

Post Graduate Program in Management

Efficient v/s Responsive Supply Chains

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Product dichotomy



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Functional versus Innovative

	Functional Product	Innovative Product
Product lifecycle	>2 years	3 months – 1 year
Contribution margin	5-20%	20-60%
Product variety	Low (10-20 variants per category)	High (often millions of variants per category)
Average margin of error in forecast	10%	40-100%
Average stockout rate	1-2%	10-20%
Average forced end-of-season markdown	0%	10-25%
Lead time	6 months to 1 year	1 day to 2 weeks

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Performance Measure	Physically Efficient Supply Chain	Market-Responsive Supply Chain
Production Cost Per Unit	<input checked="" type="checkbox"/>	Physical Costs
Logistics Cost Per Unit	<input checked="" type="checkbox"/>	
Order Fill Rate	<input checked="" type="checkbox"/>	
Capacity Utilization	<input checked="" type="checkbox"/>	
Amount of Excess Inventory		<input checked="" type="checkbox"/>
Estimated Lost Sales		<input checked="" type="checkbox"/>
Various Lead Times:		Market Mediation Costs
1 from design to production		
2 from production to launch		
3 replenishment lead time		<input checked="" type="checkbox"/>


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	Physically Efficient	Market Responsive
Primary Purpose	Meet predictable demand at lowest cost	Minimize excess inventory and stockouts by responding quickly to unpredictable demand
Manufacturing Focus	Achieve high efficiency	Have excess capacity
Inventory Strategy	Minimize inventory throughout the chain	Deploy sufficient inventory to respond to uncertainty
Lead-time Focus	Reduce lead time as long as cost remains low	Aggressively reduce lead time
Supply Chain Coordination	Collaborate; centralize; share information to cut costs	Achieve speed and flexibility
Product Design Strategy	Maximize performance; minimize cost	Invest in new product development to improve effectiveness

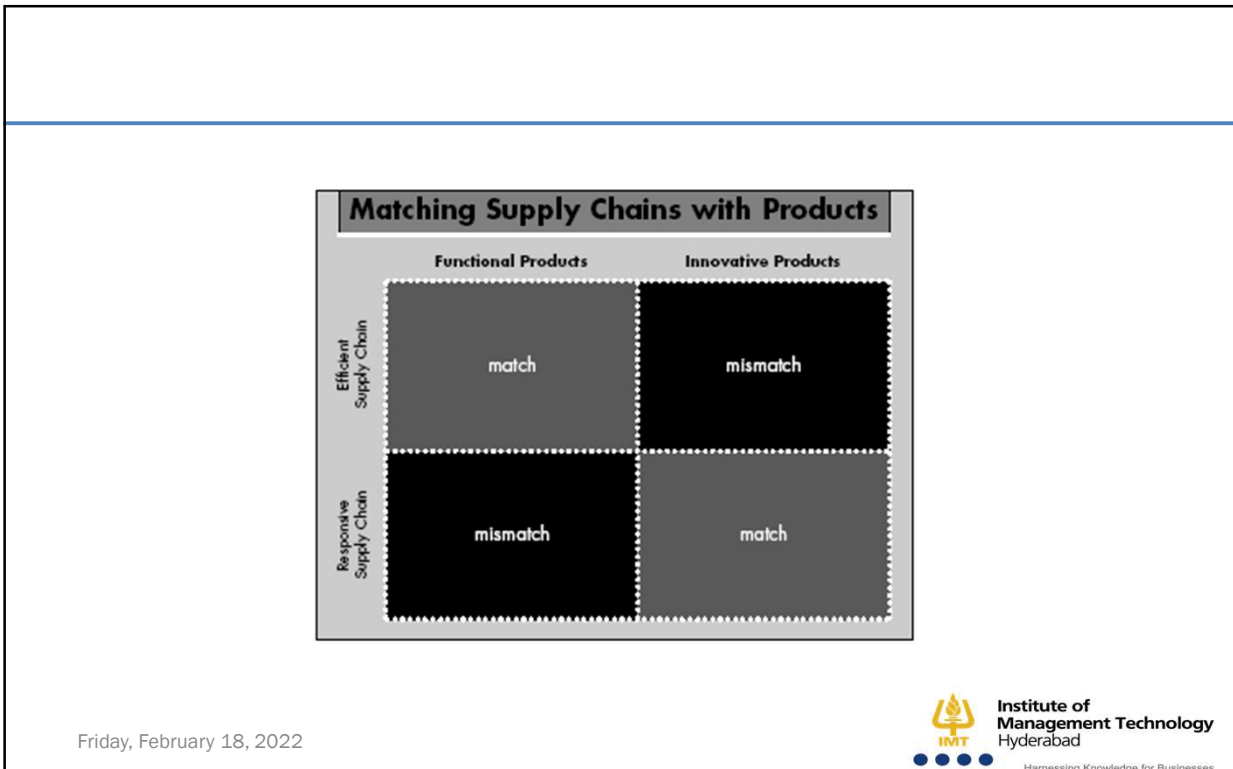
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