they go to Port of Seattle instead, the supply chain needs to be flexible enough to handle the change at both the domestic and global level. Globally, the destination port needs to be switched, and domestically, the transportation providers must be flexible enough to meet the goods at the alternate location and get them to their ultimate destination.

Technology, visibility and flexibility are all tied to information and this leads to an area increasingly important in supply chain management—the need for upgraded information management. “The movement of goods is not really the challenge, information is,” says Keith Goldsmith, Sr. VP, Business Development and Technology, TNT Logistics. Companies operating today are collecting tremendous amounts of data and the trend to move towards point of sale information is resulting in mountains of information being fed into a company’s system. While ultimately this information will help businesses streamline their operations and reduce inventory, the trick right now is to take the raw data and translate it into a form that is useful for the customer. In fact, many would argue that today, managing the supply chain is more about managing information than moving goods.

Concept versus reality

While no one disagrees that common elements are critical to supply chain success, many experts argue that operational differences come into play when the supply chain extends beyond borders. “Conceptually, they are the same but they play out differently,” says John Langley, Professor of Supply Chain Management, the Logistics Institute at Georgia Tech University. Langley explains that international trade is just more complicated. First, the goods are traveling a far greater geographical distance. This usually requires different modes of transportation and multiple hand-offs that must be managed. To further complicate things, visibility is very difficult to achieve in an international supply chain. Consequently, the skills and expertise needed to manage a global supply chain differ from the domestic requirements.

When it comes to domestic North America, the logistics industry has achieved a relatively high degree of sophistication, in terms of technology and infrastructure, which is not necessarily matched in other countries. “Domestically, the electronic information flow for most industries in North America has reached a high level of maturity. That’s less true as you move to Europe and even less so in Asia,” says Goldsmith

For global traders, this means that the information flow in developing countries is not as well established or disciplined as it is in North America. Missing and unreliable information adds risk and decreases flexibility in the international supply chain. Often supply chain managers and the ultimate customer can’t be sure what they’ll be receiving until the shipment actually arrives.

Langley agrees, saying that achieving visibility is far easier domestically than globally. “In the domestic U.S., you can contract a single carrier and will achieve high visibility. If you’re going end-to-end, U.S. to China, it is more complex and there will be gaps in visibility.” Langley is a big proponent of outsourcing the supply chain function to partners that have the ability to handle the complexities of global supply chain management. “You need to have partners if you really want to play in the global supply chain.”

Fyke Trading & Logistics is a small logistics company that has built a business on this very fact. The company specializes in cross-border trade between Canada and the U.S., a market that has grown as security requirements and government regulations have become more stringent. “Companies want to

access the Canadian market, but are afraid to deal with issues at the border,” says Larry Fyke, President, Fyke Trading & Logistics. As a result, these companies are turning to outsource providers who can offer the expertise needed to keep the supply chain moving.

One of the reasons these partnerships are so important is because many of these logistics partners have developed operations and partnerships in countries overseas. That means that even the term ‘domestic’ needs to be qualified. “There’s domestic North America and then there’s domestic in different countries,” says Goldsmith. For companies shipping globally, there are three main issues: getting the goods from origin to port in-country, shipping from port to port over the ocean, and then shipping from port to destination in North America.

It’s impossible to know the ins and outs of shipping for every nation around the globe, so businesses that are thinking strategically are leveraging the experience and contacts many of the logistics firms have developed in different countries. “Your supplier [3PL] should have a global footprint. They need to understand the region, and should have the knowledge and facilities to fix problems,” says Schneider’s Gross.

“Companies are now looking for help inland [on the ground in the foreign country]. The world has never been more open to international trade; the time is right for testing the waters once you have the right guides on board.”

“[Logistics providers] are becoming an extension of their customers and are taking part in supplier management,” says Valerie Bonebrake, Executive Vice President & Chief Logistics Officer, Meridian IQ. Relationships with customers are deepening as logistics providers take an increasing active role in the management of the supply chain. “Providers have to interface with and understand all parts of their customer’s supply chain,” adds Gross. Bonebrake feels this also applies to domestic North America where capacity is still an issue and stronger relationships can help ensure quality and supply.

Bonebrake argues that while it appears that the global and domestic supply chains are coming closer together, it is still common for them to be treated separately. This opinion is shared by Gross, “We see very few companies that are putting it all together and those that are doing so are using 3PLs.”

Extending a supply chain beyond borders obviously lengthens the chain and results in exposure to greater variables. These variables can include border crossings, multiple modes of transportation and multiple hand-offs, different government systems, technology issues and security concerns. Every one of these variables presents opportunities for errors that can stall the entire supply chain. “There is far more uncertainty and risk in global trade and you have to plan for and be aware of that,” says Langley.

Tom Mentzer, Executive Director, University of Tennessee Integrated Value Chain Forums, says that managing the global supply chain is largely about risk management, something he believes only the best-in-class supply chain managers are doing. “You have to be aware of the costs when things go wrong and you need contingency plans,” stresses Mentzer. Domestic supply chains face less inherent risk; incidents are less likely to occur and the consequences will be less severe. Global supply chains are an entirely different story where the margin for accident and error is huge.

