

The Value Chain & Its Collision With The Supply Chain

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It's not a news revelation that the internet has had an impact on the rules of competition. These so-called vertical markets have been magnified in our daily routine to the point we can no longer consider "marketing as usual" in any segment target space we play in now or plan to do so in the future.

These vertical markets guarantee four elements will change:

- Improve design collaboration & supply chain planning
- Force enhanced capacity operation across an industry
- Lower business costs
- Expose the fundamental economics of a supplier's business

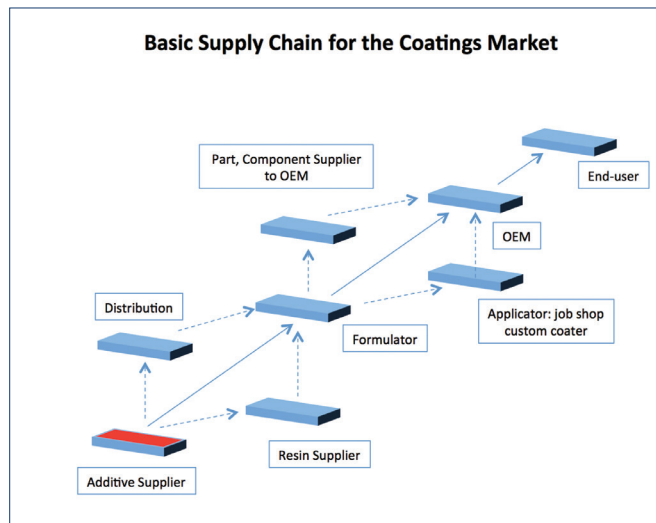
In due course, these changes will lead to unraveling of the value chains of activity forcing companies to:

- Discard operations
- Keeping only those that are considered (by the marketplace) as the best available.

The same supplier/customer forces prevail today as they did in the last 40+ years. OEMs always insisted on at least annual if not bi-annual price reductions while suppliers created many methods to appease their customers while "showing" price reductions and making the same or more profits. The Internet's vertical and horizontal market and industry interactions, is starting to convert this situation while impacting each step of the value chain.

Buyers in the coatings, paints, adhesives and sealants market spaces can now effortlessly track prices and use them to regulate the prices they pay for purchased components. They can also contrast the prices of their present suppliers with others through the use of on-line auctions. These tactics can both place tremendous cost back-pressure on the suppliers but also increase the rate of deal-making in the process.

Businesses today must perform with some realistic steps to plan for whatever the internet insurgency brings. This focus must exist in reshuffling the value chain and vertical integration method of companies to unlock value and create the



marketplace valuation of becoming the best offered capabilities. As a first move, every business head should ask themselves, how the internet will impact their business model.

Reexamining the company's long-term positioning within the value chain will help capitalize on the impact of the internet—instead of just surviving it. The chart below relates to Important Questions and Related Questions a business executive must consider. **CW**

IMPORTANT QUESTION SERIES FOR THE EXECUTIVE TO CONSIDER

IMPORTANT	RELATED
Where am I most exposed to e-enable competition?	<ul style="list-style-type: none"> What are my true cost & performance levels relative to world-class benchmarks? Where will direct competition & Internet make cost comparisons (& relative disadvantages) apparent to my customers? Can my cost structure be exposed through cost models, consolidated pricing information from the internet, & can third-party raw material and component suppliers? Which customers or third party exchanges are best positioned to expose the weak links in my value chain?
Where can I succeed in the future? What are the right strategic aspirations for my business?	<ul style="list-style-type: none"> What drives growth in my markets? What is essential to creating this value? What is merely an enabler? How good am I at these essential activities?
How should I change my Value chain to capture this Value?	<ul style="list-style-type: none"> What operations could I outsource?, spin-off, or consolidate? What alliances, acquisitions, or JV's should I pursue? How would I manage smaller, core group of suppliers? Can I dramatically lower costs in my own supply base & drive a smaller level of restructuring in my extended enterprise? What types of internal organizations would more closely align resources, missions, & incentives?
How can I use Internet apparatus to better manage my value chain?	<ul style="list-style-type: none"> Should I join internet-based market exchanges? Which ones? How can I best leverage them to lower costs or improve my product & service?