

# Important of Supply Chain Management

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**Abstract-** A supply chain, as opposed to supply chain management, is a set of organizations directly linked by one or more upstream and downstream flows of products, services, finances, or information from a source to a customer. Supply chain management is the management of such a chain. Supply chain management is a cross-functional approach that includes managing the movement of raw materials into an organization, certain aspects of the internal processing of materials into finished goods, and the movement of finished goods out of the organization and toward the end consumer. As organizations strive to focus on core competencies and become more flexible, they reduce their ownership of raw materials sources and distribution channels. These functions are increasingly being outsourced to other firms that can perform the activities better or more cost effectively.

**Index Terms-** Supply, chain, management, organization, efficient.

## I. INTRODUCTION

Supply change management is a highly-detailed system used by small and large organizations alike to get products to consumers, from obtaining raw materials, manufacturing and delivering the final product to the customer. A well-organized supply chain management system involves optimizing operations functionality to be fast and efficient.

Today, more than ever before, supply chain management has become an integral part of business and is essential to any company's success and customer satisfaction. Supply chain management has the power to boost customer service, reduce operating costs and improve the financial standing of a company, but how does this work?

### What is Supply Chain Management, and Why is it Important

Organizations increasingly find that they must rely on effective supply chains, or networks, to compete in the global market and networked economy. In Peter Drucker's (1998) new management paradigms, this concept of business relationships extends beyond traditional enterprise boundaries and seeks to organize entire business processes throughout a value chain of multiple companies.

In recent decades, globalization, outsourcing, and information technology have enabled many organizations, such as Dell and Hewlett Packard, to successfully operate collaborative supply networks in which each specialized business partner focuses on only a few key strategic activities (Scott, 1993). This inter-organisational supply network can be acknowledged as a new form of organisation. However, with the complicated interactions among the players, the network

structure fits neither "market" nor "hierarchy" categories (Powell, 1990).

Traditionally, companies in a supply network concentrate on the inputs and outputs of the processes, with little concern for the internal management working of other individual players. Therefore, the choice of an internal management control structure is known to impact local firm performance (Mintzberg, 1979).

### What is Supply Chain Management?

Supply chain management is not only a process served to generate a cost reduction in the budget or a mission to create greater operational efficiencies within an organization. While these are a part of the whole ecosystem, modern supply change management encompasses the strategic alignment of end-to-end business processes to realize market and economic value, as well as giving a firm the competitive advantage over their business rivals.

In recent times, the dawn of the digital age has brought wholesale transformation to the world of commerce. Only twenty years ago, these processes were arduous, labor intensive, time consuming and disorganized. It now may seem like ancient history, delivery times have gone from two weeks to a month down to a turnaround of hours in some cases. Automated systems and high-speed communication have paved the way for supply chain management and its increased demand.

### Why is Supply Chain Management So Important?

Today, more than ever before, supply chain management has become an integral part of business and is essential to any company's success and customer satisfaction. Supply chain management has the power to boost customer service, reduce operating costs and improve the financial standing of a company, but how does this work?

### The Interconnected Supply Chain

Essentially, the world can be viewed as one large supply chain. Consumers and producers are constantly communicating with each other, and a product goes through many hands before reaching its destination. Supply chain management deals with major issues such as the growth of multinational corporations, partnerships, global brand expansion, and outsourcing.

Everything that affects the world affects supply chain management, from fluctuating gas prices to environmental concerns. SCM is the single most important business discipline in the world today, and has only gotten more interconnected. The importance of a well-run supply chain cannot be overstated. According to a report from Allianz SE, business interruptions (BI) account for higher proportions of property loss than 10 years ago. From 2010 to 2014, claims from 68 countries were at \$2.4

million on average – all because of the increasingly interconnected supply chain.

### **Integrated and Cooperative Logistics**

SCM is necessary for the foundation of all societies. Supermarket operations for example, deal with a wide variety of producers, and are essential to providing goods to consumers. If a supermarket industry does not have a good supply chain management branch, this can affect a wide variety of citizens who need a supermarket to survive. An effective supply chain that can meet the needs of both producers and consumers is one that takes an integrated approach towards management.<sup>1</sup>

### **Better Supply Chain Better Business**

Supply chain management has a huge impact on business. Good SCM can directly improve customer service. The right product and the correct quantity must be delivered in a timely manner, to appease both producers and distributors. Consumers want to be able to know the location they must go to obtain the goods that they want.

