

International Business Strategy

Lecture Ten

Global Supply Chain Management

Introduction to Lecture Ten

In lecture nine we looked at global marketing strategies, where we delved into how business can develop marketing mix geared towards global markets. In the current lecture we look at the global supply chain with a focus on what it is, the players involved, its benefits as well as the challenges in the field.

Learning Outcomes

1. Differentiate global supply chain from domestic supply chain
2. Itemize the players of global supply chain and their role
3. Highlight the risks in global supply chain and how to mitigate them

Introduction to Global Supply Chain Management

With advance in technology, firms can now source their raw materials from anywhere in the world. The same is also true of consumers. The term global supply chain speaks of the interconnected networks of organizations, resources, activities, technologies and processes involved in production, procurement, and distribution of goods and services across international boundaries. Through this definition, it is clear to point out that there are several players in involved;

- **Suppliers**- provide raw materials and may be in different countries
- **Manufacturer/producers**- They convert raw materials into finished products or components
- **Transport and logistics providers**- They are involved in the movement of raw materials and goods from one party to another or within one party's premises.
- **Service providers**: These are parties who may offer services critical to support the supply chain activities. They include banks who give financing, insurance companies, packing firms, freight forwarding companies

- **Distributors/Wholesalers**- They purchase goods in bulk from producers and re sell them in smaller quantities. They also avail them at the convenient location to retailers.
- **Retailers**- These are the final link to the consumer. They sell goods directly to the consumer.
- **Consumers/customers**- These are individuals, organizations or other businesses, who buy the products for consumption.
- **Government agencies**- As we have seen in the past, government has an interest in international trade and for that reason they will have agencies overseeing importation and export.



A ship transporting containers

Source:<http://jguegant.github.io/blogs/tech/performing-try-emplac.html>

Difference between global and domestic supply chain

Comparing the global supply chain with domestic, you can clearly see that the players in the former are many, which also means that the process itself could be very complicated. The following are summarized differences

Cultural and language: In the global context, it will entail different and distant cultures and languages. This makes it complicated as compared to domestic supply chain where the language and the culture could be one and uniform hence making it easy to transact.

Legal issues: In the global supply chain, it tends to have more legal complications given that you are transacting with parties from different countries, hence different legal regimes. In a domestic supply chain, the legal framework may be easy to maneuver through.

Logistical scope- In the global supply chain we have more players and the distance between them could be large. Besides, you could be transporting goods from land through the sea and or the air, all these could also be going through different territories. This complicates the whole process as compared to the domestic one where the transport could be just one.

Risk exposure- The number of risks and their extent are higher in the global supply chain as compared to domestic supply chain. In different countries, there are inherent risks that businesses will have to bear when they are sourcing or shipping goods through such.

Geographical reach- In most cases, the global supply chain encompasses more countries than domestic one. This would therefore mean it is more expansive in terms of reach.

Motives for Buying from Overseas

It is important for us to discuss what could be the motives behind firms buying raw materials or components overseas. Here are some of the motives as pointed out by Lysons and Farrington (2006), but generally firms seek some form of competitive advantage.

1. Intense international competition, when the industry is changing and there is shift in where certain raw materials are coming from
2. Need to reduce cost- A firm is constantly looking out for regions or countries where they can have cheap raw materials
3. Need for shorter product development cycle- Where overseas offers such flexibility or speed a firm may opt for oversea instead of local market.
4. Stringent quality standards- Firms pursuing quality as its differentiating aspects may go to markets where such is guaranteed. KFC in Kenya normally sources its potatoes from Egypt where quality is guaranteed and monitored
5. Manufacturing capacity- A firm could source materials in countries where they have the capacity and flexibility needed. For instance, where they can produce whatever quantity and within limited notice.

