

True fulfilment

With greater market globalization, companies are increasingly looking to the outsourcing of non-core activities as a key component of their business strategy. **Professor Alexander Ellinger** outlines the importance of getting supply chain management right, for both profitability and customer retention

What prompted your focus on supply chain management (SCM)?

I was a store and district manager for MFI, the leading self-assembly furniture retailer in the UK, throughout the 1980s and 90s. In 1988, I came to work in the US as retail operations director for Mills Pride Kitchen Cabinets, whose products are still being retailed by Home Depot. When Mills Pride decided to focus on manufacturing rather than retailing, I enrolled as a business undergraduate at Bryant University in Rhode Island in 1990 and was accepted into The University of Georgia PhD programme in Marketing and Logistics in 1993.

What is the importance of SCM to the success of a business?

Firstly, SCM consumes up to 75 per cent of firm revenue, so being good at SCM has an enormous impact on the bottom line. Secondly, the output of SCM is customer service, so being good at SCM has a tremendous impact on customer satisfaction and retention.

What role does outsourcing play in improving a company's supply chain?

Firms that engage expert service providers that are able to leverage economies of scale by performing similar activities for multiple organizations are able to 'stick to their knitting' and focus on their own core competencies.

How did you first become involved in the *International Journal of Physical Distribution & Logistics Management (IJPDLM)*?

As PhD students, Sergio Olavarrieta and I were fortunate enough to win the 1997 Emerald Literati Award for Best Paper in *IJPDLM*: 'Resource-Based Theory and Strategic Logistics Research'. It was a tremendous thrill to be flown over to the UK to receive the award in London from the Duchess of Devonshire and to meet the then editor of *IJPDLM* Professor Jim Stock.

Could you highlight any key research successes?

My co-authors and I largely focus on what I like to call 'Is the juice worth the squeeze?' research studies, where we attempt to identify

performance advantages associated with strategic logistics and SCM strategic initiatives.

A major success was being able to quantify that exemplar firms in Gartner Supply Chain Group's annual Supply Chain Top 25 rankings have consistently superior financial performance and customer satisfaction over time than their close competitors – and industry averages. These findings are reported in the *Journal of Business Logistics* (2011) and *Supply Chain Management: International Journal* (2012).

What do you anticipate will be the next big changes for your SCM research?

SCM research has been far more focused on efficient operations, cost control and relationships with suppliers and customers than on the people charged with managing what have become increasingly complex and critical business processes. Many CEOs remain largely unaware of the ramifications of SCM. I therefore anticipate conducting more behavioural and human resource management research that seeks to develop a better understanding of how best to attract, develop and retain supply chain talent.

How do University of Alabama marketing students benefit from your passion for SCM?

A major barrier to the provision of appropriate levels of customer service is a lack of understanding of each other's roles that often occurs between marketing/sales and logistics/operations folks within the same organizations. Yet, the two functional areas are totally interdependent, because sales have to be made and then fulfilled. My passion is to make sure that all marketing majors at The University of Alabama graduate with a solid appreciation of how to interact with and determine the constraints faced by their logistics/operations counterparts.



Supply chain management: improving customer service and the bottom line

Culverhouse College of Commerce at [The University of Alabama](#) leads the evolving field of supply chain management research, analysing how new paradigms for producing and distributing goods and services can help companies to leverage better returns on investment

IN TODAY'S COMPLEX and challenging business environment, a company's profitability, market share and standing are essentially dependent on their proficiency in 'back office' processes: information gathering, planning, preparation and organization – organization being the primary determinant of success once the company matures. Irrespective of whether the company is goods-, service- or retail-oriented, adept organization involves the ability to meet demand in a timely and cost-effective manner, and the flexibility and agility to respond quickly to unexpected glitches in meeting customer needs as well as to changes in technology and markets. There also needs to be continuous and close alignment between product life cycle stages and business strategy.

With the advent of distributed, technology-enabled and global markets, it has become the norm for firms to contract out some of their traditional in-house activities to specialist parties, such as the manufacture or assembly of product components, distribution to retailers or end users, or the stocking of dispersed retail branches. The objectives of outsourcing may be to improve quality, reduce operating costs and better exploit resources. However, outsourcing also diminishes overheads through economies of scale while achieving service-related improvements.

