

## Recreating Value in Supply Chain by Supplier Development Program - A Case Study Approach

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**Abstract:** In today's world, the companies are spending a huge portion of their revenue for managing their supply chain. Supply chain management is a process that integrates various activities from raw materials to manufacturing and finally to the supply of finished products and services to the end customer. In this paper we discussed the importance of recreating value in supply chain. Here we examined and presented the way Toyota is recreating value through Supplier Development Program. Recreating value consists of three stages i.e., New-born value, Grown Value and Re-born Value (NGR). Through this paper we have explained how these stages are being implemented in Toyota and the lessons learnt from them. There is a need for dynamic value addition by supply chain to deal with competition, environmental issues etc., in emerging markets like India.

**Key Words:** Value Creation, Supply Chain Management, Recreating Value, NGR, Supplier Development Program.

### I. Introduction

Creating value is an enormously complex endeavor both for leaders and for organizations. Value creation is the objective of every enterprise, every worker, and every leader. All employees are judged by their ability to create value. Traditionally value creation is defined in terms of financial measures – profitability, revenue increases, or cost savings. Considering the financial part of value creation, however, is similar to human without heart. It is accurate but incomplete. Value creation is much more complex than understanding the measured financial indicators.

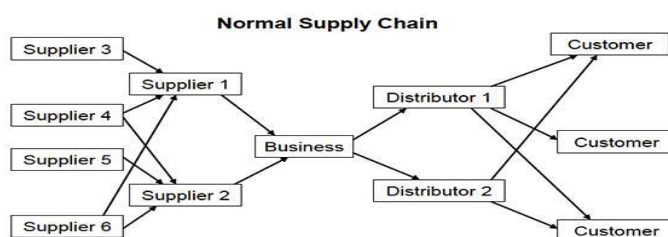
Organizations adopt a more complex way of assessing the value creation. They try to assess 'intangible' and 'tangible' assets and consider value creation in a 'balance score card' way. They recognize that a variety of indicators are associated with value creation, but the diversity and complexity of these indicators make them difficult to understand and communicate. The simple structure underlying value creation is obscured by an awareness of the complexity that is associated with it.

### II. Supply Chain Management

Supply chain management (SCM) is basically an information based process that integrates the various activities from raw material to manufacturing and finally to the supply of finished products and services to the end customer.

According to Stock & Lambert (2001), "supply chain integrates the key business processes of an organization from end user through original suppliers that provides products, services and information that add value for customers and other stakeholders".

SCM is a new way of thinking that takes total view of the business process starting from the source of supply to the point of consumption or usage. Hence, SCM is the integrated management of all the linkages and value added activities from the supplier's supplier to the customer's customer. Supply chain management can also be known as management of chain of supplies.



Kotler (1998) defines customer delivered value as the difference between total customer value and total customer cost. And total customer value is the bundle of benefits customers expect from a given product or service. According to him, customer added value is a set of product value, services value, personnel value, and image value and total customer cost is composed of monetary price, time cost, energy cost and psyche cost. Today companies do compete on the basis of value delivery system. Value delivery system depends on the combinative capabilities of product delivery and service delivery processes. Gattorna and Walters (1996) have extended this concept to the design of supply chain. The supply chain is the network of organizations that are involved through upstream and downstream linkages in the different processes and activities that produce value in the form of products and services in the hands of the ultimate customer (Christopher, 1998). Lalende and Powers (1993) mentioned that value delivery system defines the relationships between organizational entities in the supply chain.

The intense competition and changing business dynamics in the emerging markets of globalized economies and growing environmental, political and social issues forced the business organizations to continuously monitor and recognize the need for recreating value to the ultimate customer. This new recognition created a paradigm shift from creating to recreating value.

### **Recreating Value**

Recreating value is the most systematic statement of supreme evolution of endowing value to customers and stakeholders. It is one of the most clear and comprehensive summaries of perennial philosophy ever revealed; hence it is very important for all human endeavors and highly significant to the present cut-throat business environment.

So how exactly do we recreate value? A focus on continuous, iterative improvement is not enough. It is a supreme evolution of creating endowing value, which can be understood from an acronym NGR derived from universal principles.

- New-born value
- Grown value
- Re-born value

### **Recreating value in supply chain by supplier development program in Toyota**

Toyota is noted for two things that mark itself apart from its competitors. First, its internal organization for providing supplier development is decoupled. Toyota Production System and Total Quality Control activities are taught to suppliers by different parts of the company. This bifurcated internal structure facilitates suppliers to accumulate their 'evolutionary capability' (i.e. capability for capability building) and lower level capabilities at the same time. Second, through Jishuken Groups (self-study groups), Toyota relies not just one-to-one teaching of suppliers, but also on lateral learning amongst suppliers through the practice, rather than the mere representation of capability.

