



Supply chain

Along the journey from raw material to finished item in the hands of a consumer, every business needs an efficient supply chain. Supply chain management involves different organizations, people, activities, and resources to take, for example, grains of corn from a field to a finished box of cornflakes on the consumer's breakfast table. The company may outsource parts of the chain to other firms.

Supply chain management

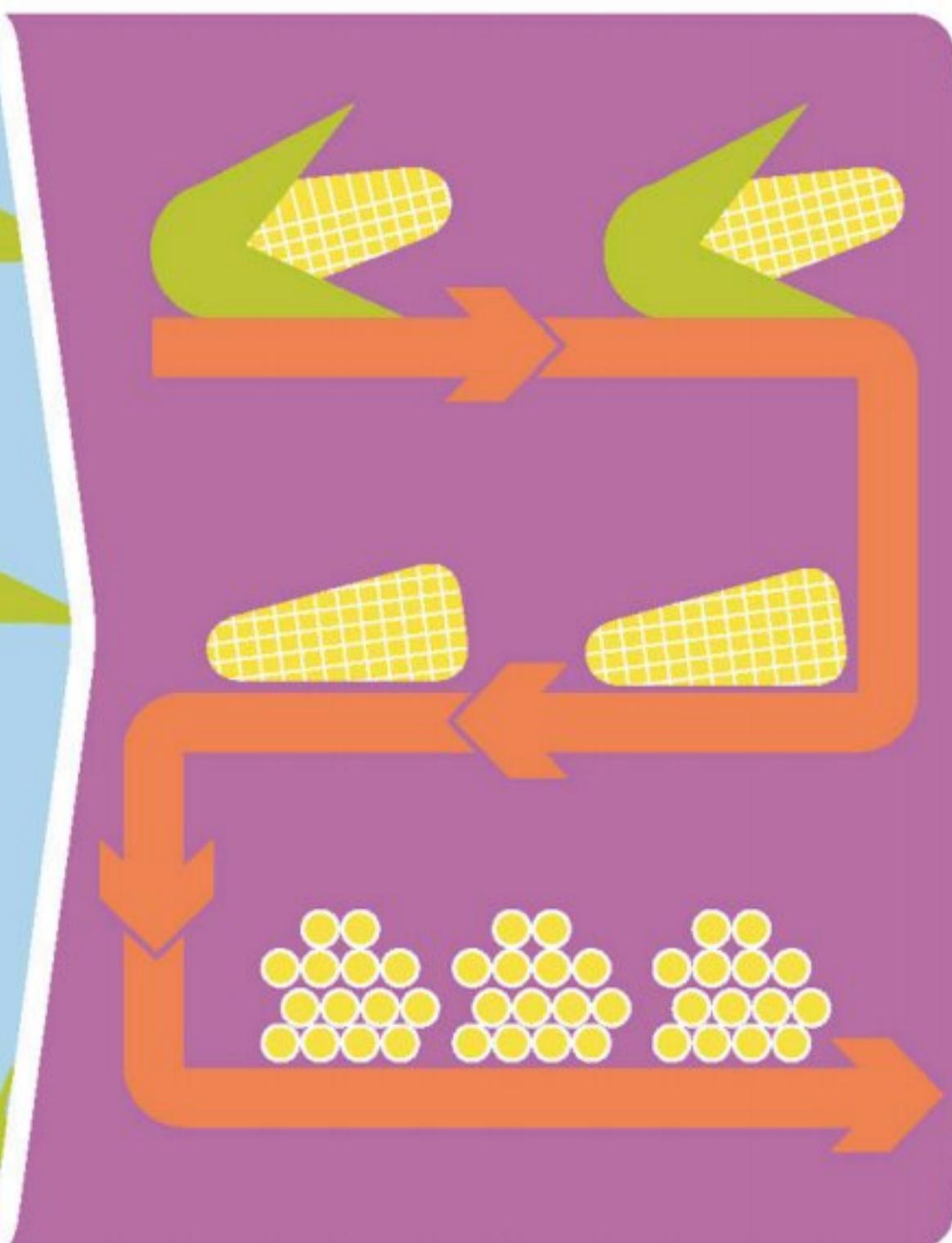
The traditional supply chain takes raw materials and resources through to a finished product for the consumer. The company has to manage costs and ensure standards, being particularly careful that it does not harm people or

the environment along the way, from fair wages for labor at the source to recyclable packaging after consumption. Supply chain is big business—in the U.S., 5.75 million people are employed in warehousing and transportation alone.



Raw materials and resources

Whether from a field or a mine, raw materials start somewhere.



Supplier and processor

The raw materials are processed, often near their source.



Manufacturer

Organizations bring resources together to manufacture goods, often near the customer.

64%
of retailers say they
had to adapt their
supply chain for
e-commerce during
the COVID-19 pandemic

EXTENDING THE CHAIN

- **Adding value** Companies may try to add value along the chain rather than just seeing it as a way to transport a product from A to B. See pp.324–325.
- **Delegating functions** To save money and use specialized expertise, the business can outsource activities and/or have them done by local companies or a branch of its own company offshore. See pp.326–329.
- **Returning goods** Part of the supply chain involves an efficient system for dealing with goods returned by the consumer. See pp.330–331.
- **Competitive edge** At every stage, the company compares its performance with its competitors to see how it can improve. See pp.332–333.
- **Ethics and the environment** Taking responsibility for avoiding pollution and protecting workers' rights is part of the package. See pp.334–335.



Distribution

Finished goods are transported to storage depots or retailers.

Retailer

The store displays the products for maximum appeal to the consumer.

Consumer

The consumer enjoys the finished product and, ideally, recycles the packaging.



Value chain

Rather than viewing supply chains as a series of activities, organizations are increasingly paying attention to how value is created at each stage of the process. Lowering costs or raising performance is key.

How it works

Harvard Business School professor Michael Porter first introduced the concept of a value chain in his book *Competitive Advantage*. Most organizations have dozens—possibly hundreds—of activities along the supply chain in the process of converting raw materials (inputs) to products or services (outputs). These can be classified generally as either primary or support activities that all businesses must undertake. The idea

of the value chain is that how activities are organized and carried out determines a company's costs and thus its margin (profit). Each link of the chain must communicate to other departments clearly and promptly. For example, marketing and sales must make accurate sales forecasts and pass them on in time for procurement to buy the correct type and quantity of raw materials, which in turn must connect with inbound logistics so it can organize receipt of goods.

