Global Supply Chain Management in Emerging Markets

Global Supply Chain

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Abstract

This article focuses on strategies, opportunities and risks of entering in an emerging market. The possibility of building a successful and long run partnership in the supply chain is the basic idea developed in this paper. This kind of relationship can optimize the supply chain and lead it to a better competitive position.

Despite the fact that globalization increases the uncertainty in manufacturing operations, the high level of competition among supply chains calls for long run alliances as a source of surviving in a global competition. We point out how the emerging markets can contribute to optimize the supply chain.

I – Introduction

A supply chain is a network that encompasses production and distribution facilities that procure raw materials, transform these materials into intermediate and finished goods and distribute the finished goods to customers (LEE, H.L. BILLINGTON, C., 1993).

Globalization motivated by pressures like access to emerging markets (EM), lower costs, higher productivity, quality-effectiveness, among others, has been leading supply chains to a new kind of organization without borders, with globally located suppliers and production and distribution facilities.

This trend towards globalization, aided by the liberalization of trade policies by governments around the world, is likely to strengthen in the future. Global location of production/distribution facilities and time based competition have crucially transformed the way in which business activities are organized, managed and carried out. (BHATNAGAR R. and VISWANATHAN, 1998). Time based competition means shipping small quantities as near to the time of demand as possible. In contrast, a global supply chain creates the need for efficiently manage intercontinental manufacturing , transportation and distribution of goods.

There is no commonly accepted definition of what is an emerging market/country. However, there are three aspects of the economy of a country that underlie several definitions (ARNOLD, D.A., QUELCH J.A, 1988): i)The absolute level of economic development usually indicated by the average GDP; ii) the relative pace of economic development, usually indicated by the GDP rate; iii) the system of market governance, in particular, the extent and stability of a free market system.

The potential of attractiveness is another concept of EM frequently adopted. For example, Brazil is considered by multinational companies (MNCs) as a very attractive country, where there are many opportunities for developing long term partnership. This attractiveness is a result of liberal economic measures adopted recently.

Some characteristics of EMs like a high level of regulatory laws, closed markets, price control, the propensity to change business regulations frequently and unpredictably, among other regulatory rules have become obsolete in many EM, because now they are adopting a new competitive and strategic approach to enhance their companies and attract foreign investments.

To the emerging market corporation, to be a participant of a global supply chain means a great opportunity to improve technical and organizational skills and have access to new technologies and new markets.

In EMs, the competitive advatange can be easily created or eroded due to the turbulent environment. For example, a competitive advantage in production costs can be created or eroded only due to a currency devaluation. If this situation has a great impact in the supply chain performance and the new change rate will not be modified in the short run, the supplier will be replaced by another global supplier whose costs and other performance measures are more favorable to the optimization of the supply chain.

The existence of a logistics infrastructure is a prior condition to establish a good relationship with EM partners. This infrastructure is related to an efficient and extensive distribution system/channel, a suitable information technology environment, an efficient transportation and warehouse system and the possibility of alliance between manufacturing firms and global logistic service providers.

To ensure success of a global supply chain partnership, it is necessary an evaluation of the partner performance in some important variables, like asset costs (technology, capital equipment, facilities, inventory), time based performance measures (order cycle, lead time variance, delivery performance) and physical logistic costs (transportation, warehouse).

II – Strategies and Competitive Advantages in Emerging Markets

Actually, many MNCs highlight investments and partnership in emerging markets, because they constitute one of the major growth opportunity, despite the fact that emerging markets are high-risk environment for entrant corporation. The tangible advantage in establishing partnerships is mainly the benefits like benchmark products, domination of distribution channels, the brand reputation effect, low production operation costs, among other advantages.

From the perspective of global supply chain (GSC), the MNC that intends to expand its supplier base towards emerging countries should manage its process of value aggregation (internal or external) through the following mechanisms:

i) share competencies and learn from the experiences of the parts involved in search for new opportunities;

ii) stimulate transversal collaboration in the development of products and processes. The result of collaborating and sharing skills along the chain leads to the development of metacompetences within the chain, which will allow more efficient use of resources toward improving the value added by activities;

iii) if necessary, make changes in the product strategy, technologies or processes of the global chain in order to achieve the EM. This is related to a re-orientation that can include process changes, substitution of a component for another with better performance, or even restructuring of the distribution channel;

iv) monitor the rate of change and the implementation of new manufacturing and information technologies related to the life cycle management process of the products and technologies.

See figure 1

Due to instability, the strategy in EM should contain several contingencies and be based on a decision support system so the firm could reach profitable balance points.

The survival of enterprises that compete in turbulent markets hopping to reach profitable balance points depends on the capacity of clearly distinct trajectories that lead to loses or gains in these balance points. (CHAKRAVARTHY, 1999)

The contingencies represent a source of flexibility, which is a crucial survivor factor in markets where the rate of change is high and the trajectory of changes is uncertain. Among the major attractive points of EMs are their market potential and the existence of high profit probabilities both in the short and long run.

One strategy to face the turbulence in emerging markets should contain an analysis of the enterprise strategic position, the industrial context and characteristics of EMs, an analysis of the technology and product life cycle, the prospecting of possible partnerships and the clear definition of the pillars that support the competitive advantage of the MNC.

Due to the market instability, it is important to adopt contingency plans of supplier substitution, but only in extreme cases, where the supplier becomes little competitive due to the structural changes to EM's economy or due to their inability to meet the client requirements. The different sourcing strategies for the EMs are shown.

