“Supply Chain Value Creation: Finance Meets Supply Chain”

Center for Transportation and Logistics
Integrated Supply Chain Management Program
Affiliates in Logistics Program
Supply Chain Education Partners Program

James B. Rice, Jr.
May 28, 2003

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Welcome!

• To our current sponsors and supporters
  • Affiliates Program in Logistics
  • Partners in Supply Chain Education
  • Integrated Supply Chain Management Program

• To our guests
  • Electronics Supply Chain Association
  • Invited Guests

• We appreciate your commitment to join us and to explore together
• Setting the context – CTL and you
• Motivation – Why we are here
• Agenda
• Rules of engagement
Transportation, Logistics & SCM @ MIT

Logistics and SCM work done in 3 of 5 schools

- School of Engineering
- Sloan School of Management
- School of Architecture and Planning

And in numerous Centers & Programs

- **Center for Transportation and Logistics (CTL)**
  - Serves as the locus for Transportation, Logistics, SCM outreach consortia, and research at MIT
  - Four outreach programs….
    - Integrated Supply Chain Management (ISCM) Program
    - Affiliates Program In Logistics (APL)
    - Supply Chain Education Partners Program
    - Executive Education – Logistics & SCM
CTL Role & Means

- Create value in society through improvements in transportation and logistics practice
- Means for achieving the mission
  - Education
  - Research
  - External Interaction
- Interaction with Industry
  - Consortia
  - Individually-sponsored
Supply Chain External Interaction

- **Affiliates Program In Logistics (APL)**
  - Symposia series covering logistics, transportation, SCM for manufacturers, carriers, 3PL providers together to identify frontier of critical issues

- **Supply Chain Education Partners**
  - New initiative focused on integrating companies with our educational programs

- **Integrated Supply Chain Mgt (ISCM) Program**
  - Collaborative research program to support accelerating implementation of SCM & advance state-of-art of SCM
  - Design
    - Research & Collaborative Exchange Among Sponsors
    - Activities (research, events) chosen by ISCM Sponsors
Current Initiatives (Examples)

- Supply chain visualization
- Network Master – Strategic Supply Network
- Supply Chain Response to Terrorism
- Intelligent Transportation Systems
- Urban and Regional Transportation
- Rail, Trucking, Air Transportation
- Transportation and Logistics Computer Systems
- Logistics and Network Analysis
- Supply Chain Management Contracting
- e-Commerce & e-Business
- Revenue Management
- Risk Management
- Age Lab
# 2003 CTL Outreach Event Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>January 5-7</td>
<td>CTL Executive Course – Fundamentals of Supply Chain Management</td>
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<td>January 31</td>
<td>Partners Program Mid-Stream Thesis Review Session</td>
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<tr>
<td>April 8</td>
<td>ISCM AudioConference – Research Review</td>
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<td>April 29</td>
<td>APL-Partners Symposium – Freight Lane Security in the Supply Chain</td>
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<tr>
<td>May 13-14</td>
<td>ILP – Sloan Symposium – Driving Innovation Through Technology</td>
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<tr>
<td>May 28</td>
<td>CTL Symposium – Supply Chain Value Creation: Finance Meets SCM</td>
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<tr>
<td>June 3</td>
<td>Partners Program Final Thesis Review Session</td>
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<td>June 22-25</td>
<td>CTL Executive Course – SCM Thought Leadership</td>
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<td>September</td>
<td>CTL Symposium – Profitability Management via the Supply Chain</td>
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<tr>
<td>October 28-29</td>
<td>CTL Affiliates Day Hosted by Lucent – Evolving the SC Organization</td>
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<tr>
<td>December 3</td>
<td>CTL Symposium – Topic TBD</td>
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Motivation

- SC focus expands: cost $\rightarrow$ cost & service $\rightarrow$ revenues
  - 15-20% reduction in operating costs often cited
  - Speed-to-market, service seen as requirement to compete
  - But what is the quantifiable value of these capabilities?

- Evolution: Competitive advantage via new SC designs
  - Close collaboration SC by outsourced supply chains
  - Make-to-order supply chain by Dell
  - Customer & supplier integrated SC by Cisco (virtual...)
  - Now resilient SCs in response and in preparation for disruptions (Sept 11)
  - What are the cost-benefits for these various supply chain designs?

- Future entails coordinating the supply network
  - Optimizing the internal company SC
  - Coordinating the external ‘extended’ supply network
  - But how can firms coordinate investments across firms for higher performance, balanced risk/cost/benefits for each party?
Why We Are Here

• To begin answering some of these questions
  • What is the quantifiable value of SCM advantages?
  • What is the value of network improvements to each party?
  • How can firms coordinate investments for higher network performance and balanced risk, cost, benefit?

• To start the discussion among finance and SCM
  • We (SCM) still speak ‘Greek’ (cycle time, inventory turns, outsourced operations)
    • when business leaders need us to speak the language of business – ‘Finance’
  • Finance is a ‘new’ silo that SCM needs to integrate with
    • Different cultures, organization structures, systems
    • Are finance and SCM like oil and water?
One Sponsor’s Starter Questions

- **Strategy**
  - How critical is supply chain strategy to your business strategy?
  - What is your business planning process? What is its influence on SC strategy?
  - What are the tools/processes used to develop Supply Chain strategy?
  - What is the vision for your Supply Chain?
  - How is your company creating value from the supply chain?

- **Financial Analysis Tools (FAT)**
  - What are the key FAT used to design supply chains?
  - How is financial analysis work being extended beyond the firm’s boundaries?
  - What are the FAT & systems required in an outsourced & dynamic environment?

- **Measures**
  - What are the key SC measures? Do you have a holistic measure for overall SC efficiency (financial, responsiveness, quality)? How are they executed/used?
  - Do you use Centers of Excellence?

- **Incentives**
  - What is necessary to provide incentive for collaboration among SC partners (both suppliers and customers)?
  - How is "gainsharing" managed between supply chain partners?
Today’s Agenda

• Morning
  • Overview Presentation:
    • Value Creation in the Supply Chain – Dr. Jonathan Byrnes
  • Discussion Primer Presentations
    • Finance & SCM Work Together – Sharon Bryan (CFO Rockport) & Lloyd Davis (VP – Logistics Reebok)
    • SCM, Finance and Strategy at P&G – Joerg Meiner, P&G Finance

• Afternoon
  • Supply Contracts – Prof. Yossi Sheffi
    • Discussion – Balancing Incentives, Costs, Risks
  • Real Options in SCM – Prof. Richard de Neufville
    • Discussion – Methods and Tools for Valuing Supply Chain
  • Synthesis of Learnings – Dr. Jonathan Byrnes
  • Affiliates and Partners adjourn at 5:00 pm

• Evening
  • ISCM, ESCA and Invited Guests Attend Dinner
Rules of Engagement

• Because we have visitors, we revisit our principles…
• We learn from each other by exchanging ideas and insights…
• We are here to learn & create a new collective wisdom
  • We encourage active participation from all the parties
    • We need to identify all pertinent perspectives
    • Learn from each other… So share and listen too
• This is not a ‘selling’ environment
  • We are acting as an ‘honest broker’ to facilitate discussion
  • Please do share your knowledge and insights
  • But please do not promote specific solutions or your firm’s capabilities
• Value other’s contributions, but do offer your own ideas
• Stay on topic, lets use our time wisely
Housekeeping

- Phones...
- Services...
Issues and Themes Surfaced Today
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• Some progressive practices