

**Indian Institute of Science
Bangalore
NPTEL
National Programme on
Technology Enhanced Learning**

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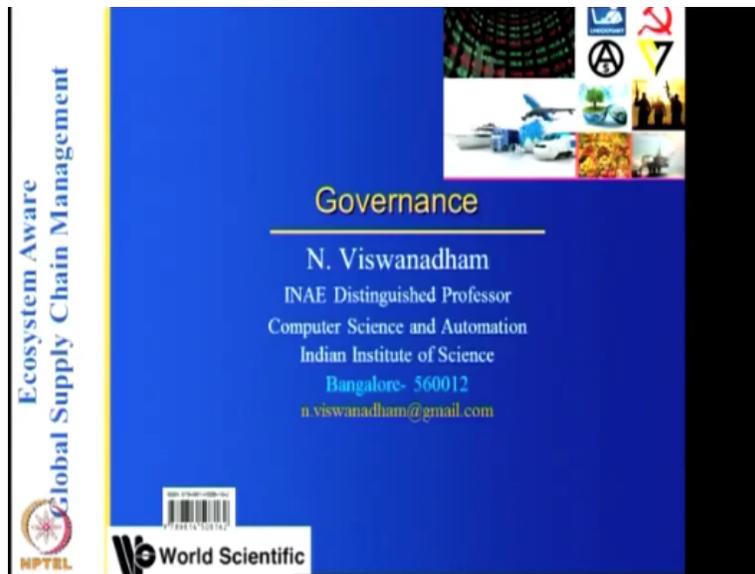


**Global Supply Chain Management
Lecture-18
Governance**

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Yeah the next four lectures we are going to discuss about governance this is governance of a global supply chain network it is a very important aspect and this has been given attention in the previous arena but not as much in recent times and so the result is that there are lot of high cups that the companies are facing because of that so let us go through what governance is and then see.

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So the contents of this lecture and the next one are we talked about the supply chain networks integrated supply chain networks as we saw before there are two kinds of networks one is vertically integrated supply chains another one is networked organizations and we talked about the basic ecosystem the multi-layer governance orchestration model and so on finally concluded.

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The slide features a blue background with yellow text for the title and white text for the bullet points. On the left side, there is a vertical white bar containing the text 'Ecosystem Aware' and 'Global Supply Chain Management' along with the NPTEL logo. A small photograph of a man in a checkered shirt is positioned in the bottom right corner of the slide content.

Vertically Integrated and Networked Organizations

- Until the early 1980s, Firms such as IBM, GM, Ford are Vertically Integrated multi-divisional firms: design, production and commercials remained internal to the firm.
- Now, We have Globally Networked Modular Organizations

So what are vertically integrated network organizations until the early 1980s firms such as IBM, GM, Ford are all vertically integrated multi-dimensional firms in other words they are basically everything from the suppliers to the larger logistic everything thing belongs to only one person one company so that if there is an authority hierarchical authority associated with this particular firm although they are called companies they are basically huge companies with several divisions and each division is responsible for something like design production commercial and so on.

But basically they are all internal to the firm and there is a CEO who is talking about who is in charge of the entire company and under him their Presidents, Vice Presidents and so on so this is the kind of organization that one is used to let us look at more detail of this one but today we have globally networked modular organizations as we have seen in the previous lectures because of modularity of products and that has resulted in outsourcing and liberalization and globalization and all that and so we have network organizations all right there are independent organizations. So let us look at how to govern those kind of organizations.

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The Supply Chain Governance Function

- In Global supply Chains, components visit several countries, organizations such as ports, customs, distribution centres and the facilities of suppliers, contract manufacturers, logistics providers before reaching retail shops & customers.
- These diverse interest groups need to align themselves to create a competitive supply chain.
- The movement of goods, information and finances need to be facilitated by one of the partners or a broker outside.
- Procurement, Planning & Coordination, Supply Chain Execution are important functions of Governance.

So what is the supply chain governance function I mean what do you mean by supply chain in global supply chains components visit several countries organizations such as ports, customs distribution centers and facilities of suppliers ,contract manufacturers ,logistics providers before reaching the retail shop and the customers in other words between the manufacturer and the retail shop there are several organizations and before manufacturing there are lots of suppliers who supply from various countries into this so if you count the number of organizations that are involved in a global supply chain it could easily run into thousands

So when you have organizations which are running into thousands how do you govern them these diverse interest groups need to align themselves to create a competitive supply chain in other words you have to basically govern this and each is an independent company and one has nothing to do with each other and there is no authority of one over the other except there is a common interest of supplying the products so you have to create the competitive supply chain .

So unless the suppliers supply the manufacturing supply the components the manufacturer cannot start his manufacturing and if for some reason supplier cannot supply then the manufacturing stops so there is an interdependence between these organizations and if one cannot function the other is automatically transmitted to the other organization so in such a this one they basically work because of single common goal of everybody benefits everybody has an intense by inside 2 magician.

So you have three as we have seen before we have three kinds of clothes goods information and finances they are to be facilitated by somebody who is either inside or outside either is one of the partners I mean the partners can elect somebody and there is there can be a board which manages it or there is a partner senior partner which is high-profile partner like General Motors or dell or somebody and they try to manage or Wal-Mart but there could be a broker who is outside in other words the broker basically facilitates everyone and here the one who takes all the pains to unify all these people and in making the supply chain work . So what are the functions of this governance the procurement is basically the manufacturing to sub suppliers procure a manufacturer profuse from the suppliers that is a very important function that is usually global international second is planning and coordination who does what and when that is basically it is the planning and coordination is basically is supplies telling people what to do and see that they are given the plans and so on and execution is monitoring and control these are all important functions of governance . Let us see how these are done in this.