Porter's value chain

Primary activities work directly to create or deliver a product or service, while support activities help improve their efficiency. To apply the value chain, a company has to identify each activity and either lower its cost or differentiate it from its competitors to add value in the customer's eye.



CASE STUDY

Zara's value chain

The Spanish clothing brand is famous for rapidly responding to customers' needs along the value chain.

- **Inbound logistics** Bulk fabric orders, quick deliveries
- **Operations** Just-in-time manufacturing, near Spanish HQ
- **Outbound logistics** Twice-weekly store deliveries, low inventory, fast online fulfilment
- **Marketing** Few ads, strategic store locations, store data ensure products match customers' wants
- **Support activities** Tech to supply feedback, customer service training

PRIMARY ACTIVITIES
Each department must cooperate and provide necessary information between value-chain activities to make a profit.



Inbound logistics

Involves relationships with suppliers, including all activities to receive, store, and allocate inputs



Operations

Activities required to transform inputs into outputs

SUPPORT ACTIVITIES
Although not directly involved in outputs, these support primary activities, improving their efficiency and successful function.



Company infrastructure



Human resource management



Technology development

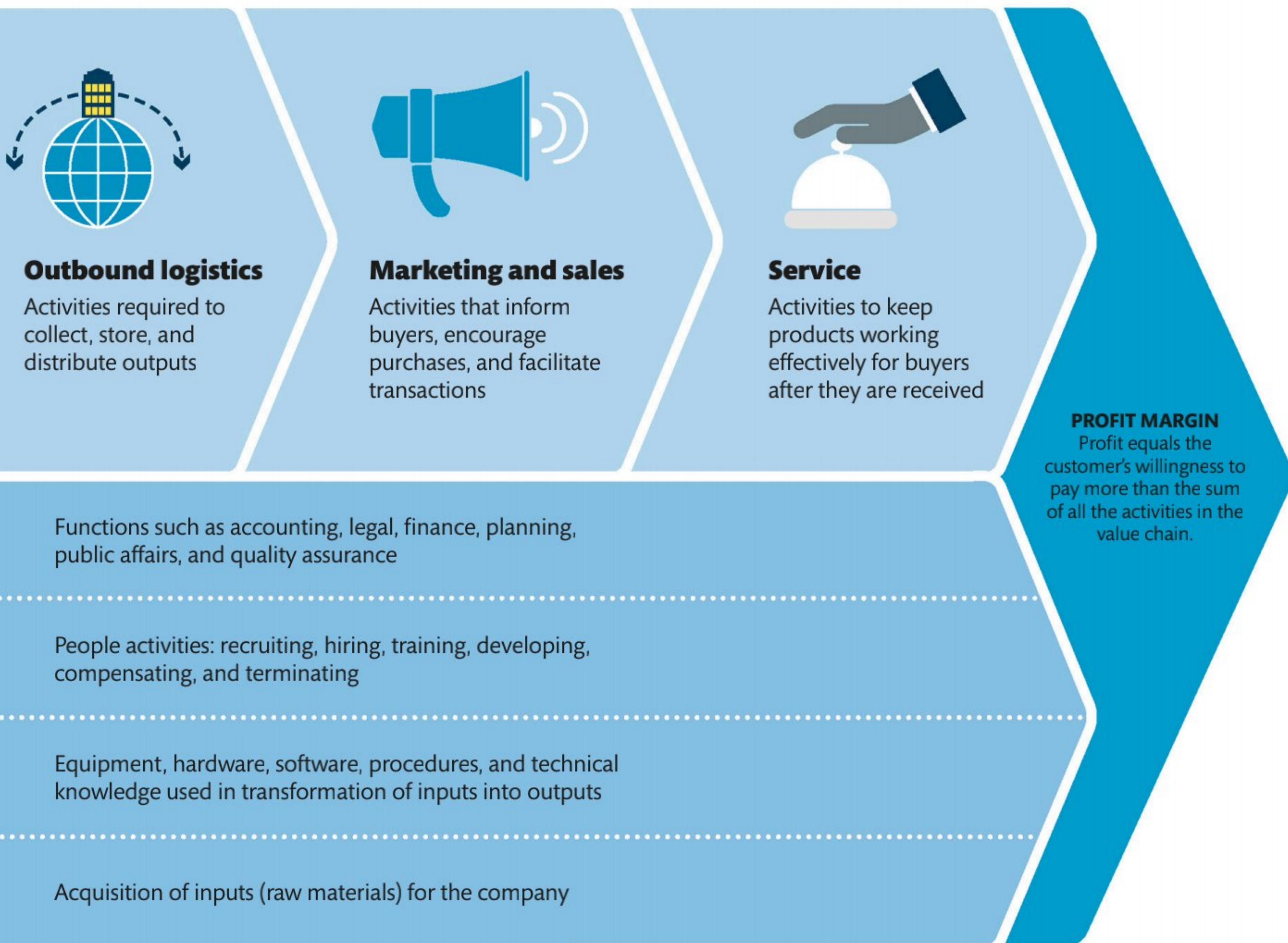


Procurement

ONLINE VALUE CHAIN

More than half of the world's population uses the Internet, doing everything from shopping to sharing photos and watching TV, working, and checking social media. To handle this volume, a complex value chain delivers Internet services, made up of global and local firms with assets as diverse as content rights, communications and IT infrastructure, proprietary software, and global brands.

6,384
the number of local
Spanish firms supplying
Zara's parent company
Inditex in 2020





