



Supply Chain Management Professional Education Review

*A monthly e-Newsletter by the Department of Supply Chain
Management and Marketing Sciences
May 2009*

In this month's issue

1. Exactly two years ago, the Rutgers Center for Supply Chain Management convened a roundtable discussion regarding Supply Chain Disruptions with a focus on avian flu pandemic. With the recent outbreak of the H1/N1 (Swine Flu) virus, we revisit the findings from that proceeding.
2. Professor Shen Yenyurt summarizes recent research that definitively links good supplier relationship practices with improved pricing, quality and delivery of products.

Upcoming Events

Annual SCM executive certification program

- June 10-12, 2009

- <http://scm.rutgers.edu/cp>

2009 SCM summit meetings

- June 4 (SC Collaboration)

- Sept. 18 (Organization Transformation)

For more information, please go to www.scm.rutgers.com and click on our link to Executive Education.



Supply Chain Management Professional Education Review

A monthly e-Newsletter by the
Department of Supply Chain Management and Marketing Sciences
May 2009

Professional Development in Tough Times

In a recent article in *Logistics Management*, Wayne Bourne addresses the reality of decreasing travel and training budgets in today's challenging business environment. Mr. Bourne cautions companies to not "step over a dollar to save a dime." He goes on to say, ***"my advice is to not take money away from the conferences that will eventually produce solutions to the problems you're currently facing. Send two or three people instead of four or five. To maximize the benefits, insist that each attendee provide a "teach-out" on what they gained from the conference when they return. Perhaps they need to write a paper and share what they learned."***

At the Rutgers Center for Supply Chain Management, our mission is to ensure that you have access to cost-effective, world-class development programs. Our local presence helps you to get the best value for your development dollar. To learn more, visit <http://www.scm.rutgers.edu/ExecutiveEducation.htm>

**Rutgers Center for Supply Chain Management
Conference on Supply Chain Disruptions
April 2, 2007**

In April, 2007, the Rutgers Center for Supply Chain Management convened a roundtable discussion regarding how major corporations were preparing to deal with disruptions to their supply chains. This conference focused specifically on how corporate sponsors of the Center were preparing for the potential of a worldwide pandemic such as the Avian Flu. Now in April, 2009, the world is faced with a similar situation, the potential for pandemic from the H1/N1 virus known as the “swine flu” for its origination in the swine population. The following notes may prove useful as we attempt to deal with this new threat. (Professor Gordon Smouter, Senior Industry Advisor)

Representatives from the state of Delaware expertly shared the plans in place for responding to an Avian Flu Pandemic. In April 2007, Delaware was one of three states to have a federally approved program. A detailed handout was provided to participants. Headlines from their presentation were:

- A pandemic of some nature will occur – just a matter of when.
- Pandemics can be expected to last up to two years.
- 40% or more of population can be impacted.
- Fear will keep many more from reporting to work.
- Businesses need to
 - Stockpile materials to manage through the pandemic.
 - Critical items have long lead times.
 - Educate employees.
 - Coordinate with External Agencies.

The following table represents the strategies and resulting discussion of SCM Center member companies that were present at the April 2, 2007 conference.

Strategic Area	Discussion
1. Sustaining supply of critical products to customers	<ul style="list-style-type: none"> • Additional safety stock of finished goods for critical and strategic brands • Actively manage location and flow of critical inventory • Create “network” (end-to-end) supply chain maps • Forward-purchase stockpiles of critical materials and components <ul style="list-style-type: none"> ○ Don’t overlook simple components that are single sourced • Require, through contracts, that channel partners have