#### **1. New-born value**

Although some organizations do it very effectively, creating new value is the most challenging but most supreme. To create new value requires breaking into a whole new way of thinking. The entire universe demonstrates this very important phenomenon of creating new value in its most subtle forms. Supply chains across the world benefits largely from creating new value to their customers.

### **Origin of Supplier Development in Toyota**

Toyota Motor Corporation's purchasing philosophy is enshrined in the 1939 Purchasing Rules which state: 'once nominated as Toyota suppliers, they should be treated as part of Toyota (as branch plants); Toyota shall carry out business with these suppliers without switching to others, and shall make every effort to raise the performance of these suppliers'. But the post-war trigger for thinking more concretely about supplier development was the so-called enterprise group diagnosis conducted by the Aichi Prefectural Government during 1952-53. The public sector consultancy chose the Toyota keiretsu (in practice Toyota and its 21 key suppliers) as the unit to evaluate along four criteria, namely the existence of a management policy, productivity improvement, quality improvement, and the fulfillment of production plans. The consulting exercise resulted in a heightened expectation that Toyota provide assistance to improve suppliers' company-wide managerial capabilities. In the 1950s, lectures, seminars and training courses for Toyota employees were made available to core supplier employees. For example, a 30 day lecture course on production management, organized by the Japan Management Association, was first held in 1955 for Toyota and supplier employees, and was repeated 20 times until 1967, producing 372 graduates (excluding Toyota employees).

## **2. Grown Value**

The ability to generate more value on a continuous basis by recognizing and understanding the growing needs of customer and also monitoring the competition. As nature helps every living being from strength to strength, the new born value has to be strengthened with time. The expectations of today's new generation customer are growing day by day. The supply chains who work on this grown value can meet those growing expectations.

### **In case of Toyota**

When Toyota won the Deming Award in 1965, JUSE (Japanese Union of Scientists and Engineers) pointed out the sizeable gap in quality standards between Toyota and parts suppliers. Masao Nemoto was appointed to head the Purchasing Control Department, newly created in 1965, preceding the establishment of Taiichi Ohno's Operations Management Consulting Division (OMCD) by five years. While Ohno's mission was to promote Toyota Production System (TPS) among suppliers, his lesser-known counterpart, Nemoto, was to diffuse Total Quality Control (TQC) to the suppliers. This is the origin of the bifurcated responsibilities for supplier development within Toyota. By extension, Toyota's suppliers benefited from the synergy resulting from combining TQC and TPS. The teaching of TPS led to suppliers accumulating their 'maintenance capability' and 'improvement capability', whilst the simultaneous teaching of TQC enabled them to make TPS sustainable throughout their operations, leading to a form of 'evolutionary capability'. The OMCD employs around 50 supplier development engineers, who have come up the ranks after in-company training placements in Toyota factories. Within Toyota, Factory Jishuken – an autonomous study group -- takes place as a culmination of education and training for Toyota's middle managers and first-line supervisors. They are considered the most important repository of Kaizen know-how on the shop floor. Supervisors are given an incentive to make continuous improvements with concrete results, as they are required to regularly present Kaizen ideas in front of factory managers and top management.

## **3. Re-born value**

Like grown value, re-born value relies on expanding or revitalizing an existing value. But instead of increasing the quantity, you increase the quality. Specifically, you can create better value with a change in impact, intensity, or application.

Creating re-born value with impact simply means delivering a more powerful punch behind the value that you currently have. To create re-born value through impact, change the consequence, the effect, the influence of a benefit your offering delivers.

### **In case of Toyota**

An urgent task surfaced with the recession in the 1990s. Whereas in 1988, 57 out of the 77 major suppliers (with 20% or more sales dependence on Toyota) saw their revenues and profits increase, by 1993, only 3 were experiencing increases while 57 were facing declining revenues and profits. Toyota responded by creating in 1993 a Kaizen Promotion Section within the Purchasing Planning Department, staffed by 21 employees (15 of whom came from factory-level production engineering sections, while the rest had cost and accounting expertise). The main task of this new section is to help suppliers secure profits in the short run by various means including cutting pay and freezing investment. In effect, the Purchasing Planning Department's supplier assistance is two-pronged, one aimed at the short-term recovery of loss-making suppliers and the other for longer-term capability enhancement regardless of profitability problems.

## **III. Conclusion**

Value creation occurs when there is an additional value being added to the bottom line of a business. Value creation from the customer point of view entails the provision of services that customers will find consistently useful. In today's business world, such value creation is typically based on constant process innovation as well as constantly satisfying the customer needs with the ever changing business world. This can be achieved by recreating value (NGR) by supplier development program. There is a need for dynamic value addition by supply chain to deal with competition, environmental issues etc., in emerging markets like India. Business is perpetual, hence re-birth takes place, and so recreating value in supply chains keeps the customer enthralled.

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