Supplier Relationships
Course Module in Supply Chain Management

Course Modules help faculty select and sequence HBS Publishing titles for use in segments of a course. Each module represents subject matter experts’ thinking about the best materials to assign and how to organize them to facilitate learning. In making selections, we’ve received guidance from faculty at Harvard Business School and other major academic institutions.

Each module recommends four to six items. Whenever possible at least one alternative item for each main recommendation is included. Cases form the core of many modules, but we also include readings from Harvard Business Review, HBS background notes, and other course materials.

I. Overview of suggested content (HBS cases unless otherwise noted)

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<tr>
<th>Title</th>
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<th>Product Number</th>
<th>Publication Year</th>
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<td>Alternative: Buyer-Supplier Relationships (U. of Hong Kong)</td>
<td>Enright</td>
<td>HKU257</td>
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<td>2. Barilla SpA (A)</td>
<td>Hammond</td>
<td>694046</td>
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<td>Alternative 1: Campbell Soup Co.: A Leader in Continuous Replenishment Innovations</td>
<td>McKenney</td>
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<td>3. Owens &amp; Minor, Inc. (A)</td>
<td>Narayanan</td>
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<td>Alternative: CompUSA: The Computer Superstore</td>
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<td>5. Hamptonshire Express</td>
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<td>and Turning the Supply Chain into a Revenue Chain (HBR)</td>
<td>Cachon &amp; Lariviere</td>
<td>F0103B</td>
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II. Rationale for selection and sequencing the items in this module

The initial HBR article by Liker and Choi provides a clear introduction to the modern era of collaborative supplier relationships, introducing students to the successful approaches mastered by Toyota and Honda and showing how these approaches fundamentally differ from those of the Big Three auto companies. The piece will challenge many students' initial assumptions about the nature of effective
supplier relationships. Alternatively, the title from the University of Hong Kong – in effect, a background note studded with several illustrative “caselets” – provides a relatively straightforward introduction to the relationship issues that underlie supply chains. Even if students have an academic background in operations management this piece should stimulate good class discussion because of the range of issues it touches upon.

For the second segment of this module the case on Barilla, the Italian pasta manufacturer, is ideal. For years it has been regarded at HBS as an exceptionally teachable case, and it illustrates a wide array of key supplier relationship issues including channel coordination, causes of order fluctuation, and the costs of poor coordination. The B, C, and D supplements note specific outcomes of Barilla's efforts. Note: If you use any of the widely available “Beer Game” exercises, the Barilla case is an effective follow-up to situations that students encounter in that game. An alternative to Barilla, the Campbell Soup case, explains a different continuous replenishment program in the food industry. IMD’s Freqon case provides another alternative; the case examines the 13-year relationship between Freqon and its supplier NordAlu, and is especially notable for exploring how joint interest and interaction develop and then decline.

In segment 3 of the module, the case on Owens & Minor introduces a cost-accounting perspective, showing the impact of activity-based pricing on supply-chain management. The case documents how O&M, a health-care distributor emerging from two financially punishing quarters, learned to distinguish more clearly between profitable and unprofitable customers and developed incentive programs accordingly.

A logical pairing with the Owens & Minor case is the HBR article by Narayanan and Raman, which lays out a model of incentive alignment and principal-agency theory as applied to supply chains. For students with limited background either in case learning or in supply chain management, you might consider assigning this reading prior to the O&M case. Alternatively, if you prefer to stay focused on cases but also want to explore some of the incentive-alignment ideas captured in the HBR article, consider Raman’s case on CompUSA.

The final segment in the module pairs two somewhat unusual items. Because it is set in the rudimentary context of a one-person newspaper business, Hamptonshire Express is a non-intimidating introduction to using quantitative analysis in making supplier-related decisions. The case includes at least one spreadsheet for each problem that the business owner must solve. A good complement to the case is the very brief HBR article by Cachon and Lariviere, which explores the subject of revenue-sharing with supply-chain partners, a key issue in the Hamptonshire Express case.