	disruption plans in place
2. Supplier Support	<ul style="list-style-type: none"> • Conduct detailed risk assessment <ul style="list-style-type: none"> ○ Bills of Material (BOM's) ○ Risk assessment for supply market and suppliers (finance, contract requirements, etc.) ○ Conduct a task review by High, Medium and Low risks ○ Create Action Plans ○ Review supplier disruption plans (at least qualitatively) • Consider multiple sources of supply • Consider services as well as products <ul style="list-style-type: none"> ○ For example, will transporters have adequate availability of labor in event of pandemic disruption?
3. Business Continuity at WHO Level 5	<ul style="list-style-type: none"> • Corporate-wide plan format (no deviations) <ul style="list-style-type: none"> ○ Establish crisis team by disruption scenario • Create integrated risk management plan <ul style="list-style-type: none"> ○ Leadership continuity ○ Communications plan (external and internal) ○ Employee health maintenance ○ Human Resources ○ Information Technology ○ Supply Chain • Test plan internally and end-to-end <ul style="list-style-type: none"> ○ Procedures and systems ○ Tabletop drills • Continuously update plans <ul style="list-style-type: none"> ○ Binders ○ Shared network locations • Consider third party assessment of plan • Educate employees on plan • Identify critical jobs and activities <ul style="list-style-type: none"> ○ Keep non-critical employees at home and off network ○ Establish list of volunteers for those required to report <ul style="list-style-type: none"> ▪ Incentive pay ▪ Housing at site ▪ Notification system ○ IT systems won't run themselves – need people

4. Organization	<ul style="list-style-type: none"> • Establish dedicated resources (most participants) <ul style="list-style-type: none"> ○ Planning and risk assessment ○ Mitigation planning ○ Ownership of plan ○ General crisis management • Use methodology of other contingency planning • Partner with external agencies <ul style="list-style-type: none"> ○ Red Cross ○ State ○ PHARMA • Employee cross-training • Communication plan (again)
-----------------	--

Conference Parking Lot Items

The following challenges were identified and tabled in a “parking lot”. They are not in any particular priority.

- 1) Managing product flow in the downstream supply chains during a disruption.
- 2) Identify other critical employee medical requirements and stockpile meds in addition to Tamiflu.
- 3) Managing overall corporate liability during a disruption.
- 4) Continue to expand assessment of supplier and channel partner readiness – continuous learning process.
- 5) Challenge for some organizations – sensitizing the organization to the risks (vertical and horizontal).
- 6) Conduct supplier education sessions.
- 7) Challenge – managing supply disruption planning at global level.
- 8) Monitoring and measuring disruption potential.
- 9) Who should carry extra product in the supply chain and who should pay?
Management of shelf life for extra product?
- 10) Integration of plans and information flow.
- 11) Who owns plan in the organization?

Ed. Note: While we sincerely hope that the H1/N1 virus is contained and does not develop into a worldwide health threat, we also know that managers of supply chains will be working diligently to ensure that critical supplies and services continue to flow should we be faced with a full-blown pandemic.

Supplier Price Concessions: Cost Reductions through Effective Relationship Management

By
Sengun Yenyurt

*Assistant Professor, Supply Chain Management and Marketing Sciences
Rutgers Business School*

Today, more than ever, the competitive nature of business-to-business markets demands that companies in these markets continuously look for ways to reduce their costs. One means by which companies achieve lower costs quickly and relatively painlessly is to pressure their suppliers for lower prices. In a recent article, Sengun Yenyurt and his co-authors reveal the supplier relationship management factors that provide the greatest return in terms of price concessions from the suppliers¹.

A longitudinal empirical study conducted in the North American Automotive Industry generated a series of interesting findings. For example, it is shown that the greater the OEM price reduction asked, the greater the supplier price concession given. More importantly, a positive relationship was also found with the supplier's anticipation of being able to make an acceptable long-term return on the OEM's business, the supplier's involvement in the OEM's new product development process, and the OEM's pressure on the supplier to reduce prices. Both the anticipation of an acceptable return in the long-term and the involvement in the product development process create for the supplier a positive situation for potential economic gain in the future. Certainly, no supplier would want to jeopardize its economic future, therefore it is not surprising that a supplier would be more receptive to providing its OEM customer price concessions under these conditions. The same can be said for the price concessions that result from OEM price reduction pressures. If pressure from an OEM customer to undertake a particular course of action is being felt by a supplier, the supplier, in an attempt to placate its customer, will more than likely attempt to meet the expectations of its customer. When these results were discussed with a V.P. of Sales and Marketing for a major Tier 1 supplier we were told, "I'm not surprised. We are not going to do everything a customer expects of us, because we have our own goals we are trying to meet. But, when we think the future looks bright and our customer is really pressuring us, we're more likely to go along with what they want."