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Ecosystem Aware
Global Supply Chain Management

Vertically Integrated Companies

- Coordination and control of activities along the value chain is managed through ownership and direct managerial oversight and sometimes they may stretch across borders.
- Governance Structures in vertically integrated supply chain
 - **Functional Structure** : People and activities are grouped by resources such as finance, marketing, engineering, R &D , HR, etc.
 - **Product structure**: The product or multidivisional form is structured according outputs such as products, services, programs, and projects
 - **Customer-based structure** : GE was organized into aerospace, appliance, construction & power generation. Hong Kong-based Li & Fung is also organized according to customer groups.
 - **Matrix structure** provides both technological expertise within functions and horizontal coordination of the product line for the same departments.

So in vertically integrated supply chains. We have basically coordination control activities along the value chain or managed through ownership in other words we want that so people have to listen to you and direct management managerial oversight and sometimes then may stretch across borders so if somebody General Motors has a company and whether it is in India and China and it may have branches anywhere in the world and but everybody has to listen to the President .

So the President the one who controls the this one so because it is vertically integrated there are several vertically integrated companies like Flextronics, Zara and so on will see some of these examples in this so governance structures have vertically integrated supply chains what are their functions they are basically several kinds of architectures of this one is functional structure the functional structure is people and activities are grouped by resource such as finance, marketing, engineering ,R&D, human resources and so on .

So basically each of these functions have managers who particularly manage and their employees and so on so there are several layers of employees who are trying to help in each case so but each function is different and this is the characteristic of most other firms even today whether that they are vertically integrated or not each firm in a network has this these kind of functional architecture these functional architectures are very popular they are basically available in educational institutions in services and so on.

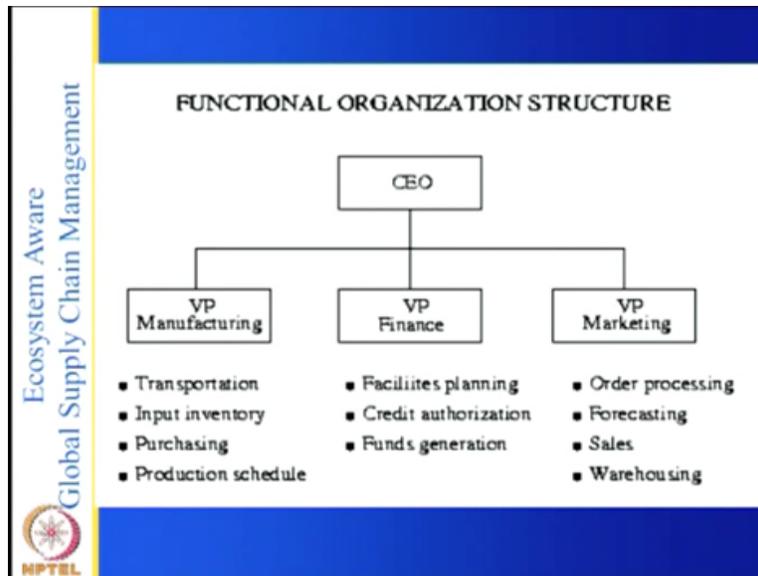
The other kinds of architectures are product architecture it depends on the product and if you are producing several kinds of products so these products are multi-dimensional firms is structured according to outputs products services programs projects and so on so General Motors is an example where it is this one then you get their other organization structures like custom based organizations in other words who are your customers based on the customer if you are for example General Electric has left a lot of this one it has appliances like dishwashers the air conditioners and so on .

So we are basically their customers are the homeowners let us construction and power generation they provide equipment for all these cranes and generators ,boilers and so on so their customers are different and they are Hong Kong-based Li & Fung is also organized according to customer groups so the customers you can say the original customers all customers from US are going to one particular group all customers from Asia they go to another particular group but still it is customer based .

So matrix structure is different matrix structure provides technological expertise within functions and horizontal coordination of the product line into the same departments in other words you have a matrix where you have the functional structures other functional structures are finance ,marketing, engineering R&D and so on and you have processes and which actually run horizontally and these processes are actually use the expertise of finance marketing engineering R&D and HR to.

For example if you have a supply chain process which goes end to end another product development process or a delivery process you require if you have product development you require R&D you require or engineering you require HR you require final marketing and you of course of course require financing everything .so basically it is a process who dominates whether the function of this one or this one it depends on the particular organization and the people involved and also there is what is called process structure.

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So let us look at each of these things one is in vertically there is one let us look at functional organization you have a CEO and you have VP vice president manufacturing vice president finance, vice president marketing and vice president you can have HR human relations depending on the particular organization and the vertical you have several vice presidents now what does the Vice president manufacturing look for you look for transportation to this is the transportation b2b transportation from suppliers to this one and input inventory purchasing procurement from the suppliers and all the production schedules he is in charge of all this.

So if you look at finances look at facility planning credit authorization and funds generation in other words if you have to take bank loans or you have to give loans letter of credits but all that kind of thing is just decided by the finance and VP marketing vice president marketing he deals with order processing forecasting is very important function sales warehousing and so on so each of these functions are dealt with by different people this is a functional organization which is very typical I mean you can if you look at any of these organizations in any country you will find lot of these people organized according to this.