III. Detailed description of recommended items


More and more, businesses are counting on their suppliers to lower costs, improve quality, and develop innovations faster than their competitors’ suppliers can. To this end, many experts agree that American firms, like their Japanese rivals, should build supplier keiretsu: networks of vendors that learn, improve, and prosper in sync with their parent companies. As history has shown, however, that's easier said than done. Some U.S. corporations created supply chains that superficially resembled those of their Japanese competitors, but they didn't alter the nature of their relationships with suppliers. As a result, relations between U.S. manufacturers and their suppliers have sunk to the lowest levels in decades. But reports of keiretsu's demise are overblown. The Japanese supplier-partnering model is alive and well--in North
America as well as Japan. During the past 10 years, automakers Toyota and Honda have struck successful partnerships with some of the same suppliers that are at odds with the Big Three and created effective keiretsu across Canada, the United States, and Mexico. So how do Toyota and Honda do it? The authors, who have studied the American and Japanese automobile industries for more than 20 years, found that Toyota and Honda have built great supplier relationships by consistently following six steps: they understand how their suppliers work, turn supplier rivalry into opportunity, monitor vendors closely, develop those vendors’ capabilities, share information intensively but selectively, and help their vendors continually improve their processes.

Subjects: Competitive advantage, Models, Outsourcing, Suppliers, Supply chain.

- Based on a program of interviews with more than 100 participants in automobile buyer-supplier relationships
- Describes the outdated “bullying” approach to suppliers and contrasts it with the supportive keiretsu-building model used by the best Japanese companies

Alternative: Buyer-Supplier Relationships Michael Enright (University of Hong Kong note)

In recent years, increasing attention has been paid to buyer-supplier relationships and supply chain management in general. Views of buyer-supplier relationships have evolved from the old school of the 1980s, where buyers and suppliers were viewed as part of a zero-sum game, to the more collaborationist outlook of the 1990s, which claimed that buyers and suppliers could cooperate to the benefit of both, to the more network-oriented view of the 2000s, where buyers and suppliers are parts of organic business ecosystems. Buyer-supplier relationships exist in surprisingly multifarious forms in different geographic regions and business sectors -- there is no one dominant mode. This case provides an outline of eight different real-life examples to illustrate a broad range of buyer-supplier relationships.

Subjects: Aircraft; Automobile industry; Business to business; Computer industry; Shipping industry; Strategy formulation; Suppliers; Textiles.

- Highly accessible piece, focusing on what general managers need to know about supplier relationships
- Covers a wide range of industries

2. Barilla SpA (A) Janice H. Hammond

Barilla SpA, an Italian manufacturer that sells to its retailers largely through third-party distributors, experienced widely fluctuating demand patterns from its distributors during the late 1980s. This case describes a proposal to address the problem by implementing a continuous replenishment program, under which the responsibility for determining shipment quantities to the distributors would shift from the distributors to Barilla. Describes support and resistance within Barilla's different functional areas and within the distributors Barilla approached with the proposal. Learning Objective: Allows students to analyze how a company can effectively implement a continuous replenishment system to both reduce channel costs (in this case, inventory and transportation costs incurred by Barilla as well as inventory costs incurred by the distributors) and improve service levels (defined in this case as the percent of retailers' orders filled from distributors' inventory).

Subjects: Distribution planning, Logistics, Order processing, Supermarkets, Suppliers. Setting: Italy; Grocery stores; $2 billion revenues; 7,000 employees; 1990

- Provides a comprehensive overview of a continuous replenishment program, including the perspectives of all participants
Alternative 1: Campbell Soup Co, James L. McKenney
Campbell Soup, like most food manufacturers, faced grocery chain and wholesale demand for its goods driven by Campbell’s own promotional pricing structure rather than retail consumer demand. Former policies to encourage overstock created huge swings in production and inventory levels. Campbell’s introduced continuous product replenishment (CPR) under which they would manage inventory for their customers, enabled by electronic data interchange to link supply to actual demand. Implementing this channel shift required a restructuring of relationships with its customers and a radical restructuring of its promotional policies.

Subjects: Data processing, Information technology, Organizational change, Supermarkets. Setting: Newark, NJ; Retail industry; Food industry; $6.7 billion revenues; 6,000 employees; 1994.

Describes the relationship between Fregon, a producer of frequency converters, and NordAlu, a supplier of extruded aluminum components, over a period of 13 years. The case shows how early successes were not sufficiently followed up by improvement efforts later on. Having achieved a substantial level of interaction, joint projects, and sales during the 1990s, by 2000 the relationship was almost back to its original state of limited joint interest and tension between the two companies. Was this just a natural evolution or could the two firms have gone on to a better joint working relationship? The description of the relationship is unique, as case writers rarely have the opportunity to access information for a period of more than 10 years. A winner of the 2002 DSI Best Case Study Award.