It is interesting to find that trust of the OEM did not have a significant impact on the supplier price concession. However, it is possible this result can be explained by the other findings in this study. The implications are that long-term economic

¹ Henke, John W. Jr., Yenyurt, Sengun, and Chun Zhang (2009) Supplier Price Concessions: A Longitudinal Empirical Study, *Marketing Letters*, 20(1) pp. 61-74.

considerations supersede less tangible issues. Furthermore, it is likely that individual perceptions of trust are less likely to matter when organizational considerations are also part of the equation. If the firm will still make money, is involved in the new product development process, and the customer (the OEM) pressures for a price reduction, then these factors will matter more than individual employees' opinions of trustworthiness of the customer. In the same line of reasoning, the results indicate that the help the supplier receives from the OEM in its efforts to reduce costs has a marginally significant positive effect on price concessions.

The results reveal that the product groups with the lowest price concessions, power train and chassis, include parts that are among the longest lasting on a vehicle. Subsequently, over time a supplier has decreasing opportunity for annual productivity improvements. In addition, the majority of parts in these two groups must undergo government-specified safety testing requirements conducted by the OEM, which is very expensive and time consuming, before the parts can be placed in a vehicle. As a result, supplier recommended design changes which could result in price concessions may not be forthcoming until the OEM has completed its required testing, which, because of scheduling issues, can take a year or more. On the other hand, greater price concessions in interior, and electrical and electronics, would be expected. Process and product modifications in interior can occur quite rapidly as safety issues are of relatively little concern, which enables price concessions to be more readily given. The speed with which process and product improvements occur in the electronics industry result in suppliers of such goods passing on savings in the form of price concessions more rapidly and frequently than is typical for other parts that are in vehicles.

The total purchases of the OEM from the supplier in the previous year have a positive significant effect on the price reduction asked of a supplier. Further, according to our results, the price concession received in the past from a supplier is a significant consideration when determining the price reductions to be asked from the same supplier. The differences in price reduction expectations across the OEMs were expected as such differences are consistent with the variation in the OEM cultures and attitudes toward suppliers. Product group differences in price reduction asked could be attributed to differences in productivity improvements and product upgrades among the groups. In addition, it can be postulated that purchasing organizations formulate their pricing expectations based on industry conditions. For example, annual product upgrades and price decreases in the electronics industry are common knowledge and are in line with our finding that the electrical and electronics product group is associated with significantly higher price reduction expectations.

These results provide, for the first time, an understanding of the dynamic nature of the impact of the buyer-supplier relational environment on supplier price concessions. To get the highest price concessions, OEMs should: nurture supplier's perceptions of acceptable long term returns, increase supplier's involvement in new product development, increase supplier's dependence on the OEM, increase the pressure felt by the supplier to decrease prices, and provide support to supplier in cutting costs.

Sengun Yenyurt, Assistant Professor Supply Chain Management & Marketing Sciences, has a Phd in Marketing from Michigan State University and can be reached at yenyurt@business.rutgers.edu.



Dr. Yenyurt's research interests are related to marketing strategy, international business and supply chain management. Strategic market positioning, new product performance, brand management, international marketing strategy, and supplier relationship management are some of the topics on which he is currently working. Much of his research is conducted in the context of the global automotive industry. He authored several journal publications and conference proceedings.

Expertise:

New product performance, brand management, market positioning, international marketing strategy, supplier relationship management.

The *Supply Chain Management Professional Education Review* is a monthly e-newsletter published by the Rutgers Center for Supply Chain Management and Marketing Sciences (SCMMS - www.scm.rutgers.edu). SCMMS is a major provider of supply chain education for today's and tomorrow's supply chain professionals and executives. The *Professional Education Review* will provide information concerning current and emerging supply chain issues.

We value your input. Please contact us at cscm@business.rutgers.edu regarding this newsletter or other SCM issues.