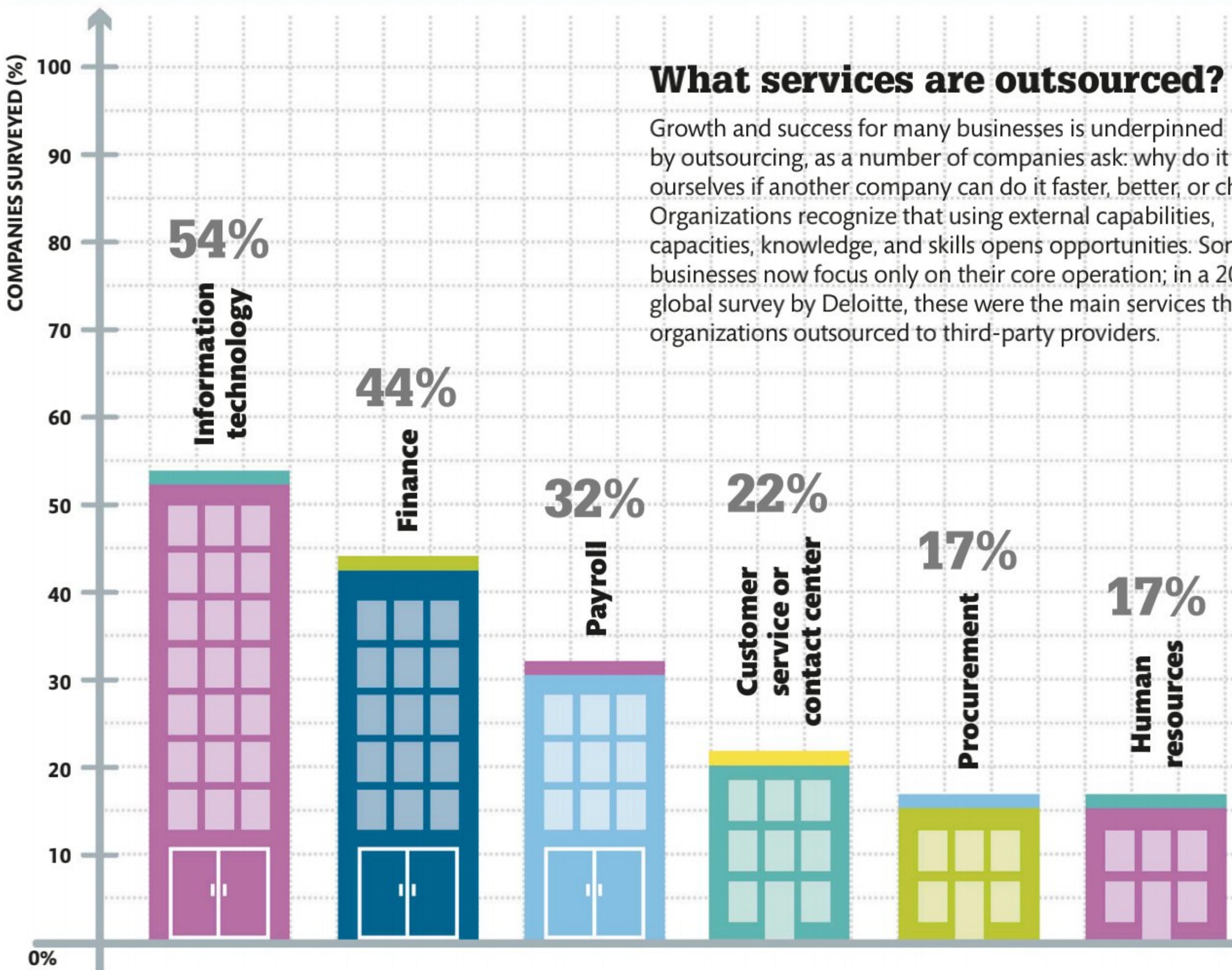
Outsourcing

Firms may choose to pay outside suppliers to do work rather than complete the tasks internally. Handing over part or all of production or a service to a third party increases flexibility.

How it works

Outsourcing grew in the 1980s because firms looked to save costs by contracting peripheral business activities to third parties. But outsourcing today is no longer just about cost savings. It is a strategic tool that is increasingly important in the global economy in the 21st century. Businesses may choose outsourcing for elements of the production process; for support

functions, such as accounting; or because they do not have the specialized knowledge or skills within the organization. Outsourcing may be to a company in the same country, or it may be to an organization in another country. Rapid expansion of logistics networks and information technology has made it easier to outsource, thus accelerating the growth of outsourcing over the last decade.