Subjects: Business processes; Continuous improvement; Engineering; Europe; Germany; Industrial goods; Knowledge transfer; Manufacturing; Manufacturing strategy; Outsourcing; Partnerships; Production; Scandinavia; Sourcing; Suppliers; Supply chain.

Owens & Minor (A) V.G. Narayanan
A forward-thinking manager at Owens & Minor (O&M), a large national medical and surgical distribution company, enlisted the help of both logistics and cost managers to develop an innovative pricing schedule based on the customer’s activities instead of the price of the product since the existing cost-plus pricing structure made it impossible for O&M to price services appropriately. The case also explores the customer resistance to his new proposal. Learning Objective: To introduce students to activity-based (or menu) pricing in a medical supply distribution company.

Subjects: Accounting, Activity based costing, Distribution, Materials management, Performance measurement, Pricing, Supply chain. Setting: Richmond, VA; Health care industry; $3 billion revenues; 4,200 employees; 1996-1999
Introduces the accounting perspective, and activity based pricing in particular, to the discussion of supply chains

B supplement (100079) provides a substantive “what happened next” discussion

This is an enhanced edition of HBR article R0411F, originally published in November 2004. HBR OnPoint articles include the full-text HBR article plus a summary of key ideas and company examples to help you quickly absorb and apply the concepts. Most companies expect the supply chain to work efficiently without interference, as if guided by Adam Smith’s famed invisible hand. In their study of more than 50 supply networks, V.G. Narayanan and Ananth Raman found that companies often looked out for their own interests and ignored those of their network partners. Consequently, supply chains performed poorly. According to the authors, a supply chain works well only if the risks, costs, and rewards of doing business are distributed fairly across the network. In fact, misaligned incentives are often the cause of excess inventory, stock-outs, incorrect forecasts, inadequate sales efforts, and even poor customer service. The fates of all supply chain partners are interlinked: If the firms work together to serve consumers, they will all win. However, they can do that only if incentives are aligned. Companies must acknowledge that the problem of incentive misalignment exists and then determine its root cause and align or redesign incentives. They can improve alignment by, for instance, adopting revenue-sharing contracts, using technology to track previously hidden information, or working with intermediaries to build trust among network partners. It’s also important to reassess incentives periodically, because even top-performing networks find that changes in technology or business conditions alter the alignment of incentives.
Subjects: Activity based costing; Competitive advantage; Contractors; Globalization; Incentives; Inventory; Networks; Outsourcing; Partnerships; Suppliers; Supply & demand; Supply chain

Provides a range of examples, from Cisco to Whirlpool to bread-baking
Includes an illuminating table documenting “the economics of incentive alignment”

Alternative: CompUSA: The Computer Superstore Ananth Raman
This HBS case explores supply-chain relationships and incentives from the retailer’s perspective. Describes the CompUSA organization, focusing especially on the operations and the company culture. It first examines the economics of PC retailing and the importance of a responsive supply chain for their product category. The description of company culture serves to emphasize the role of people-management and incentives in achieving responsiveness. Learning objective: To show the importance of responsive supply chains in PC retailing and to emphasize the importance of culture and incentive in achieving responsiveness.
Subjects: Corporate culture; Incentives; Inventory management; Personal computers; Retailing; Supply chain. Setting: United States; Personal computer industry; Retail industry; $5.3 billion revenues; 1998

Introduces a sustained focus on the retailer’s perspective
Includes discussion of corporate culture and human resource management issues as well as detailed presentation of supply chain

5. Hamptonshire Express V.G. Narayanan & Ananth Raman
Presents a series of problems that face a newspaper publisher, including inventory level, effort level, subsidy for unsold inventory, and commission for sales. Each problem is accompanied by one or more
spreadsheets. Students must make various operational decisions. Learning Objective: Explores the relationship among channel incentives, allocation of decision rights, and channel performance.


and

Turning the Supply Chain into a Revenue Chain by Gerard P. Cachon & Martin A. Lariviere (Harvard Business Review)

Since Blockbuster began sharing rental revenues with its suppliers, both parties have seen increased profits. The authors say revenue sharing will work for many products and services.


• Hamptonshire case has simple setting but problems explore – and enable students to quantify – complex relationship issues
• Two-page HBR piece is brief enough for some professors to include in the same class discussion