Consumers also want a high standard of customer support. If goods are not distributed on time, supply chain management branches of a company have to assure them that they will get their products as soon as possible. SCM also has a huge impact on the bottom line of a company. Large corporations value good supply chain managers because they improve the efficiency of plants, warehouses, and transportation vehicles in a supply chain. Cash flow is directly increased because the delivery of a product is in a timely manner, and consumers can purchase their goods. Supply chain processes are also changing to meet customer demand and expectation.

Many researchers have recognized supply network structures as a new organisational form. In general, such a structure can be defined as "a group of semi-independent organisations, each with their capabilities, which collaborate in ever-changing constellations to serve one or more markets in order to achieve some business goal specific to that collaboration" (Akkermans, 2001). Supply chain management is also important for organizational learning. Firms with geographically more extensive supply chains connecting diverse trading cliques tend to become more innovative and productive.<sup>2</sup>

Supply chain management (SCM) is the active management of supply chain activities to maximize customer value and achieve a sustainable competitive advantage. It represents a conscious effort by the supply chain firms to develop and run supply chains in the most effective & efficient ways possible. Supply chain activities cover everything from product development, sourcing, production, and logistics, as well as the information systems needed to coordinate these activities.

## **II. SUPPLY CHAIN**

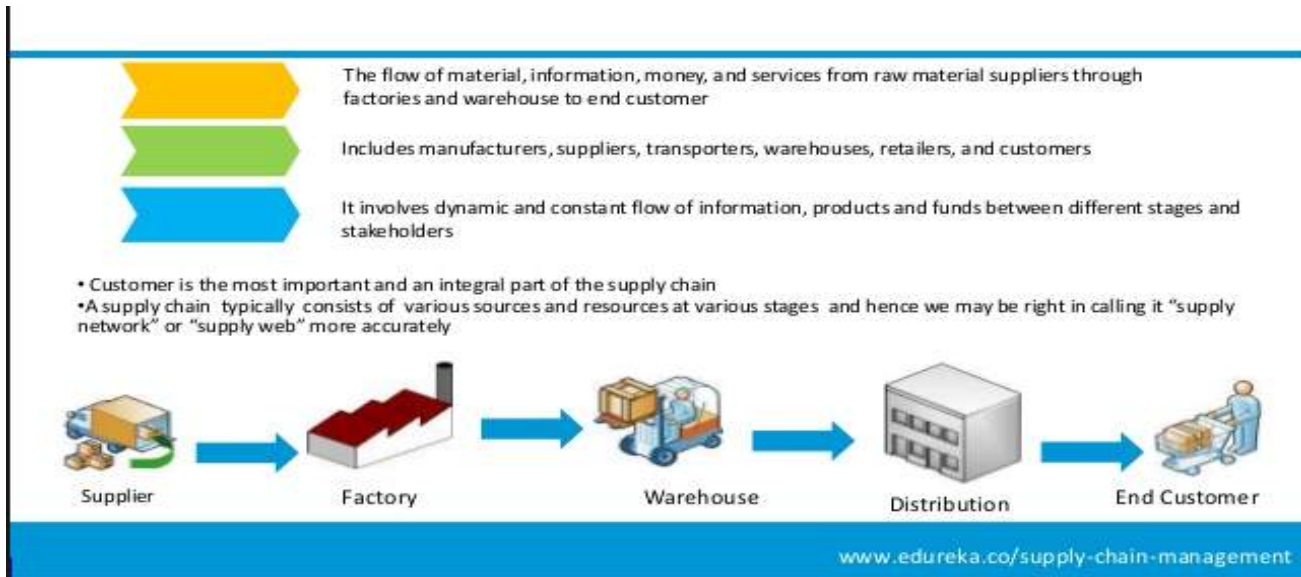
A supply chain is the connected network of individuals, organizations, resources, activities and technologies involved in the manufacture and sale of a product or service. A supply chain starts with the delivery of raw material from a supplier to a manufacturer, and ends with the delivery of the finished product or service to the end consumer. SCM oversees each touch point of a company's product or service, from initial creation to final sale. With so many places along the supply chain that can add value through efficiencies or lose value through increased expenses, proper SCM can increase revenues, decrease costs and impact a company's bottom line. The effect is to increase the number of organizations involved in satisfying customer demand, while reducing managerial control of daily logistics operations. Less control and more supply chain partners lead to the creation of the concept of supply chain management. The purpose of supply chain management is to improve trust and collaboration among supply chain partners, thus improving inventory visibility and the velocity of inventory movement.