NEED TO KNOW

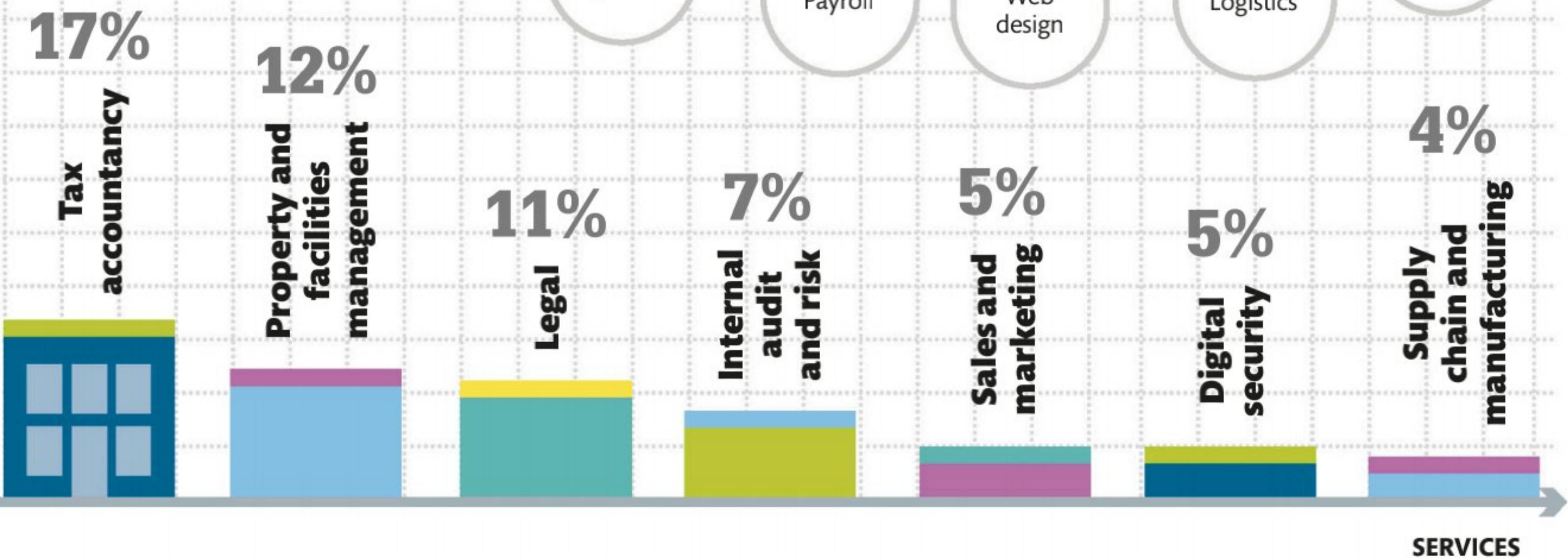
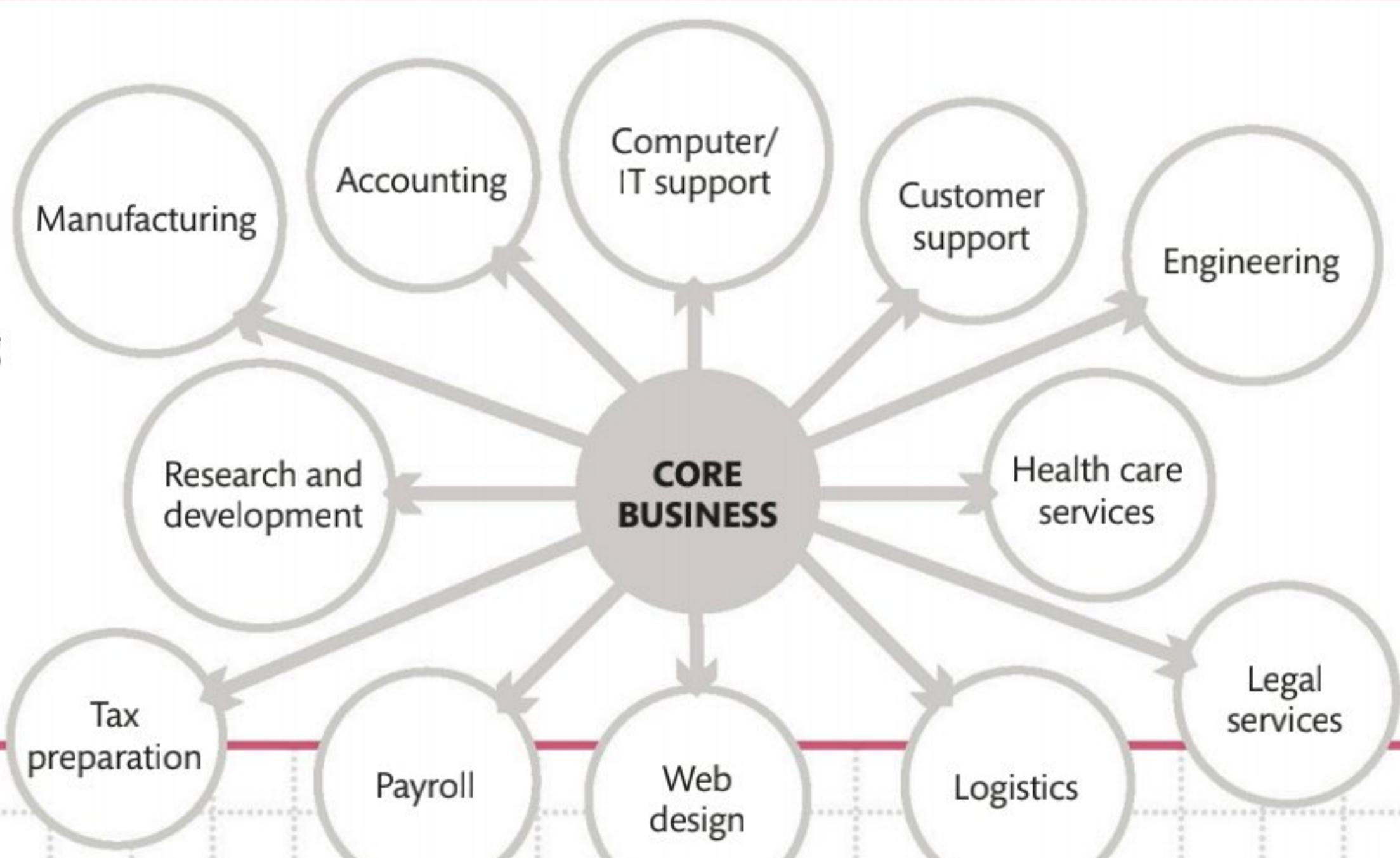
- **Outsourcing** Subcontracting work to another company or buying components for a product rather than manufacturing them.
- **Offshoring** Practice of moving a company's operating base to a foreign country where labor costs are cheaper.

- **Shared services** Practice of moving specific services that were formerly carried out in many parts of an organization (such as HR, finance, and IT) into a single unit. Differs from outsourcing in that no third parties are involved.

80%
of firms say they have no plans to move offshore services back in the short term.

EXAMPLES OF BUSINESS TASKS THAT CAN BE OUTSOURCED

Outsourcing certain tasks within a business enables focus to remain on core business activities, which helps generate growth as well as income. Some tasks are better suited to outsourcing than others due to factors including expertise, how time consuming a task is, and how much face-to-face time it requires. IT operations, for example, can be highly expensive, require expert knowledge, and can easily be managed remotely. Human resources, however, is more employee focused and so better kept in house.





Offshoring

Moving jobs outside the country where a company is based is called offshoring. A company will set up operations overseas and recruit local people to do the work, usually with the support of employees from the parent company.