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Customer Based Structure

- Departments are organised around customer groups
- GE is organised as Aerospace , Appliance, Construction ,Industrial and Power generation groups.
- Popular because big (super stores) customers insist on dedicated units to serve their needs.
- Advantage of superior knowledge about the customer preferences and buying habits using POS information, Internet and databases.
- Structure is in line with the current day emphasis
 - Increasing customer focus
 - Outsourcing based on core competencies
 - Competitive advantage through market knowledge
- Service industries such as Banks , Hotels, Telecom firms follow this structure

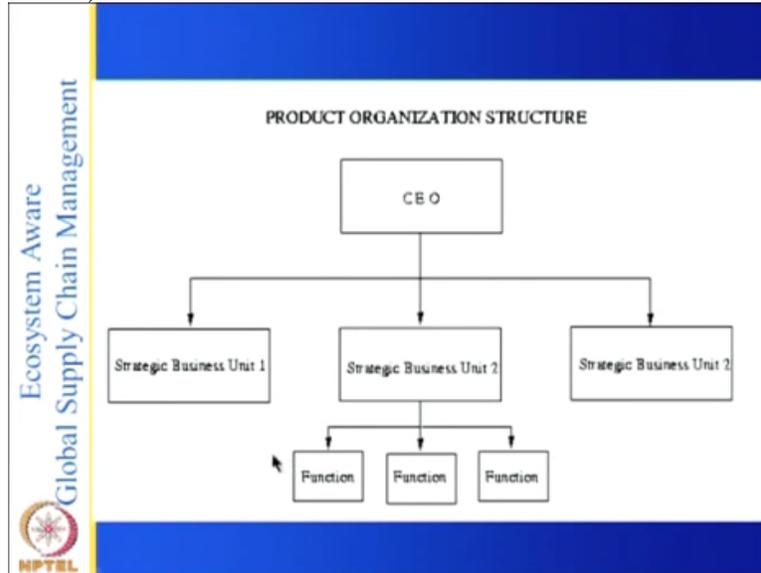
And there is customer based organization structures department organized customer groups GE organized as aerospace , appliance, construction ,industrial and power generation groups so and popular because big super customers insist dedicated units to serve their needs now supposing you have somebody like Boeing to whom GE is applying aircraft engines so in which case you know Boeing wants separate somebody and all the attention that it required and so on supposing there are power generation big boilers and generation equipment is being supplied to the an electricity authority of some state it is a huge budget.

So basically they want attention to this advantages of superior knowledge about the customer preferences and buying habits using the point of sale information internet and databases I mean there is an advantage about that so structure is in line with the current day emphasis you know you say customer is a king so they are saying customer focus outsourcing based on core competencies so how are you outsourcing you outsource somebody where is done if somebody is very good in so sewing you give it the clothes to him.

If somebody is very good in dyeing you give it to him so what you outsource is going to be depending on the core competencies of the people so and core competencies means the customer you choose this outsourcing this one depending on the customer this one and so that is why it is important to have this kind of structure competitive advantage to mark acknowledged so is the current day emphasis is basically customer focus core competencies and market knowledge these are all the things that are in line with the customer .

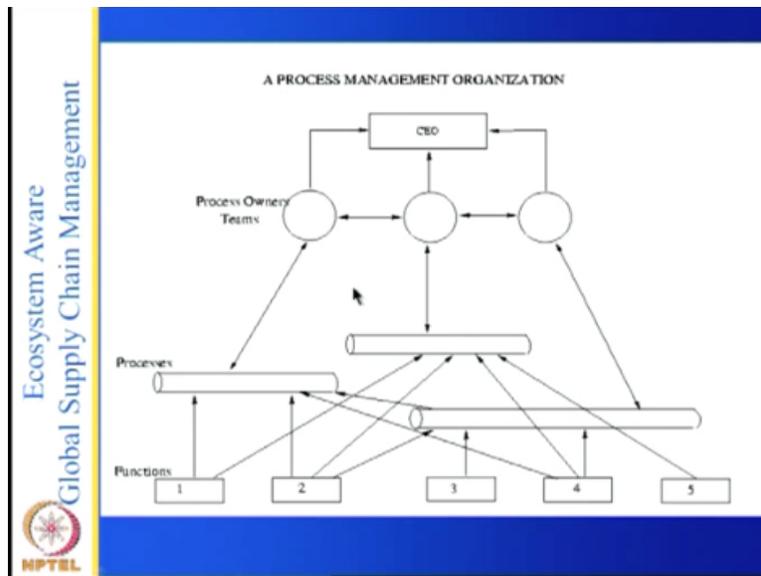
Because the customer is the one that gives the focus depending on that to what the customer wants you need to have those core competencies or this one and also you should have the market knowledge to sell this so this customer focus structures are of that type and service industry such as banks what else telecom firms follow this particular structure .

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So there are product organization structures there what are called strategic business units one two and three and so on if you have car if this is a automobile company then this is one car this is another car this is a small car and these are vans and so on so basically and each has these functional units so each of these strategies units can be again customer based or function based function this one so we you can organize according to the product so basically when you have the customer. The customer is basically wanting the product this is aerospace then in such a case you can have this kind of strategy units for that.

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And you have what is called process based structures in other words you have several functions and functions has set the processor this can be new product development process this can be order to delivery process this can be the entire supply chain process so you can define these particular processes now processes are basically dependent on these functions if it is supply chain then it depends on procurement it depends on manufacturing it depends on distribution it depends on this retailing and so on and supposing this is order to delivery that it depends on distribution it depends on manufacturing and it depends on procurement and so on .

So basically the issue is you define your processes and attach the functions to them and the process owners are the ones who assist the CEO over here so this is the kind of this one if you take a supply chain you have a procurement function you can have this procurement hello is the one who does the procurement and if you have manufacturing well here they say the fellow is manufactured and if you have distribution retail and so on.