See table 2

III – Partnerships in Emerging Markets

One of the major reasons to establish a partnership is the reduction of production and innovation costs, due to the partner's distinctive skills, that can do more at lower cost. However, beyond the economic argument, other questions should be analyzed when it comes to establishing partnerships. NEUVILLE (1998) analyzed the relationship of partnerships from the point of view of confidence and rationalism inter-organization. DONADA (1997) shows the strategic choices that the suppliers should use to have success in partnership. DUSSAUGE e GARRETTE (1997) evaluated the indirect and long run effects of these relations and the expected results in different types of alliances. SHARLAND (1997) assessed the impact of costs in a partnership relation, including the elapsing costs of source swapping.

The approach proposed here focuses on the characteristics of the EMs and the reciprocal possibilities of gain to the investors and local firms, using the global supply chain management.

According to LAMMING (1993) the partnership can be a good source of revenue and, above all, a good source of strategic advantage to the supplier. Lamming points out two strategies that can be followed through this objective: (1) the strategy of faithful supplier (collaborator), and (2) the strategy of key supplier.

The key supplier strategy means a relation of equal force between client and supplier. The supplier has the rare and/or exclusive skill and competencies in a certain field. Generally key suppliers are big suppliers, who represent an important link in the supply chain.

The faithful collaborator strategy is the one where the customer dominates the partnership agreement. However, the supplier can see possibilities of gain and does the necessary investments to efficiently respond to the customer needs.

In the case of EMs, it is reproduced here the possible partnership strategies, success opportunities, risks and mistakes to be avoided, to reach profitable balance points.

See table 3

IV. Conclusion

Emerging markets represent good opportunities to lead the supply chain towards a more competitive position. To achieve that, multinational companies must evaluate the existence of a logistic infrastructure and build up strategies and contingency plans to establish alliances within EMs.

Table 1. Variables that encompasses the global supply chain contingent strategy in EM

Strategic position	• Tangible and intangible advantages of seeking suppliers in EMs; • Identifying possible problems and the proper course of action to deal with them;
Industrial environment of EMs	• High rate of change; • Turbulent; • Government intervention; • Complex and uncertain; • Good business opportunities;
Competitive Environment	• Take advantage of low cost components, products and labor provided by EMs; • Increase this advantage by demanding suppliers to improve reliability, delivery time, quality and flexibility;
Product and Technology polices	• Effective management of product life cycle; • Effective management of technology life cycle; • Adopt technological synergies; • Explore for opportunities in the long run;
Partnership policies	• Analyze the existence of qualified suppliers in the market; • Implement an ongoing evaluation and improvement program; • Develop logistical strategic partnership based on providing value to the customer; • Specify the order winner factors to each supplier;
Competitive advantage	• Ability to motivate partners to improve; • Flexibility; • Agility; • Organizational empowerment; • Know-how;

Table 2. Strategic possibilities of supplier selection

Geographic localization	Multiple suppliers	Few suppliers	One supplier	Exclusive supplier
Global				
Regional				
Local				

Note: As long as the risk decreases and it is possible to obtain qualified suppliers, the sourcing strategy tends to go to the right and up.

Market potential in the long run

• Classic management of product life cycle; • Implement supplier development program;	• Globalized management of product life cycle; • Implement a more appropriate strategy for EMs (limited base, exclusive or unique supplier); • Identify potential problems;
• Monitor the market; Be up to date about the existence of technologically qualified suppliers;	• Accelerated management of classic life cycle; • Expand your business partnership with suppliers;

Gain hope

Figure 1. Product life cycle management in EMs

	Opportunities	Success Factors	Risks	Mistakes To Avoid
Faithful supplier strategy	◆ Access to new technologies; ◆ Access to new markets; ◆ Organizational restructuring; ◆ Learning; ◆ Long run growing;	◆ Offer good service level; ◆ Clear definition of strategic position within the chain; ◆ Competences and skills development in the enterprise; ◆ Be competitive in qualifying factors and excellent in order winner factors; ◆ Be transparent without being naive;	◆ Involve yourself in a zero sum game; ◆ The client quits or does not give priority to the EM; ◆ The market potential does not confirm the forecasts;	◆ Assume commitments when the competencies are not fulfilled; ◆ Establish price/cost of services much lower than necessary to become a partner; ◆ Avoid ambiguous strategies;
Key supplier strategy	◆ Partnership can support R&D investments better; ◆ Competence enrichment; ◆ Clearly define innovation strategy;	◆ Engage in simultaneous new product development; ◆ Look for technological synergies through the strong link with other links; ◆ Engage in the process of conquering new clients and markets;	◆ Involve yourself in zero sum games; ◆ The client quits or does not give priority to the EM; ◆ The market potential does not confirm the forecasts;	◆ Invest in technology beyond the firms capacity; ◆ Invest in risky technologies; ◆ Lose the partner's trust; ◆ Do not establish partnerships that may weaken your competitive position (lose focus); ◆ Avoid ambiguous strategies;
Multinational Investor strategy	◆ Technological synergies; ◆ Simultaneous product development with cost and time reduction; ◆ Reinforce competitive position in EMs; ◆ Experience in international markets; ◆ Opportunity for reverse learning; ◆ High profits due to the market potential; ◆ Clearly define and inform the supplier how and which criterions assessed; ◆ Evaluation of costs and logistics structure and it's evolution;	◆ Choosing the partner; ◆ Exploring new business opportunities; ◆ Identify the winning strategy for various points of balance; ◆ Management of products and technology life cycle; ◆ Logistics excellence;	◆ Loses due to political instability where there are market protection laws; ◆ Market potential not confirmed; ◆ Lack of reliable suppliers;	◆ Not clearly identifying contingent strategies relating to EMs ◆ Not establishing ways to protect innovation; ◆ Let the EM partner take over the responsibility of the brand image; ◆ Introduce in EMs obsolete products or technologies that damage the brand image; ◆ Do not consider the EMs local culture;

Table 3. Winning strategies of global supply chain in emerging markets

V - References

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