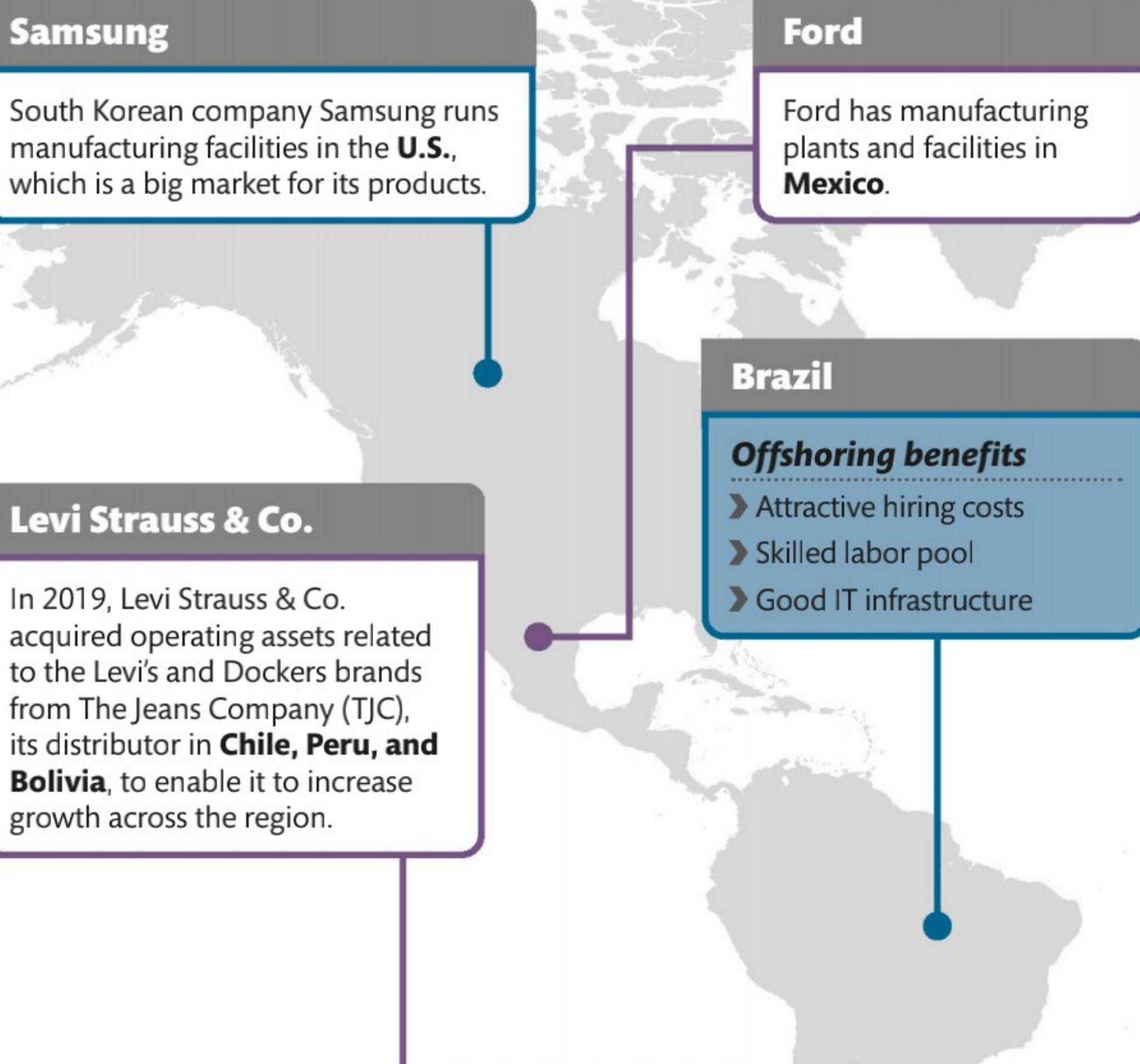
How it works

Offshoring grew in the 1980s as Western companies with high labor costs realized that they could reap significant savings by manufacturing in countries with lower overheads. Information technology (IT) services followed, enabled by the Internet and global communications. Some firms send manufacturing offshore by setting up a factory in another country—

perhaps to be close to a source of raw materials. They can also send services offshore, such as call centers, in locations with a ready supply of skilled staff. In addition, companies can outsource offshore, having work handled by a third party. Firms that send work offshore must follow ethical practices, such as paying local people a fair wage and upholding health and safety standards in the workplace.

Global expertise

Offshoring started in India, and today, it still leads the way. The country's IT and business processing outsourcing export industries employ more than four million people and are worth \$147 billion. Other regions have different areas of expertise; for instance, Eastern Europe also specializes in IT services. This map shows examples of the areas of expertise available in different countries, and companies that offshore their operations.



55%

India's share of the global outsourcing market

THE PROS OF OFFSHORING

- Cheaper labor costs
- Proximity to raw materials
- Access to specialized staff
- Tax benefits

THE CONS OF OFFSHORING

- Communication problems
- Working in different time zones
- Different working cultures can cause difficulties
- Can be vulnerable to geopolitical unrest

Jaguar Land Rover

Jaguar Land Rover has a cutting-edge manufacturing plant in **Slovakia**.

Ukraine

Offshoring benefits

- Engineering capability
- Access to people with software development skills
- Cost competitiveness

CloudSimple

In 2019, Google acquired CloudSimple, a U.S. company with a base in **Ukraine**, and subsequently opened an R&D center there.

Apple

Apple has had substantial operations in **China** for many years.

India

Offshoring benefits

- Availability of highly trained technicians
- Access to latest technology
- Government offers beneficial policies

Cisco

Cisco has put major investment into an R&D center in **Bangalore, India**.

Zara

Spanish retailer Zara manufactures clothing in **Turkey**.

South Africa

Offshoring benefits

- Diverse talent pool
- Good infrastructure
- Access to latest technology

The Philippines

Offshoring benefits

- English is an official language
- High literacy and education
- Reliable infrastructure

Macquarie Group

Australian financial services company Macquarie Group has an offshore base in the **Philippines**.



Reverse supply chain

Supply chain takes a product to a customer. Reverse supply chain is the series of activities it takes to retrieve an unwanted or used product from a customer and dispose of, recycle, or resell it.

How it works

Companies have to focus on more than bringing a product to a customer. Now, an efficient reverse supply chain is also essential, especially for the large number of online retailers. Manufacturers, too, in industries from carpets to computers, may need reverse supply to recycle products to meet environmental regulations.