Then this is the fellow who does who controls the distributional details and you can see the corresponding functions which are HR finance marketing and manufacturing R&D and all these functional elements are basically organized according to the requirements of these processes. (Refer Slide Time: 18:01)

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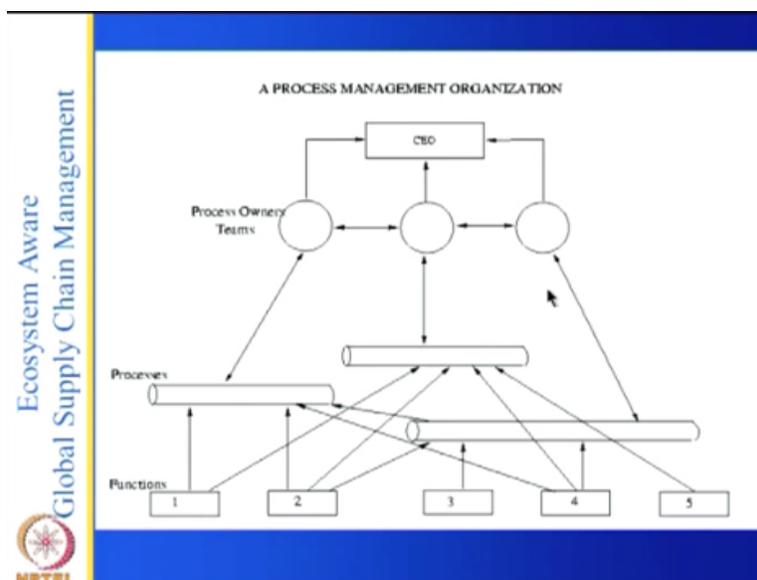
Business Process

- A business process is a structured set of activities, ordered across time and space, with clearly defined inputs and outputs, to produce a specified output for a particular customer or market.
- Emphasis on how work is done in the organization rather than what products are delivered.

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So what is a business process a business process is a structured set of activities , ordered across time and space other words where all the activities need not have to be done at one place so their space they are basically across space and they need not have to be done at the same time so they can be said either sequential they can be parallel with clearly defined inputs and outputs to produce specified output for a particular customer so emphasis on how work is done in an organization rather than what products are delivered.

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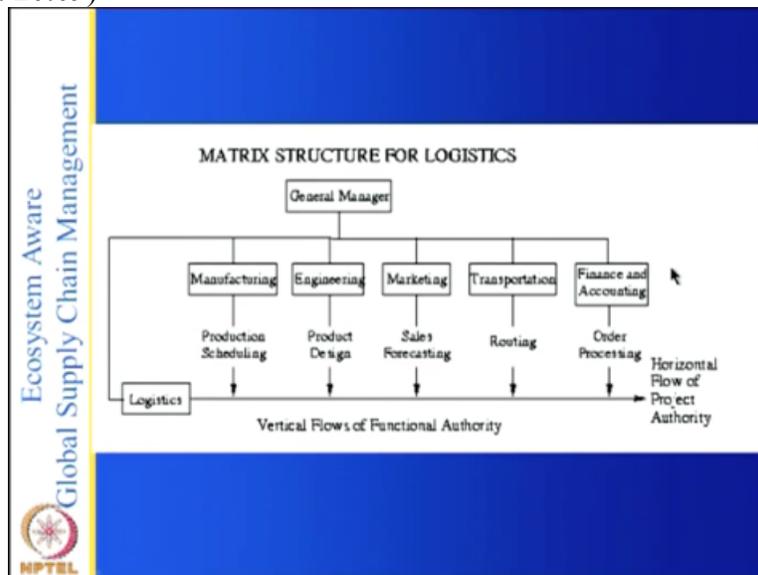


So here if you if I want a new product development process what are all the functions that you require and what are the this definitely you need a HR you need R&D you need the marketing

and other people for new product development process so this is what is important now for this is what this produce which means what is it time that is taken to market a particular product to develop it to get the clinical trials to test it and so on and also what is the what is the amount of the innovations that you are making what is the market for this and so on.

They are all the issues here in the new product development so for this the functions are not important what this produces how many new products are many patents how many have been entered the market and how are they doing that is more important than having an R&D this one so the competencies of the R&D are judged by the process and similarly the order to delivery process. So you can have any amount of inventory facilities manufacturing and all that how much time it is taking to deliver a particular product same thing you will supply whatever processes so the processes dominate in a process management structure.

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But here the matrix structure where you have this functional structures manufacturing engineering marketing transportation finance and accounting and so on and there is supposing there is a function called logistics is a horizontal flow is a project this one kind of thing but logistics is required in manufacturing in other words if you want to tell to get something from procurement function of something get from suppliers then you require logistics if you want to deliver some the things to be over to your distributor then you require the logistics same thing engineering product design may not require so much of logistics .

But marketing the transportation routing sales forecasting and finance and accounting this is the order processing so the horizontal flow is this one so logistics is one thing and similarly if you take some process like HR you can take other process like finance so basically they become the processes then you have the matrix structure for this so in other words the authority rests with these guys so finance guys or logistics guys or HR guys they do not have authority they basically have to listen to these people because there are supportive functions of these functional unit .

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So let us go look at one of the examples here and the example is a company called Zara which is a vertically integrated company.

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Zara Supply Chain- Highly Unconventional

- Zara defies most of the current conventional wisdom about how supply chains should be run. Some of Zara's practices may seem questionable, if not crazy, when taken individually.
- While its peers outsource, Zara keeps almost half of its production in-house.
- Zara intentionally leaves extra capacity.
- Zara manufactures and distributes products in small batches.
- Zara manages all design, warehousing, distribution, and logistics functions itself.

Zara is a supply chain it is a company which I taken as a Spanish company based out of Barcelona and it is basically a subsidiary of company called Inditex and so I took this example because it is so unconventional what is unconventional it is a fashion high fashion company if he is a fashion company of her clothes basically whose customers are young people ,women children and so on .

So basically the what is the one that is important if you look at the what these fashion companies do they usually do the design and have catwalks and so on and afterwards their manufacture which is broadly usually outsourced to some people and then they get it to the distribution get it to the retail shelves for summer for winter for spring for and so on so and forth.