COMPLEX SUPPLY CHAINS

A company with outsourced elements in the supply chain needs to ensure symbiotic alignment between its own business strategy and its suppliers' objectives and infrastructures. This necessitates centralized supply chain management (SCM) to ensure appropriate synchronization. As Professor Alexander Ellinger explains it, best practice SCM is far more than "getting the right thing to the right place at the right time, and at the right price." Maintaining strategic control has become increasingly complicated by the growing geographical

distances between firms and their suppliers and consumers. The business landscape has therefore changed to meet this need over the last few decades: "Globalization has encouraged firms to source and manufacture products in remote parts of the world," Ellinger observes. "A huge industry comprising supply chain integrators that expertly manage aspects of other firms' business operations has emerged; managing complex global supply chains has become very much the purview of third party logistics service providers."

Ellinger is the Frank Schultz Professor of Business Administration and Professor of Marketing and Supply Chain Management at the Culverhouse College of Commerce at The University of Alabama. He is also the Editor of the *International Journal of Physical Distribution and Logistics Management*.

SCM AND THE BOTTOM LINE

Good practice in SCM seeks to ensure an optimal balance between costs, overheads, time to market and quality. Therefore, instead of being a costly operational overhead, SCM can add substantial value, contributing to success while allowing an enterprise to concentrate on its core capabilities. And, according to Ellinger, when SCM is particularly effective in meeting specific customer needs, it can also become a key differentiator for customers, setting a company apart from its competitors.

In 2004, a series of articles in *Harvard Business Review* highlighted the strategic importance of SCM for business success. Ellinger's empirical studies in *Journal of Business Logistics* (2011) and *Supply Chain Management: an International Journal* (2012) further established the robust positive influence of best practice SCM on firm financial success and customer satisfaction.

Globalization is the primary driver for the rapid growth of the third party service provider

Supply Chain Management can add substantial value, contributing to success while allowing an enterprise to concentrate on its core capabilities

industry, and associated exploitation of automation has contributed to quicker time to market, greater standardization and quality improvements for customer organizations. Moreover, this relatively new business practice has also had major impacts on communities and industries: “Outsourcing is arguably the greatest example of process innovation that has occurred over the last 20 to 30 years,” contends Ellinger. Inevitably, assigning non-core production and distribution responsibilities to expert third party suppliers means that certain jobs are potentially redefined, reallocated or relocated. As a corollary, Ellinger points out that new opportunities are created by logistics and SCM-focused enterprises. For example, jobs are created for workers living near distribution network hub service sites such as Memphis, USA, and Zaragoza, Spain, and the many contract manufacturing centres that have developed in Asia that cater to automotive, electronics and fashion firms. Reflecting on *Harvard Business Review’s* 21st Century SCM feature on the significance of SCM for business strategy, Ellinger says: “Perhaps their most insightful prediction was that ‘balancing supply and demand is where today’s most controversial strategy and organizational challenges converge”.

GRADUATES WHO MEAN BUSINESS

While even the best practices in SCM are often invisible to the end customer, Ellinger ensures that marketing students at The University of Alabama are taught just how important SCM is to customer experience and company profitability. Course content for the students includes overviews of leading edge firms that differentiate themselves through supply chain excellence, such as Apple, Walmart, Dell, Amazon, Toyota, Fritolay, Zara and others. Ellinger seeks to ensure that students understand how big business has shifted from the 20th Century paradigm, where companies

such as Nike and Kimberly-Clark used to control all aspects of production and supply, to the 21st Century model where companies concentrate on doing only what they do best. As Ellinger emphasizes, Nike now functions purely as a marketing entity for products branded with their logo, while Kimberly-Clark have divested ownership of paper mills to simply produce Kleenex tissues from pulp supplied to them by the new operators.

The marketing students also undertake field trips to local companies and distribution centres to learn, evaluate and report on how their supply chain processes actually work in practice. For Ellinger, it is fundamentally important that these marketing practitioners of the future understand that SCM is inherently a force for both cost containment and better customer service, and that no amount of excellence in marketing or sales can compensate for poor SCM performance: “A good understanding of order management processes helps customer-facing employees provide better levels of service by not making promises that their firms are unable keep,” he states.

This emphasis on rounded, real-world business education, where students gain an end-to-end understanding of the contributions of logistics and SCM to business success, means that on graduation they are prepared for careers in the fast-changing international business arena because they are equipped with the knowledge to help employers apply SCM for advantage in highly competitive markets. It is also one reason why the Culverhouse College of Commerce is now regarded as one of the leading supply chain research institutions in the world.



MARKETING AND SUPPLY CHAIN MANAGEMENT

Research interests

- Human resource development strategies in the supply chain
- Cross-functional integration
- Demand supply integration
- Customer service performance improvement processes
- Resource-based theory

KEY COLLABORATORS

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