Companies that operate globally are under greater pressure than their domestic counterparts to actively manage their supply chain. “It’s such a dynamically charged situation with constant trade-offs,” says Brad Fitzgerald, VP Strategy, UPS. According to Fitzgerald, it’s a question of strategy. The risks inherent in managing a global supply chain mean that companies need to constantly be conducting cost-benefit analyses. Sourcing overseas may be less costly, but the risks could outweigh the benefits in the long run.

“Chasing cheaper sourcing is not always the best move,” says Fitzgerald. John agrees, underscoring that that 3PLs can play a key role in helping companies manage and mitigate the risks that exist in both the global and domestic supply chains by developing strategic supply chain solutions.

Although the global supply chain is longer and more complex, it would be wrong to assume that the domestic supply chain is constantly functioning at optimum levels and that companies can assume that things are running smoothly at home. Within the domestic U.S. there are still some supply chain challenges, the most discussed one being capacity. Within domestic North America the transportation industry is facing a shortage of both equipment and operators. This is compounded even further by deficiencies in the road and rail infrastructure. While improvements are being made, there is no fast solution and the issue is one that domestic shippers will be dealing with for some time.

So what’s the answer?

“The most important element of any supply chain is understanding how it links to organizational strategy, regardless of whether the supply chain is domestic or international,” says Fitzgerald. MIT’s Sheffi supports this idea as well, arguing that there is no perfect supply chain formula that can be applied to every company. Supply chains vary across industries and within industries, according to the corporate goals.

“Look at Wal-Mart, which focuses on low cost. Their supply chain is designed for total efficiency to keep costs low. Now consider Nordstrom. If they are selling designer bags, cost is not an issue. Instead, their supply chain is focused on making sure that \$2000 Prada bag is available when the customer wants to buy it.”

What this means is that there is no right answer. “Companies need to understand how the whole supply chain drives the profitability of their business,” says Fitzgerald. Depending on the size and operational structure of a company, the domestic supply chain may be managed as part of a global whole. Yet, for many companies, their global supply chain is made up of many smaller pieces that operate independently and uniquely. In such cases, the domestic supply chain constitutes one piece, and the skills and expertise required to manage it are different from those required to manage the global supply chain. In concept and principle there might seem to be little difference between managing the two, but in reality there always are more complexities with a global component.

But ultimately, it really doesn’t matter which way you look at it. The supply chain is a function, albeit a major one, that helps a company achieve its corporate objectives. At the end of the day, says Fitzgerald, domestic and global supply chains should all start from the same place, “You need to ask, what do I want it to do and build from there.” WT

Sidebar:

Global Supply Chains Entail Additional Considerations

1. **SECURITY:** When your supply extends beyond domestic borders, a whole new level of security comes into play.
2. **PORT ISSUES:** If you are shipping by ocean, you absolutely need to consider capacity issues and route your goods accordingly.
3. **TAX AND TARIFF ISSUES:** Make sure that manufacturing or sourcing overseas is as low cost as you think it is. Tax and tariff regulations differ according to country. Something as basic as the way a

product is packaged can change its entire tariff structure. Be sure to do your homework.

4. **PARTNERSHIPS WITH LOCAL EXPERTS:** Extending your supply chain into another country requires in-depth knowledge of how that country operates. Partners, either through 3PLs or directly, are often critical to success.

5. **CULTURAL DIFFERENCES:** To Americans this may seem like a small thing, but misunderstanding the culture can wreak havoc on your planning.

6. **TECHNOLOGY ABILITIES AND CAPABILITIES:** A global supply chain often requires an even greater investment in technology to improve visibility.

7. **RISK MANAGEMENT:** With a global supply chain, the possibility of things going wrong is greater and often more costly to fix. Knowing what the risks are and planning for them in advance is critical.

Sidebar 2:

TNT & GM: Moving Goods and Information

Auto making giant General Motors is constantly moving parts around the world. With call centers handling manufacturing and service parts in the U.S., Europe, Singapore, Brazil and Australia, this element of their supply chain couldn't be any more global. Yet, says Keith Goldsmith, Sr. VP, Business Development and Technology, TNT Logistics, this part of the supply chain management strategy is not about assets, it's about managing information.

GM demands a flexible, robust supply chain that is constantly monitored and updated. The company needs to know what parts entered the supply chain at what time. For example, manufacturing and service parts are routed from various locations in Europe to be consolidated in Antwerp. From there, they are moved to Rotterdam for shipment to Baltimore where they are then trucked into Detroit.

TNT is responsible for creating a system that can track and monitor the shipments, then transmit the information and expectations to all partners. It also helped GM achieve standardization of its global processes, a key element in ensuring the supply chain runs smoothly. The system reports time threshold violations, tracks deficiencies in the quantity of goods in the supply chain, and communicates the information to the partners.

Terry Tutt, Chief Technology Architect, TNT, says that strategy was all about standardizing processes. "We like to think in terms of global organizations, when really these organizations are made up of distinct regional business units that operate individually." This is a major challenge in managing a global supply chain. "As a partner, TNT's aim is to bridge the gap amongst regional differences, whether they be governmental, organizational or operational."



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