Assignment 3:

Please read and answer the questions for the “case studies” at the end of Chapter 11:
- “Darden’s Global Supply Chains” (page 455)
- “Arnold Palmer Hospital’s Supply Chain” (page 456)

Please answer each of the discussion questions in sentence/paragraph structure. Please make sure to properly cite any ideas or quotes you use in support of your answers. The assignments are reproduced below for your convenience.

Darden’s Global Supply Chains

Video Case

Darden Restaurants (subject of the *Global Company Profile* at the beginning of this chapter), owner of popular brands such as Olive Garden and Red Lobster, requires unique supply chains to serve more than 300 million meals annually. Darden’s strategy is operations excellence, and Senior VP Jim Lawrence’s task is to ensure competitive advantage via Darden’s supply chains. For a firm with purchases exceeding $1.5 billion, managing the supply chains is a complex and challenging task.

Darden, like other casual dining restaurants, has unique supply chains that reflect its menu options. Darden’s supply chains are rather shallow, often having just one tier of suppliers. But it has four distinct supply chains.

First, “smallware” is a restaurant industry term for items such as linens, dishes, tableware and kitchenware, and silverware. These are purchased, with Darden taking title as they are received at the Darden Direct Distribution (DDD) warehouse in Orlando, Florida. From this single warehouse, smallware items are shipped via common carrier (trucking companies) to Olive Garden, Red Lobster, Bahama Breeze, and Seasons 52 restaurants.

Second, frozen, dry, and canned food products are handled economically by Darden’s 11 distribution centers in North America, which are managed by major U.S. food distributors, such as MBM, Maines, and Sygma. This is Darden’s second supply line.

Third, the fresh food supply chain (not frozen and not canned), where product life is measured in days, includes dairy products, produce, and meat. This supply chain is B2B, where restaurant managers directly place orders with a preselected group of independent suppliers.

Fourth, Darden’s worldwide seafood supply chain is the final link. Here Darden has developed independent suppliers of salmon, shrimp, tilapia, scallops, and other fresh fish that are source inspected by Darden’s overseas representatives to ensure quality. These fresh products are flown to the U.S. and shipped to 16 distributors, with 22 locations, for quick delivery to the restaurants. With suppliers in 35 countries, Darden must be on the cutting edge when it comes to collaboration, partnering, communication, and food safety. It does this with heavy travel schedules for purchasing and quality control personnel, native-speaking employees onsite, and aggressive communication. Communication is a critical element; Darden tries to develop as much forecasting transparency as possible. “Point of sale (POS) terminals,” says Lawrence, “feed actual sales every night to suppliers.”

Discussion Questions*

1. What are the advantages of each of Darden’s four supply chains?
2. What are the complications of having four supply chains?
3. Where would you expect ownership/title to change in each of Darden’s four supply chains?
4. How do Darden’s four supply chains compare with those of other firms, such as Dell or an automobile manufacturer? Why do the differences exist, and how are they addressed?

*You may wish to view the video that accompanies this case before answering these questions.

Arnold Palmer Hospital's Supply Chain

Video Case

Arnold Palmer Hospital, one of the nation's top hospitals dedicated to serving women and children, is a large business with over 2,000 employees working in a 431-bed facility totaling 676,000 square feet in Orlando, Florida. Like many other hospitals, and other companies, Arnold Palmer Hospital had been a long-time member of a large buying group, one servicing 900 members. But the group did have a few limitations. For example, it might change suppliers for a particular product every year (based on a new lower-cost bidder) or stock only a product that was not familiar to the physicians at Arnold Palmer Hospital. The buying group was also not able to negotiate contracts with local manufacturers to secure the best pricing.

So in 2003, Arnold Palmer Hospital, together with seven other partner hospitals in central Florida, formed its own much smaller, but still powerful (with $200 million in annual purchases) Healthcare Purchasing Alliance (HPA) corporation. The new alliance saved the HPA members $7 million in its first year with two main changes. First, it was structured and staffed to assure that the bulk of the savings associated with its contracting efforts went to its eight members. Second, it struck even better deals with vendors by guaranteeing a *committed* volume and signing not 1-year deals but 3- to 5-year contracts. "Even with a new internal cost of $400,000 to run HPA, the savings and ability to contract for what our member hospitals really want makes the deal a winner," says George DeLong, head of HPA.

Effective supply chain management in manufacturing often focuses on development of new product innovations and efficiency through buyer–vendor collaboration. However, the approach in a service industry has a slightly different emphasis. At Arnold Palmer Hospital, supply chain opportunities often manifest themselves through the Medical Economic Outcomes Committee. This committee (and its subcommittees) consists of users (including the medical and nursing staff) who evaluate purchase options with a goal of better medicine while achieving economic targets. For instance, the heart pacemaker negotiation by the cardiology subcommittee allowed for the standardization to two manufacturers, with annual savings of $2 million for just this one product.

Arnold Palmer Hospital is also able to develop custom products that require collaboration down to the third tier of the supply chain. This is the case with custom packs that are used in the operating room. The custom packs are delivered by a distributor, McKesson General Medical, but assembled by a pack company that uses materials the hospital wanted purchased from specific manufacturers. The HPA allows Arnold Palmer Hospital to be creative in this way. With major cost savings, standardization, blanket purchase orders, long-term contracts, and more control of product development, the benefits to the hospital are substantial.

Discussion Questions*

1. How does this supply chain differ from that in a manufacturing firm?
2. What are the constraints on making decisions based on economics alone at Arnold Palmer Hospital?
3. What role do doctors and nurses play in supply chain decisions in a hospital? How is this participation handled at Arnold Palmer Hospital?
4. Doctor Smith just returned from the Annual Physician's Orthopedic Conference, where she saw a new hip joint replacement demonstrated. She decides she wants to start using the replacement joint at Arnold Palmer Hospital. What process will Dr. Smith have to go through at the hospital to introduce this new product into the supply chain for future surgical use?

*You may wish to view the video that accompanies this case before answering the questions.