So for all the seasons they get it to the market the new ones and afterwards their sales and all these kind of things that happen in other words if you take typically a fashion company what are the three or four this one your design is very important it is done customer custom design their words their design teams who are looking at the fashions and afterwards they test it out and catwalks and so on and second thing they do is they take the designs and then outsource it to some low-cost manufacturing and third one they do is they basically you know prices gives it to the retail stores to sell it .

In other words except basically for the design all the other things and the brand design and brand all the other things are all given to outsiders but this order is different so order defines most of the conventional wisdom about how supply chains should be run. Some of Zara's practices may seem questionable, if not crazy but when taken individually so let us look at what

are the practices while its peers outsource, Zara keeps almost half the production in-house so Zara basically does everything by itself.

Now Zara intentionally leaves extra capacity so if you look at any of the manufacturing firms they are highly asset intensive in other words most of these firms have capital expenditure in terms of machines in terms of human resources experts doing who knows what to do with those machines and so on so given that kind of thing what you do you want to do you want to run the factory 24 hours you want to have every machine utilized 24 hours.

So but then Zara intentionally leave extra capacity it does not want to load itself for 24 X7 so Zara manufactures and distributes products in small batches so most of the people what you know you know in fashion this one the larger the batch sizes then you get into economies of scale what happens is for each batch size you have setup costs in other words all the equipment or the people that they have they have to be tuned to that particular batch of products if you are doing a shirt of certain color or if you are doing trousers of certain color or you are doing skirts of a certain color depending on what it is .

Then the entire this particular because the manufacturer and this one has to be this one what people do to reduce the set-up cost what people usually do is to have large batches so if you have a batch for example which runs the whole day then in such a case you need not have to have you reduce the set-up cost but Zara manufactures and distributes products in very small quantities in other words it wants to sell whatever it produces within two weeks otherwise the whole thing is goes off so it leaves all its equipment some of its equipment without work and so on .

So basically you have this is another unconventional thing Zara manages all design warehousing distribution logistics itself so it highly centralized company it does like old companies it has everything by itself it does not outsource so it does not believe in core competency principles and low cost outsourcing and local going to low-cost countries and so on it does everything by itself now .

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Zara Why is it What it is

- *We invest in prime locations. We place great care in the presentation of our storefronts. That is how we project our image.*
- *We want our clients to enter a beautiful store, where they are offered the latest fashions. But most important, we want our customers to understand that **if they like something, they must buy it now, because it won't be in the shops the following week.***
- *It is all about creating a climate of **scarcity and opportunity.***

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What about design will come to that design is an important thing a very important thing here as I said before that Zara does not spend much time in the design whereas other spend time in design what does Zara do for design actually what Zara says is we invest in prime locations most of these fashion shops are not in favor prime locations because prime locations rents are very heavy so they are not but Zara always is in prime locations we place great care in the presentation of our storefronts .so if you look at Zara this one the presentation and it is in high places and it is the presentation is excellent that is how we project our image.

So the image is great that is over there but they are in the high street and their presentations in the store fronts are all excellent so but then we want our clients enter a beautiful store and feel good and where they offer the latest fashions and at reasonable prices but most important we want our customers to understand if they like something they must buy it now so there is pressure on the customer.

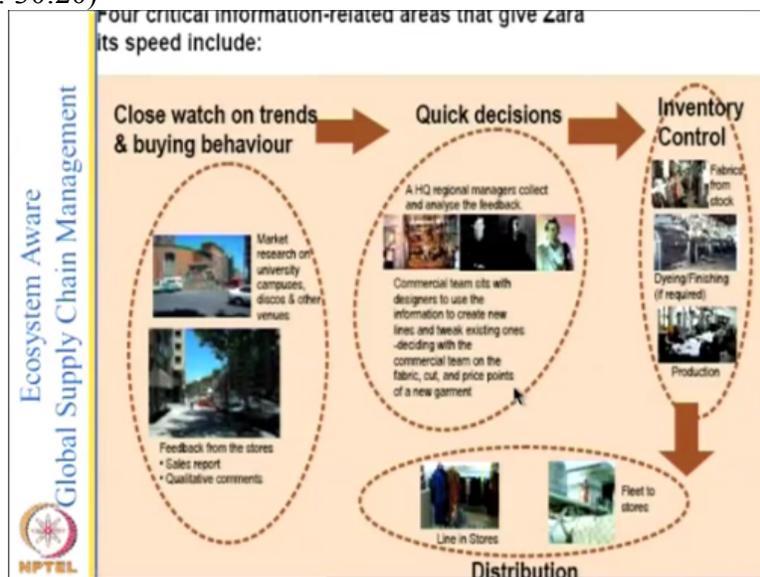
If they like something it has to be you have to buy it now because it won't be in the shop in the following week either it is sold to somebody else or it is removed from the shelves so Zara make sure nothing is on it shelves for more than two weeks so that push on the pressure on the customer say that if they like something, they must buy it now, it is all about creating a climate of scarcity and opportunity.

So it is reasonably cheap affordable by the middle class and if you want to buy ,buy it now you make the decision now and you will find that the average number of visits to a Zara shop

are much more than average number of visits to any other shop that is because people find that Zara changes things very fast and they follow this pattern of keeping what is fashionable today and the fashion this is changes every 15 days so it is being updated so it is not like other stores where they basically use either spring or summer they therefore seasons but for Zara it is every day's season.

So there are 52 seasons or if they change start keeping in this so the number of seasons is different so this scarcity and opportunity is the one that how that is how Zara puts pressure on the customers.

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So if you look at this Zara this one how does Zara design things this is the one that is important here close watch on trends and buying behavior so this is like reverse engineering they do not design you know some exotic things and so on they are basically look at what is being used or what it being what people are using today market research on university campuses discos and other venues where are these young people so you look at look what they are feeling what color is they like and so on and feedback from the stores sales report qualitative comments .