6. Non-availability in the domestic market- Some materials may not be available in the domestic market especially such as cotton, rubber, copper, coal among others

Benefits of International Sourcing

1. Access to low cost materials, goods or components compared to the domestic market
2. Access to higher quality goods
3. Access to cutting edge technology that could be missing in the domestic market
4. Better delivery performance such as lead time or turn around time
5. You have a wider pool to choose from
6. Tends to enhance firms standing and its competitiveness

Challenges in global Supply Chain

In as much as we have looked at the motives and the benefits that may come from international sourcing, it is not without its fair share of challenges that firms will have to contend with. In this section we will look at the key ones;

- *Supply chain disruptions*- The disruptions may happen as the business environment in the countries where you are sourcing from drifts. Such things as political instability, wars, or even natural calamities in the source countries would result in disruptions. We all witnessed this during 2020 where Covid-19 Pandemic disrupted global supply chain across the globe. The same is true with Russia and Ukraine at war there are several materials which have seen disruption.
- *Cultural language barriers*- This is probably one of the major challenges that firms must deal with. The fact that countries and suppliers are from different cultures means that doing business successfully in such requires proper preparation. Firms must be prepared to carry out cross-cultural negotiations, which is not always easy.
- *Political and regulatory risk*- As we pointed out earlier, the risk of operating or having your goods pass through different countries adds to the regulatory and political risk in those countries. Thus, the more players and countries involved in completing the supply chain, the higher the risk involved.

- *Ethical and sustainability issues*- Firms have got themselves in trouble for sourcing raw materials from overseas suppliers who engage in unethical practices such as child labor, low wages, and environmental degradation.
- *Foreign exchange risk*- Global supply chain is clearly made possible through use of foreign currencies which are prone to fluctuation from time to time. This may indeed be risky to a business.
- *Difficulties in communication*; Given that time zones and languages are likely to be different, physical communication may be a challenge



Source: <https://blogs.ed.ac.uk/covid19perspectives/2020/05/19/post-covid-19-solidarity-challenges-the-danger-of-returning-to-normal-writes-callum-mcgregor/>

Minimizing Freight costs

Often, in the global supply chain, one major cost element is freight charges or cost. Therefore, a firm must do all they can to reduce or manage these costs. Here are some ways this can be accomplished.

- Aggregating loads to avoid part-empty running during delivery or shipment
- Avoid empty vehicles on return journeys
- Arranging delivery times at off-peak periods to avoid idle or waiting times
- Negotiating lower rates with service providers
- Locating manufacturing near your customers and suppliers

Strategies for Managing Global Supply Chain

- **Lean Agile practices:** Firms must learn to be flexible in terms of their sources, the Covid-19 pandemic pushed firms toward this direction. While the push was toward globalization, currently glocalization has hit the supply chain discipline.
- **Risk Management:** The firm must always analyze the process to identify areas where risk is eminent and find ways to counter such. For instance, where forex fluctuation a firm can hedge using forward contracts for not more than six months. One could also agree to buy in the currency of the buyer.
- **Technology adoption-**Firms must employ modern technologies to manage their supply chain. Block chain, robotics, drones, and IOT. Firms such as Amazon and UPS are extensively using these technologies to not only reduce cost but speed up their turnaround time.
- **Collaboration:** Firms are trying to lock in suppliers and distributors to gain a competitive advantage. Further, they are working together in areas such as co-creation and alliances to ensure streamlining of the supply chain and success of such strategies as just-in-time delivery. We have retailers and supermarket partners with suppliers, and through systems they can monitor the inventory and make delivery decisions for re-stocking. This ensures that the retailers do not have unnecessary stocks or run out of stock.



Amazon drone ready to deliver a package: Source: <https://www.techearthblog.it/amazon-prime-air-spedizione-con-drone-volante-in-soli-30-minuti-e-questo-il-futuro-video/>

Topic Recap

In this topic we have looked at what the global supply chain entails, differentiated it from domestic sourcing. We looked at the key players in this activity, motives and benefits of international sourcing. We finished with risk and strategies for managing the global supply chain. In our next lecture we will look at International competitive advantage, what it is and how firms can gain it.

References

Lysons. K, and Farrington. B, (2006). *Purchasing and Supply Chain Management*, 7th Edition, Pearson Education Limited, Harlow.