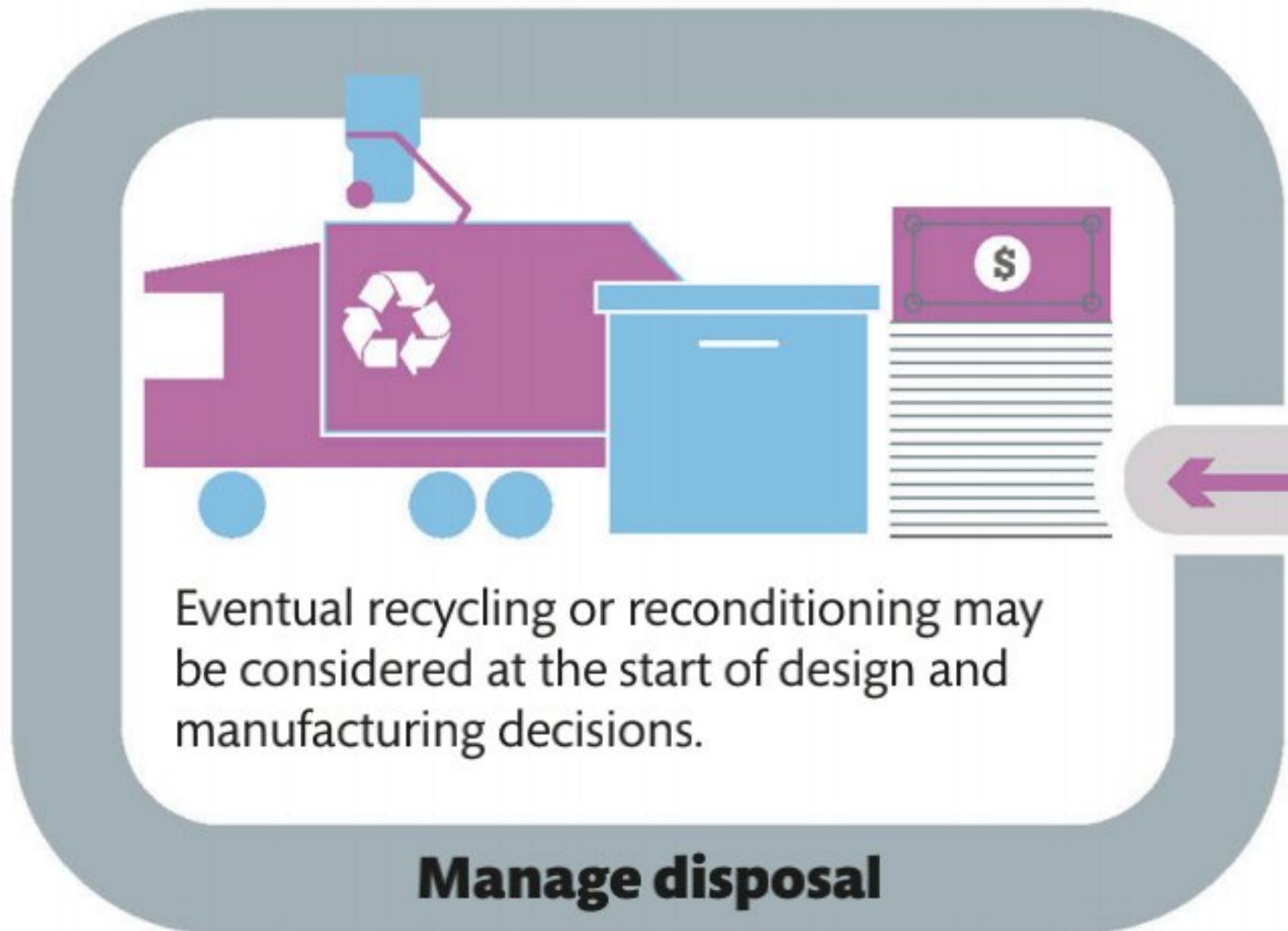
For instance, companies have to manage products that are returned for a refund, products that do not sell and are returned to producers from retailers, or products near the end of their life. In a drive to improve sustainability, Swedish chain Ikea offers to buy back old items of its furniture from customers.

Reverse logistics

The cost to companies of reverse supply is enormous. For example, in the U.S., statistics from the National Retail Federation show that consumers returned \$428 billion of goods in 2020—with online returns almost doubling as consumers switched to Internet shopping during the COVID-19 pandemic. This represents about 10 percent of total U.S. retail sales of \$4 trillion for the year.

CUSTOMER RETURNS

Retailers Sears and JCPenney were the first stores to allow consumers to return goods with no penalty. This pioneering move in the late 19th century encouraged people to shop with them and helped build a loyal following. These days, most physical and online retailers allow customers to return unwanted items within a set time period and receive an exchange or refund. Consumers have the right to return faulty goods, which also forms part of the reverse supply chain.





NEED TO KNOW

➤ Electronic waste (e-waste)

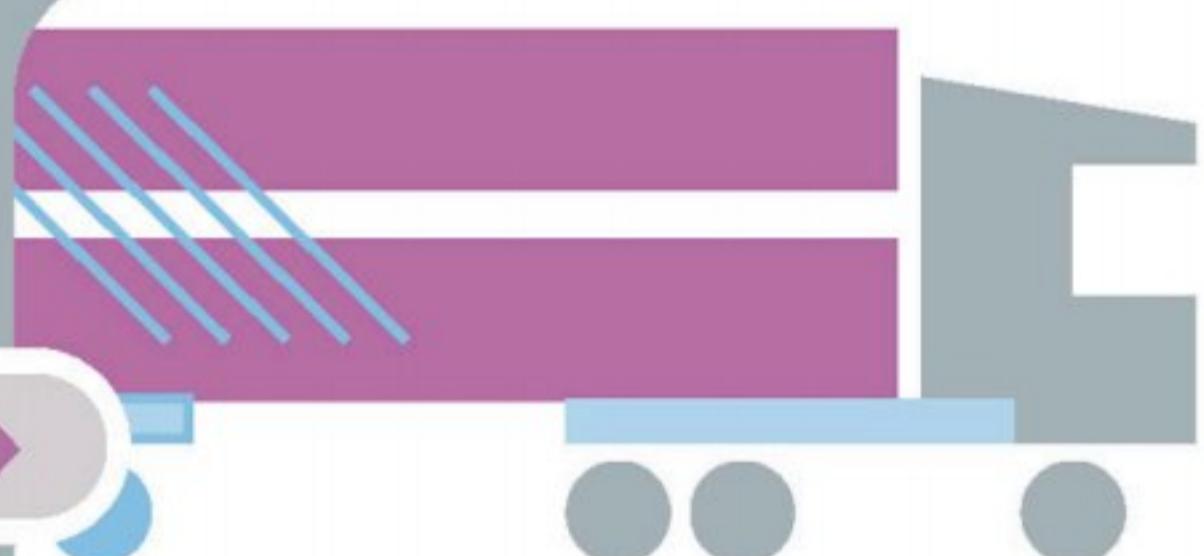
Electrical or electronic devices that are unwanted, do not work, or are obsolete

➤ Warehousing

Administrative and physical functions necessary for storage of goods, either for selling or retrieval

84%
of Brazilian online shoppers
are likely to make an extra
purchase when returning
an item to a physical store

Transport



Customers expect items to be transported back to the seller in a straightforward system, in person or by a delivery service.

Receive



Effective inventory management is critical to ensure that inbound items are recorded so the company can keep track of returns.

Sort



Items and components are sorted and separated, ready for reselling, recycling, or disposal.

Inspect



Items are carefully checked on return. If they are to be resold, they must be in pristine condition.



Benchmarking

Businesses use benchmarking to improve efficiency by comparing their performance with that of other organizations. The goal is to identify and learn from best practices within or outside the industry.