So instead of designing something and then trying out on catwalks and so on what Zara does is observe the behavior observe the behavior of your customers in various places like in the schools in the markets and get a feedback reports of what is being sold in various retail shops

and so on so that is the design so the design is basically not the kind of original or something it is collecting various information it is called crowd sourcing in other words you find out from various catwalks various exhibitions and so on and then that is design .

So that is one of the things how Zara differs from other companies so and quick decisions there is a headquarters regional manager collects and analyzes the feedback there is a regional manager who collects and analyzes the feedback and then commercial team sits with designers to use the information to create new lines and break existing ones deciding on the commercial or the commercial team on the fabric cut and trace points to the new garments.

So there is there is a designer team there is a soil team and so on they decide depending on the feedback that you get and depending on availability of the fabrics they basically decide on what is to be made of course what had the inventory control the fabric from the cloth and dyeing, franchising and production so here you should know at one point that the Zara has an inventory of the cloth so supposing the fashion is fine that there is some color some design shirts which are famous on silk .

But they may not have silk an inventory they make it on a cotton and then try and sell it and show that it is a brand which is cheaper for then that but it is a equivalent in terms of the fashion well of course finally distribution do all this to stores. so there are four things that Zara does one thing is closely watch the buying behavior so you need a how to invent what it will be buying behavior watch what it is today and supply within two weeks those products before anything changes with the customers and of course you go through the procedure of whatever you have observed using your inventory manufacturing or and then using this and so on.

So you have stated the art inventory stores and all that to store all this you have excess manufacturing capacity so you could do all whatever you want with those.

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ZARA Supply Chain

- Zara removed value design the traditional fashion industry business model. Instead, Zara would scan for the best designs by following the world's leading fashion shows and scanning promising designs of others.
- The designs are shared with a network of Zara factories, which produce required quantities just-in-time.
- All items are priced and tagged before delivery to the stores.
- Zara can react swiftly to changing market trends and quickly distribute new products throughout its system.
- While other companies in the industry take up to nine months to get new product lines into their shops, Zara takes only two to three weeks.

So what is Zara supply chain here Zara supply chain is Zara removed value design the traditional fashion industry business model so if you look at the fashion industry in the tradition this traditionally when design is one of the fundamental things and then they try it over this instead Zara would scan the best designs by following the world's leading fashion shows and scanning promising designs of other. so this is I mean either you can call it reverse engineering or crowd sourcing whatever so .

They do not want to spend any anymore any time on this so once they observe a fashion the color the type the designs and all that within two weeks it is in the shelf so that is where their expertise is they want to concentrate on that the designs are shared with a network of Zara factories which produce the required quantities just in time usually what people take six months they do it in two weeks so that is where the fast in time comes all items are priced and tagged before delivery to this stores.

So the stores fellows because they are also it is vertically integrated even the stores are owned by Zara so at the factories itself all the items are priced and tagged .Zara can react swiftly to changing market trends and quickly distribute new products throughout its system so you can see here that is the shift change to market trends and distribute the products as I said you observe the design change that is the market trend immediately your team goes.

In and try to prepare and manufacture those goods and they are all supplied including manufacturing within two weeks so that is how Zara says so from design to everything is

super fast in case Zara while other companies industry take up nine months to get new product lines into their shops .

Zara takes only two or three weeks so that is huge immense advantage where if something is not fashionable you do not spend your time that is the advantage and if something is fashionable you use all your resources to get to the market what is fashionable so in this kind of environment you do not lose much but it follows the unconventional philosophy like design and art not its own its crowd-sourced whereas and also the has excess manufacturing capacity and very high profile equipment modern equipment and so on. So but it is everything yourself so it does not outsource anything.

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The slide is titled "Comparing ZARA with GAP & H&M" and is part of a presentation on "Ecosystem Aware Global Supply Chain Management". It features a speaker in the bottom right corner. The slide content is as follows:

- Zara's business model differs from that at H&M.
 - H&M Outsources all of its production, Prices lower, Spends more on advertising, and its Stores less upscale.
 - Zara's retained many production activities in house and kept all internal and external activities under its strict control
- Both GAP and H&M relied on a traditional "push" approach, devoting substantial resources to advertising. Zara used a "pull" approach, attracting shoppers with small collections and new weekly offerings in reaction to customers.
- At GAP, design preceded manufacturing-commercial activity, while Zara takes a team approach to the design-manufacturing-commercialization activity.

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So suppose you want to compare Zara to other business model such a demand GAP and others and Zara business model differs from that of H&M . H&M outsources all its production , prices lower and spends more on advertising and the stores less upscale right so here it outsourced so that it can dry slower and it spends more on advertising and stores are in upscale so Zara retained many production in-house and keep all internal and external activities under strict control.

It does not spend any money on advertising it does not advertise and it is prices are reasonable and all its stores are in high profile as we have seen both GAP and H &M they realized on traditional push approach there are two approaches that people follow one is push that is you

manufacture something and send it to the stores and you have all kinds of advertising and other campaigns so that you can basically motivate the customers to buy that is one thing on the other hand what Zara follows is what is called the “pull” approach.

We are attracting shoppers the shoppers with small collections and new weekly offerings in reaction to the customers so you find out what the customers want you supply them within the almost just in time like the order make-to-order kind of thing and they basically supply to the customer within two weeks at a reasonable price so you get what you want and if pay a little more and there is no Zara has no sales in terms of you know none of the Zara’s products are refurbished or sent off to the market to the distribution centers .

At Gap design preceded manufacturing and commercial activity, Zara takes a team approach design manufacture and commercialization all done and put on at one stroke so you look at they look at what customers want you design you manufacture you commercialize send it to your store so in other words in the fashion industrial design is important the Zara does this crowd sourcing and in the fashion industry .

