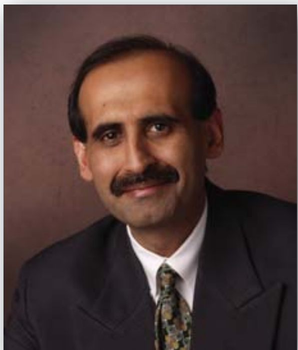
Rutgers
Rutgers Business School
Newark and New Brunswick
1 Washington Park, Newark, NJ 07102

CENTER FOR SUPPLY CHAIN MANAGEMENT

www.business.rutgers.edu/cscm cscm@business.rutgers.edu

Rutgers Supply Chain Management Thought Leaders



Developing Sustainable Supply Chain Core Competency

Alok Baveja, Ph.D.
Professor, Department of Supply Chain Management
Rutgers Business School, Rutgers University

In their seminal Harvard Business Review article, C. K. Prahalad and Gary Hamel articulated core competency as the combination of resources and skills that competitively distinguishes one company from others in its market. In the 25 years since the term was coined it has been used "loosely" in a wide variety of industries and settings, but a lack of rigor in application leads to limited utility in practice. To derive full benefit, it is best to approach the concept more precisely. Even though a core competency can take various forms, it must fulfil three key criteria by definition: (1) difficult for competitors to imitate, (2) able to be adopted across functional units/ markets, and (3) valuable to the customer. It is important to note that all three criteria need to be met for a company's strength to be classified as a core competency. By concentrating on their core competence, executives can optimally leverage their company's resources: they maximize returns by focusing on their innate strength; they build barriers against the entry of competitors; they fully utilize external suppliers' strengths; and they reduce investment and risk, shorten cycle times, and increase customer responsiveness.

Furthering this stream of research, our follow-up work has shown that in today's rapidly changing environment, a dynamic view of core competency is a critical determinant of sustainable success. Operationalizing this dynamic supply-chain-core-competence framework involves developing a portfolio of competencies in 3 categories - Technical know-how, Reliable Processes, and Close Relationships with External Parties.

INSIDE THIS ISSUE

Technical know-how competence involves a deep understanding that arises from an early, substantial, and continuous involvement that includes knowledge of the scientific properties, inter- relationships, and latest developments in a subject area. A reliable process delivers an expected result rapidly, consistently, and efficiently, with the least inconvenience or disruptions. A reliable process can involve the decomposition, re-integration, or transfer of skills across functions, units, or countries. It can also be the ability to customize/combine various inputs to meet a customer's particular needs. Examples of reliable process include consistently obtaining rapid regulatory approvals, in international sourcing without disruptions, in executing cross-border transactions efficiently without hitches or losses, and in transferring an operating culture across nations or to an acquired organization. A close relationship with suppliers, regulators, professional and academic organizations, distributors, and customers can yield several benefits. The firm and partner can identify opportunities for mutual benefit (such as off -peak scheduling). Suppliers can suggest ideas for new product development or execute rapid design changes needed in parts. Professional organizations can provide superior talent. Regulators can facilitate and hasten approvals. Distributors can provide market access and customer information. Customers can suggest new competencies that the firm should develop.

Leading companies do not remain static with existing competencies. Instead they develop new competencies that are on the cutting-edge of emerging business conditions. Our research has shown that there is an ongoing shift in emphasis from internal technical and reliable process competencies toward external relationship competencies. Having multiple competencies can make it that much more difficult for competitors to imitate. It also increases the adaptability of the firm and promotes its long-term, sustained success.

Executive Takeaways

- Full benefit from the concept of core competency can be realized when it is applied rigorously.
- In today's dynamic environment, supply chain core competency can be sustained by building a portfolio of competencies in the following categories – technical know-how, reliable processes and close external relationships.
- Multiple competencies that span these 3 categories make firms adaptable and their core competency becomes more inimitable
- Successful and future-leaning organizations are complementing "hard" technical and process oriented competencies with "soft" relationship competencies that take time to build and are extremely difficult and time-consuming for competitors to replicate.

Payment Terms Extension, Further and Further

Rudolf Leuschner, Ph.D.