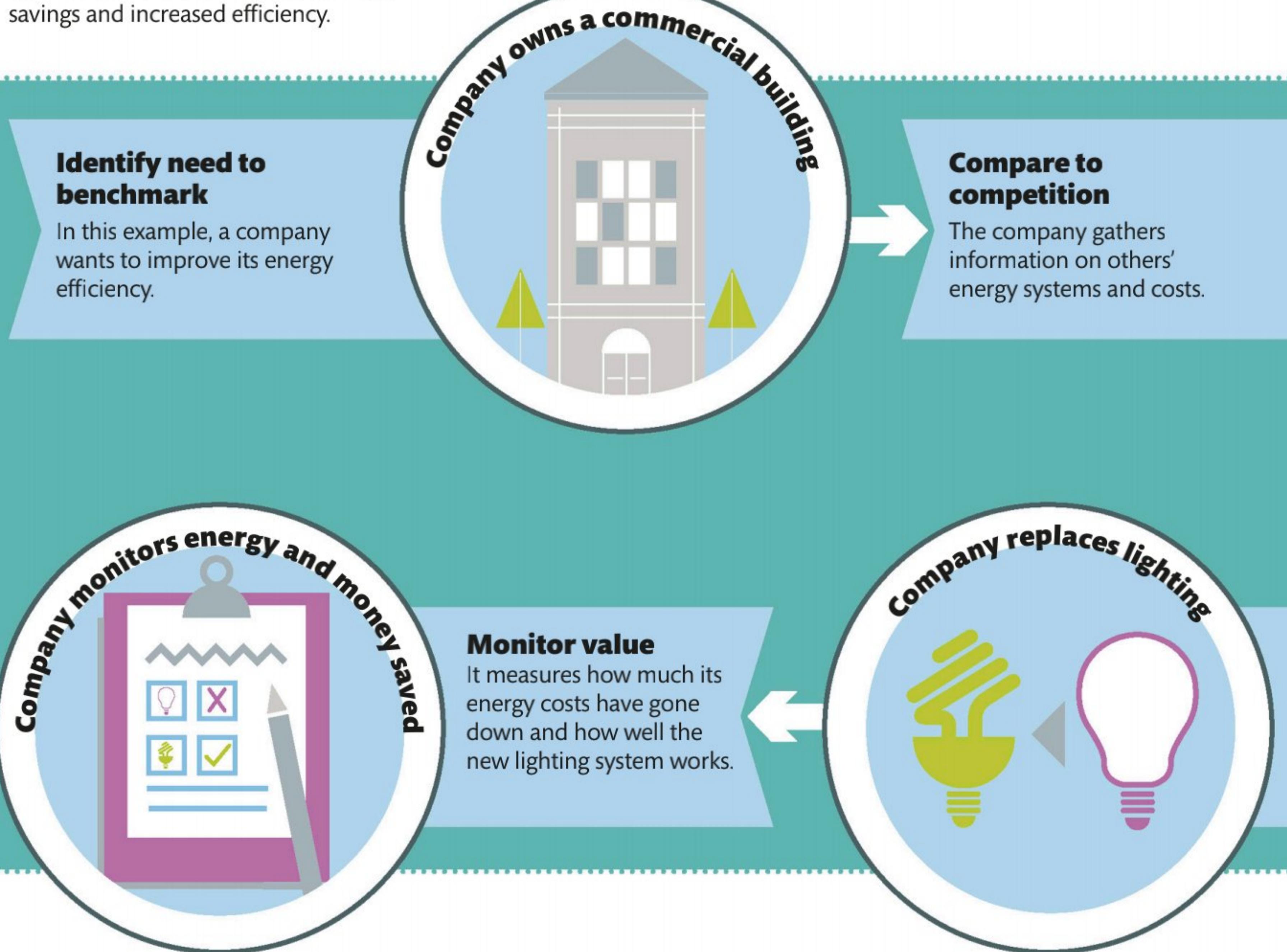
How it works

To improve results, a business may look outside the organization, industry, or country to explore others' levels of performance and identify how they achieve it. Benchmark areas include unit cost, customer ratings, and pay and benefits. The evaluation takes into account

a range of factors, including training, technology platforms, and manufacturing equipment. For example, Formula 1 is often used as a benchmark for teamwork, as pit-stop crews have perfected the changing of four tires in fewer than seven seconds.

The process of benchmarking

There are several stages to benchmarking performance before a company can start to see cost savings and increased efficiency.