They have prices are important it prices reasonably and in fashion industry they hope people look for low prices and in stores like Wal-Mart and others and in sales but these puts in high places in the high markets and basically and prices it low and people keep inventory for a long time maybe 3-4 months but Zara keeps it only for two to three weeks so if you look at what is the kind of organized governance structure that Zara has it is a just-in-time governance structure in other words .

Whatever happens inside the system there must be somebody who is coordinating all the activities for each order for whatever they observe whether it is a pant or a short or a skirt or whatever then different people come into different designers come into action and different materials are sourced or you whatever is there is used and they go to the market within two weeks and they are removed from the shelves if they are not sold within two weeks . So this is the kind of approach that Zara follows.

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Ecosystem Aware
Global Supply Chain Management



The Management Team

- The key governance team for managing internal activities for each product line is a trio consisting of
 - the (final) designer (using CAD-CAM technology)
 - the commercial person (talking to the store managers and analyzing previous sales)
 - the supply chain person who ensures that the agreement to deliver the new fashion collection to the shops every week and also change collections in seventy percent of the stores could actually be made.

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So what is the management time here the key governance team for managing internal activities for each product line it consists of the designer is important but the increase the designer or not is the innovative techniques but it is crowd source of knowledge what people are interested so it a knowledge base design or it is data based decision making or database design and the commercial person we talking to the stores managers and analyzing the previous sales and the supply chain person who ensures that the agreement to deliver the new fashion collection to the shops every week and also change collections in seventy percent of the stores could actually be made .

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Ecosystem Aware
Global Supply Chain Management



Risk of failure of the Zara business model

- The explicit, public, and general nature of a business model makes replicating another firm's business model trivial. **All evidence is to the contrary.**
 - The multiple failures of established airlines – Delta, Continental, and so forth – to replicate the business model of Southwest Airlines suggest the challenge of copying a model that is explicit, public, and general.
- Attempts to replicate best-practice operations typically disappoint. Replicators often fail to appreciate the complex interconnections of multiple activities that constitute a “best practice.”

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So I mean let us look at whatever may be the governance structure you can have it because I say hierarchical structure it is basically all products it is not product dependent it said whether it is a skirt or something somebody managers but the designers are different and thought that what is the risk of such a new role business model .When some things fail the explicit public on general nature of business model makes replicating another firms business model trivia how do you get how do people say how do you become highly competitive .

So that nobody else can basically imitate you that is the thing that this one but the model that Zara has is it looks so easily imitable why that is because oh you crowd source under design and once you have the designs which people want anybody can do the sewing anybody can do the ironing and it can go to this market so there can be several other who are doing and so the Zara's can be counterised. All evidence is to the contrary.

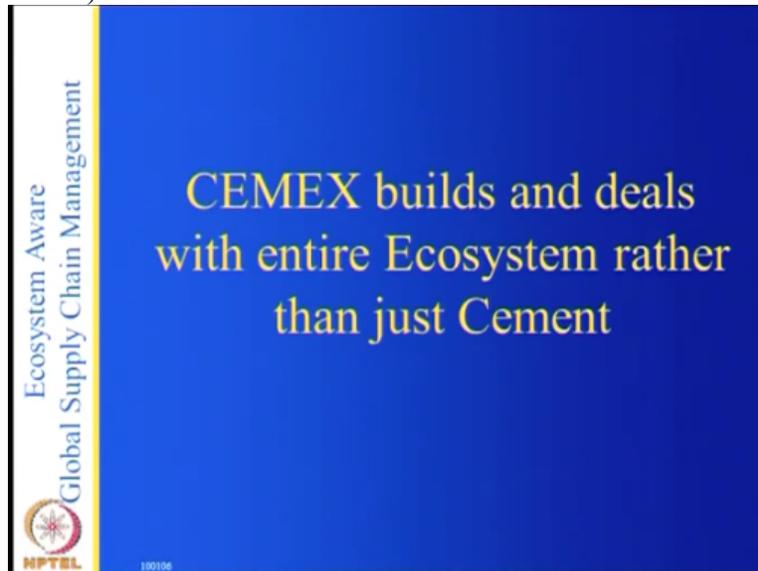
Because suppose you look at the multiple values of airlines like Delta continental and so forth to replicate the business model of Southwest you know Southwest Airlines in the United States is a very popular airline and it is very successful model which imitated the bus model where it outsources everything except it is this one they are aircrafts and all that and it looks at the once you understand the module it looks as though it is easily replicable but then lot of commercial airlines like delta and continental and so on they basically try to imitate what Delta is doing .

But then they failed so attempt to replicate best practice operations typically disappoint replications often fail to appreciate the common complex interconnections of multiple activities that constitute the best practice so what is the best practice here what is it the Zara has it is not just core competencies and doing this and that and the procedure or something maybe somebody can imitate it better and undo things better but it is not always is better to be always possible and it is not easy.

So the risk of failure of Zara is very little in other words the market is down you do not manufacture ,you manufacture whatever is the one that the market wants if there is high inflation and people cannot afford high cost products Zara can manufacture low-cost products and sell it to the market so but on the other hand it does everything itself so is it competitive with other companies the answer is it is complicated with the other companies in several other factors like other companies they cannot sell all the products they have.

So they have extra stock which they have to basically discount to sell at discount but Zara sells all most of it stock at the right price it at the right price tags it does not discount very much so there are other ways in which Zara gains and so on so it is basically one it is an excellent example of something unusual a company doing something unusual and doing and being the best of the companies and so on.

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The slide features a blue background with yellow text. On the left side, there is a vertical white bar containing the text 'Ecosystem Aware' and 'Global Supply Chain Management' above a circular logo with a compass rose and the acronym 'NPTEL'. The main text on the slide reads: 'CEMEX builds and deals with entire Ecosystem rather than just Cement'. At the bottom left of the slide, the number '100106' is visible.