Assistant Professor, Department of Supply Chain Management and Marketing Sciences, Rutgers Business School, Rutgers University

The fact that many large companies have extended their payment terms has been highlighted in the popular press recently (see references below). The practice of extending payment terms is not new as it affects a critical firm performance measure, the Cash Conversion Cycle (CCC). The calculation of the CCC is rather simple, but its implications are profound. This metric is made up of the average amount of days required to sell inventory plus the number of days needed to collect receivables minus the length of time in days the company takes to pay their suppliers' invoices. Overall, the measure describes how efficient a firm converts its resource inputs into financial benefits. The implications for how firms are viewed by financial analysts are important to mention. For example, firms with a short CCC, will be thought to manage their cash and working capital more efficiently, whereas firms with a long CCC are viewed as inefficient. The consideration of what is considered good or bad varies by industry, for example in the consumer electronics industry the leading firms have negative CCCs, whereas in other industries a range of 80 to 120 days is not uncommon.

The primary manner in which firms improve their CCC is through extending their payment terms with suppliers. The main reason for this strategy is due to the considerable power a customer holds over their suppliers. As a result, Procter & Gamble was able to free up around $2 Billion of cash by extending payment terms from an average of 45 days towards 120 days. This is in relation to the roughly $50 Billion of annual procurement spend. For Procter & Gamble, it was a matter of catching up to their competitors, who were already paying their suppliers later. Soon after the announcement, Mondelez announced they would extend their standard payment terms. At the high-end, automotive parts retailers such as Autozone and Advanced Auto Parts have settled on payment terms upwards of 300 days. It is not unreasonable to expect that the trend continues to spread into other industries.

For supply chain management (SCM) professionals, it is an important consideration as it directly affects the negotiations with suppliers. It is clear to industry observers that the days of 2/10 net 30 are gone. The question of the role of SCM in the terms extension journey remains contentious. While in some firms the impetus to improve working capital can come from SCM, they are often being brought in at the last minute to help execute the treasury initiative. However, sourcing can also be the biggest barrier to implementing a successful terms extension project. There are several tools managers can use to create a win-win situation. Several large banks offer Supply Chain Finance programs, in which liquidity can be injected to give the suppliers access to low-cost early payment options. Similar options are available via third party technology platforms, but the difference is that the funding options are more flexible and the number of suppliers that can be added to the program can be much larger. Lastly, corporate credit cards, or P-Cards can be adapted for this purpose as well. In conclusion, there are numerous options for SCM professionals to partner with the other functional areas on payment terms, and a first step is to be well-informed about the numerous options that are available.

References:

Storm, S. (2015, April 6). Big Companies Pay Later, Squeezing Their Suppliers. *The New York Times*. Retrieved from http://www.nytimes.com

Ng, S. (2015, April 16). P&G, Big Companies Pinch Suppliers on Payments. *The Wall Street Journal*. Retrieved from http://www.wsj.com

Rutgers Ten Plus Supply Chain Case Competition Recap

Steven J. Pan
Rutgers Business School, Class of 2015
B.S. in Finance and Supply Chain Management

The Rutgers Ten Plus Supply Chain Case Competition, hosted by Rutgers University on March 26 and 27, was one of the most unique and rewarding experiences during my four years as a student. The event brought together major colleges specializing in Supply Chain Management to compete in the Undergraduate and/or Graduate levels. Teams were given a case study and tasked to develop a solution within a week in regards to the medical device excise passed by the Affordable Care Act. Eight teams competed for the opportunity to present in the finals where an extension to the case was given and two teams from each track advanced. Ultimately, Rutgers and Arkansas won 1st and 2nd place respectively for the Undergraduate competition while Pittsburgh and Iowa won 1st and 2nd place respectively in the Graduate one.

This competition was unique in many aspects. The first was how much the competition mirrored the real world through the case and judging process. The case was rooted in what multiple companies faced after President Obama implemented the new tax. In addition, the judges were allowed to interrupt presentations to ask questions during the final round which mocked typical executive proposal meetings. The most beneficial portion of the evening; however, was the multiple networking opportunities to meet both students from other schools and industry professionals.

Representing Rutgers was not only an honor and privilege, but it also carried the weight of a strong expected performance. With my team comprised of both Newark and New Brunswick students, the event showcased the difficulties yet strength of a combined effort from both campuses. From the perspective of a student, this was more than a case competition. This was a special event to bring together faculty and industry leaders to showcase what Supply Chain has become. What began as a new concept almost a decade ago has now transformed into one of the most popular and recognized majors in business schools around the world. It is through events such as these and the dedication from faculty and industry professionals that Supply Chain continues to recognize its enormous potential.

I would like to thank the Board, Rutgers' corporate partners, Johnson & Johnson, Dean Lei, Professor York, Professor Weiwei, Rudi Leuschner, Eric Larson, the participating schools, and the other faculty and staff of Rutgers for hosting such an amazing experience – one that I will never forget!