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<sup>1</sup>Michael Wilson | Mar 14, 2017

<sup>2</sup>Todo, Y.; Matous, P.; Inoue, H. (11 July 2016). "The strength of long ties and the weakness of strong ties: Knowledge diffusion through supply chain networks"

## A SUPPLY CHAIN



In the 21st century, changes in the business environment have contributed to the development of supply chain networks. First, as an outcome of globalization and the proliferation of multinational companies, joint ventures, strategic alliances, and business partnerships, significant success factors were identified, complementing the earlier "just-in-time", lean manufacturing, and agile manufacturing practices.<sup>3</sup> Second, technological changes, particularly the dramatic fall in communication costs (a significant component of transaction costs), have led to changes in coordination among the members of the supply chain network (Coase, 1998).

Supply chain activities aren't the responsibility of one person or one company. Multiple people need to be actively involved in a number of different processes to make it work.

Winning the SCM "game" requires supply chain professionals to play similar roles. Each supply chain player must understand his or her role, develop winning strategies, and collaborate with their supply chain teammates. By doing so, the SCM team can flawlessly execute the following processes:

- Planning – the plan process seeks to create effective long- and short-range supply chain strategies. From the design of the supply chain network to the prediction of customer demand, supply chain leaders need to develop integrated supply chain strategies.
- Procurement – the buy process focuses on the purchase of required raw materials, components, and goods. As a consumer, you're pretty familiar with buying stuff!
- Production – the make process involves the manufacture, conversion, or assembly of materials into finished goods or parts for other products. Supply chain managers provide production support and ensure that key materials are available when needed.
- Distribution – the move process manages the logistical flow of goods across the supply chain. Transportation companies, third party logistics firms, and others ensure

that goods are flowing quickly and safely toward the point of demand.

- Customer Interface – the demand process revolves around all the issues that are related to planning customer interactions, satisfying their needs, and fulfilling orders perfectly.

**The concept of Supply Chain Management (SCM) is based on two core ideas:**

- The first is that practically every product that reaches an end user represents the cumulative effort of multiple organizations. These organizations are referred to collectively as the supply chain.
- The second idea is that while supply chains have existed for a long time, most organizations have only paid attention to what was happening within their "four walls." Few businesses understood, much less managed, the entire chain of activities that ultimately delivered products to the final customer. The result was disjointed and often ineffective supply chains.

The organizations that make up the supply chain are "linked" together through physical flows and information flows.

**Physical Flows**-Physical flows involve the transformation, movement, and storage of goods and materials. They are the most visible piece of the supply chain. But just as important are information flows.

**Information Flows**-Information flows allow the various supply chain partners to coordinate their long-term plans, and to control the day-to-day flow of goods and materials up and down the supply chain.

**Seven Principles of SCM:**

More than ten years ago, a research study of 100+ manufacturers, distributors, and retailers uncovered some widely used supply chain strategies and initiatives. These ideas and

<sup>3</sup>MacDuffie and Helper, 1997; Monden, 1993; Womack and Jones, 1996; Gunasekaran, 1999

practices were distilled down to seven principles and presented in an article in *Supply Chain Management Review*, a magazine widely read by SCM professionals.

**Principle 1**

Segment customers based on the service needs of distinct groups and adapt the supply chain to serve these segments profitably.

**Principle 2**

Customize the logistics network to the service requirements and profitability of customer segments.

**Principle 3**

Listen to market signals and align demand planning accordingly across the supply chain, ensuring consistent forecasts and optimal resource allocation.

**Principle 4**

Differentiate product closer to the customer and speed conversation across the supply chain.

**Principle 5**

Manage sources of supply strategically to reduce the total cost of owning materials and services.

**Principle 6**

Develop a supply chain-wide technology strategy that supports multiple levels of decision making and gives clear view of the flow of products, services, and information.

**Principle 7**

Adopt channel-spanning performance measures to gauge collective success in reaching the end-user effectively and efficiently.

Though they are more than a decade old, these timeless principles highlight the need for supply chain leaders to focus on the customer. They also stress the importance of coordinating activities (demand planning, sourcing, assembly, delivery, and information sharing) within and across organizations.

III. CONCLUSION

In the 21st century, supply chain management professionals are expected to possess the knowledge and

capabilities to support the improved efficiency, effectiveness and profitability of modern businesses. For large organizations, the ability to incorporate performance trade-offs across multiple functional areas, both internal and external, is critical. Meanwhile, small and mid-sized businesses must be able to deliver a unique value proposition in an increasingly competitive marketplace. As a result, supply chain management professionals are growing in importance across business types, industry sectors and global regions. For progressive business leaders, the need for supply chain management knowledge and skills has never been greater.

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