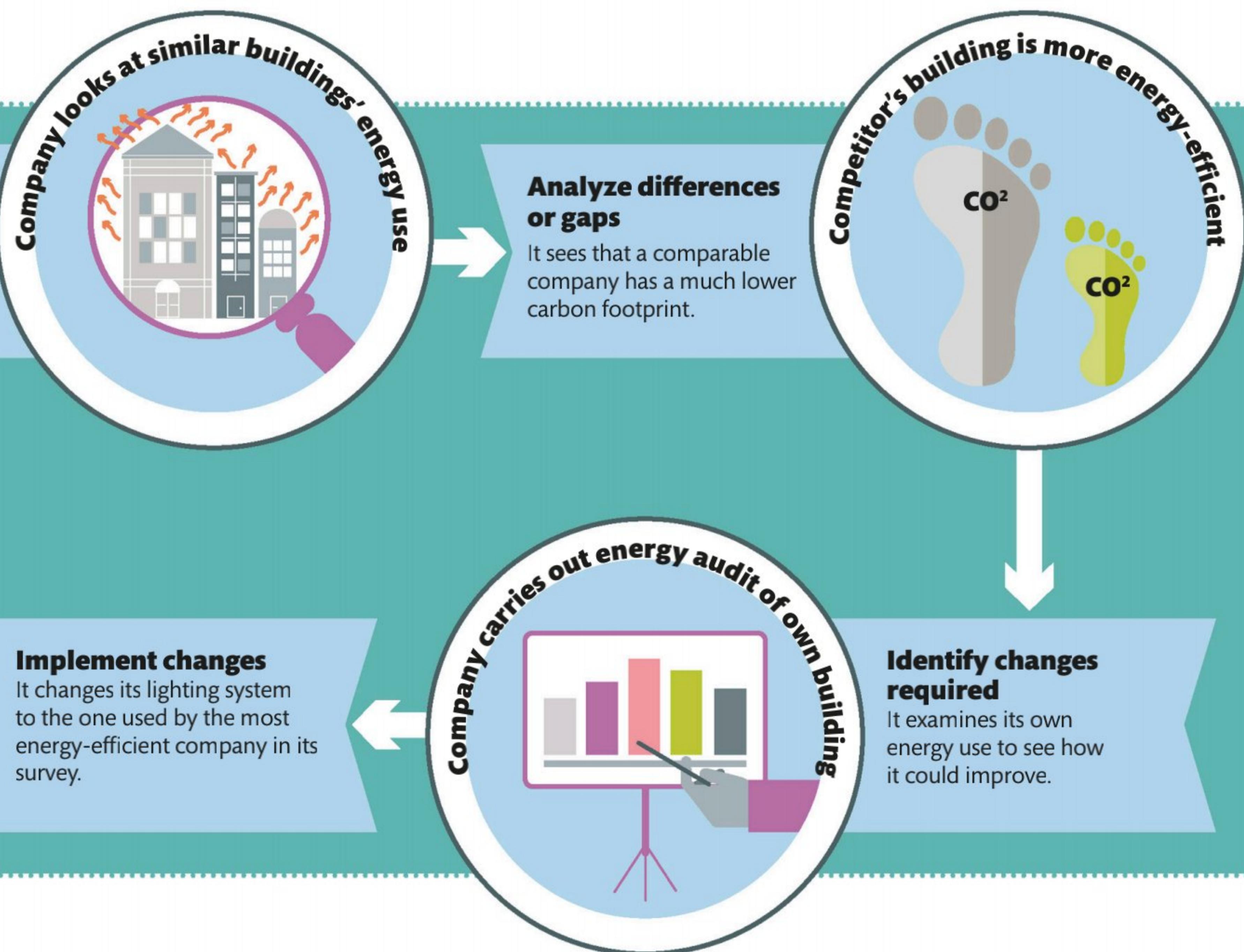


SOCIAL MEDIA MAKES IT EASY

It is now easier than ever for organizations to gather data about their competitors. Social media can provide data on customer preferences, brands, and campaigns of other organizations. Analytical tools are available to simplify benchmarking across many different channels.

"Benchmarking is the search for industry best practices that lead to superior performance."

Robert C. Camp, *benchmarking pioneer*





Corporate social responsibility

Businesses today must aim not only to do no harm to the environment, people, or communities but also to show commitment to building a better society. This is termed corporate social responsibility (CSR).

How it works

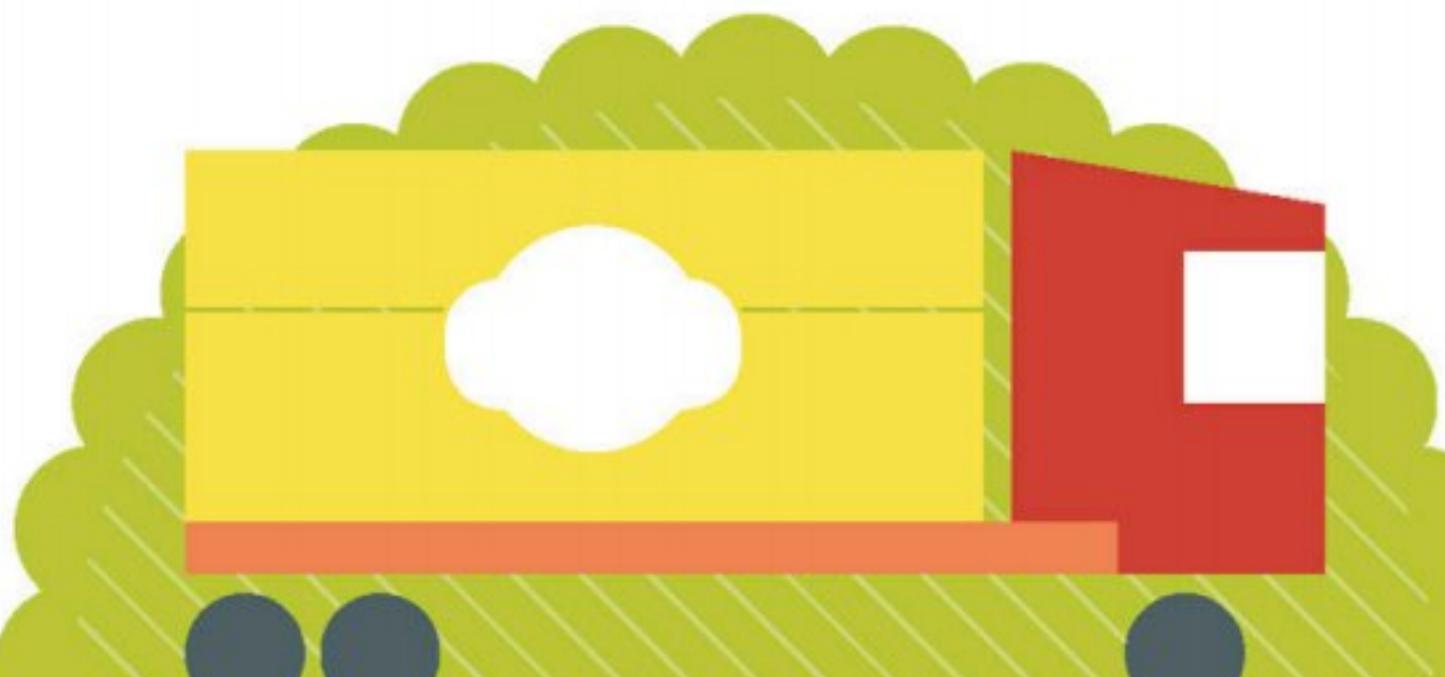
For a business, CSR goes further than aiming to be compliant with national or international regulations, managing risks, or corporate philanthropy—it has to be an integral part of every aspect of operations, helping create a sustainable business. A company still has to be competitive and profitable but must avoid making decisions merely for short-term gain. Instead, it has to consider the future impact on society, the environment, and a wide range of stakeholders. Companies now report annually on how they have met their CSR and are benchmarked and ranked against competitors.

100%
of the top 100
companies in Japan
and Mexico report
on sustainability



**Workforce**

Workplace safety, health, and well-being; diversity; equal opportunities; learning and development; ethical policies and practices

**Suppliers**

Fair trade, supply-chain ethics, and sustainability (including use of child labor); code of conduct; transportation policies

CSR stakeholders

A number of different business areas have to be considered in assessing a company's CSR, from how it affects people working in and for the company to wider environmental and community implications.

**Operations**

Ethical trading, including marketing practices and pricing; managing customers; financial reporting; policies; values



CASE STUDY

AstraZeneca's biogas stoves

The pharmaceutical firm's CSR initiatives include funding a project to test biogas stoves in rural Kenya. The wood and charcoal-fueled stoves traditionally used by many Kenyans release harmful smoke, contributing to climate change and causing respiratory problems in those using them (mostly women and girls). So, the firm partnered with Kenyan company Biogas International and the University of Cambridge's Institute for Sustainability to install smokeless stoves that run on biogas made from organic waste. AstraZeneca also runs other projects targeting ill health in developing countries as well as a health and well-being strategy for its staff.