So let us look at another company which is CEMEX which is a cement company and it deals with entire ecosystem rather than just cement.

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The slide features a blue background with yellow text. On the left side, there is a vertical white bar containing the text 'Ecosystem Aware' and 'Global Supply Chain Management' above a circular logo with a compass rose and the acronym 'NPTEL'. The main text on the slide reads: 'Customers need Construction Solutions (Service) not Cement'. Below this, it says: 'We need to supply not only Cement but also a broad range of other building materials leveraging our world class logistics and distribution capabilities to help our customers succeed.' At the bottom, it reads: 'Lorenzo Zambrano- Cemex CEO 2001.'. At the bottom left of the slide, the number '100106' is visible.

So let us look at that and the customers need construction solutions not cement well cement is something which you cannot really use unless they along with other materials it is used in building construction and all that so you require other materials like steel ,like gravel and others use it so basically we need to supply not only cement but also a broad range of other building materials like steel, leveraging our world-class logistics and distribution capabilities to help our customers succeed.

So we made earlier here is that do not sell just cement sell building materials now they said that makes you a distributor rather than a manufacturer but whatever it is you are sub a company which are supplying building material solutions not just cement that is the decision of this one .

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The slide is titled "CEMEX Customers" in yellow text on a blue background. On the left side, there is a vertical banner with the text "Ecosystem Aware" and "Global Supply Chain Management" in white, and the NPTEL logo at the bottom. The main content is a bulleted list in light blue text:

- CEMEX Designs and manages specific supply chains for each customer segment
 - Distributors
 - Small house constructors
 - Ready mix concrete dealers
 - Value added transformation companies: slabs, pre-fabricated concrete blocks
 - Large infrastructure projects: airports, roads, housing complexes, etc.

So the CEMEX has who are all the designs and managers specific supply chains for each customer segment so it has customers who are distributors they have small house constructors ready mix concrete dealers value-added transformation companies like slabs prefabricated concrete blocks and large infrastructure projects like air force, roads ,housing complexes etc so basically for all the years each has a different value chain for example distributors you have to supply cement and gravel and all that to the distributor's set this so all that you are doing is apart from your cement they for other materials .

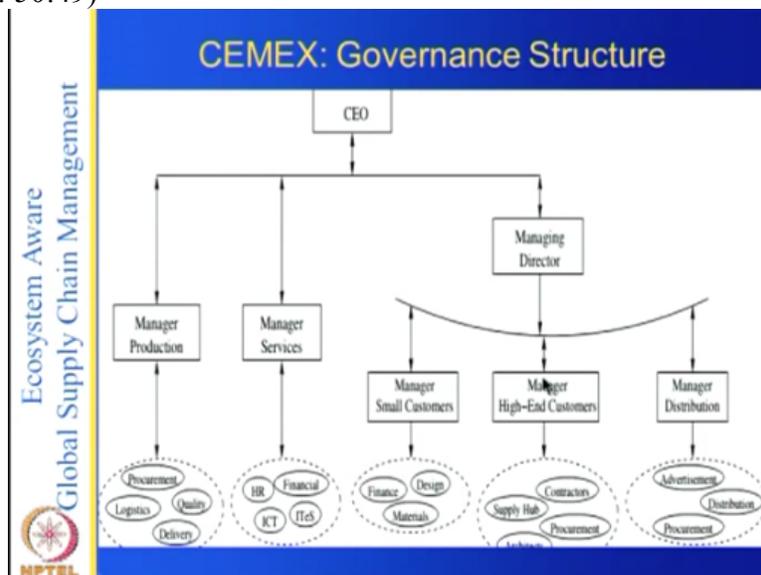
You are using the distributor's this one the volumes to negotiate with the main players it is like steel companies and so on and in small house constructors it is important that they basically are small they require financial help and also they also require in small quantities so

they may not have built the entire house they may basically extend a room and so on or have some equipment and so on so they should be able to get financial assistance and do this . And for example a large infrastructure projects like airports roads and so on you can create a supply hub just before a project this one once you create the supply hub then you know all the material that is needed is there and they can get it and supply too well as and when required and so on but the supply hub is owned by CEMEX .So in other words you are trying to add value to the people and they are taking the role of distributor rather than a cement manufacturer .

Now in large infrastructure projects they also do help in terms of architecture how to architect the whole thing so the point here is that when you are doing such a this one extend the whole thing into such a big scale supplying building materials architects and financials and so on then cement becomes only a small part of the whole deal that you are selling so it is very easy to sell your cement when you are talking of the large pie because cement may become only fifteen twenty percent of the pie.

And when you are doing so many things nobody bothers what kind of cement as long as the quality of the cement is this one so your marketing is in terms of the value change for each of your customers rather than doing this just only cement where a lot of other companies just do this event.

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So if you look at the organization structure of this is they have to produce cement that is the manager production procurement quality logistics delivery and so on that is for the cement there are services that you require for this company like financial HR, ICT and ITES and so on so they require manager services but there is a managing director for each of these customers they are customer focused because managers small companies, manager high-end customers ,manager distribution and so on and basically they do all the things .

So what are you selling what does CEMEX sell the governance structure is organized according to the customers as we have seen before and although it is basically a vertically integrated so what we have here is we have organizations which are vertically integrated and they have basically we have shown two examples one is cement which is a commodity product and another one is a highly fashionable project Zara and CEMEX and looked at their governing structures both are two companies which are doing very well .

And you will learn some peculiarities of these companies while looking at the organization structures but they are doing very well because that organization structures are very good so that is an important point and both the organization such as look so simple and you understand it and their look based on the so called best practices and they look imitable but they are not easily imitable. Thank you.

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