

Supply Chain Management



Concept of Supply Chain Management

Supply chain management is the management of the flow of goods and services and includes all processes that transform raw materials into final products. It involves the active streamlining of a business's supply-side activities to maximize customer value and gain a competitive advantage in the marketplace.

SCM represents an effort by suppliers to develop and implement supply chains that are as efficient and economical as possible. Supply chains cover everything from production to product development to the information systems needed to direct these undertakings.

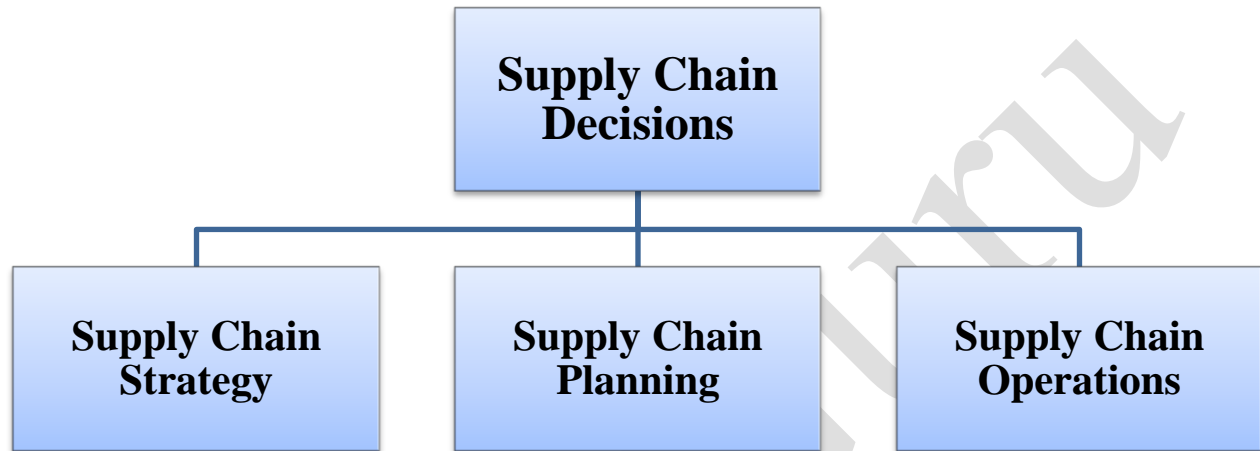
It is an expansive and complex undertaking which ensures that each partner i.e. from suppliers to manufacturers and beyond performs well. An effective supply chain management is a combination of change management, collaboration, and risk management which helps to create alignment and communication between all the entities.

The supply chain begins with acquiring the goods or materials needed to satisfy the end product. Businesses must choose vendors, freight carriers, and possibly warehouse solutions. Inventory storage and the handling of goods-in-process are part of supply chain management as well. Marketing and distributing the product to the consumer wraps up the process.

Essentially, supply chain management includes every decision made about the products or services a company delivers to their customers. The best way to understand the various phases of supply chain management and how certain points influence others is to look at the three levels of SCM decisions.

Supply Chain Decisions

Decision phases can be defined as the different stages involved in supply chain management for taking an action or decision related to some product or services. Successful supply chain management requires decisions on the flow of information, product, and funds that fall into three decision phases. The three phases are described below:



1. Supply Chain Strategy

In this phase, decision is taken by the management mostly. The decision to be made considers the sections like long term prediction and involves price of goods that are very expensive if it goes wrong. It is very important to study the market conditions at this stage.

These decisions consider the prevailing and future conditions of the market. They comprise the structural layout of supply chain. After the layout is prepared, the tasks and duties of each is laid out.

All the strategic decisions are taken by the higher authority or the senior management. These decisions include deciding manufacturing the material, factory location, which should be easy for transporters to load material and to dispatch at their mentioned location, location of warehouses for storage of completed product or goods and many more.

2. Supply Chain Planning

Supply chain planning should be done according to the demand and supply view. In order to understand customers' demands, a market research should be done. The second thing to consider is awareness and updated information about the competitors and strategies used by them to satisfy their customer demands and requirements. As we know, different markets have different demands and should be dealt with a different approach.

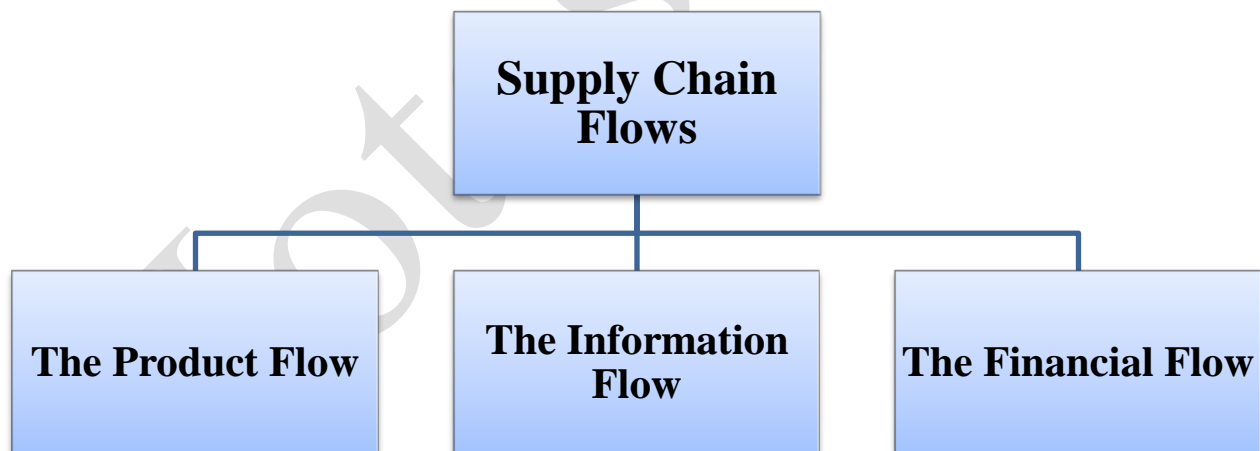
This phase includes it all, starting from predicting the market demand to which market will be provided the finished goods to which plant is planned in this stage. All the participants or employees involved with the company should make efforts to make the entire process as flexible as they can. A supply chain design phase is considered successful if it performs well in short-term planning.

3. Supply Chain Operations

The third and last decision phase consists of the various functional decisions that are to be made instantly within minutes, hours or days. The objective behind this decisional phase is minimizing uncertainty and performance optimization. Starting from handling the customer order to supplying the customer with that product, everything is included in this phase.

For example, imagine a customer demanding an item manufactured by your company. Initially, the marketing department is responsible for taking the order and forwarding it to production department and inventory department. The production department then responds to the customer demand by sending the demanded item to the warehouse through a proper medium and the distributor sends it to the customer within a time frame. All the departments engaged in this process need to work with an aim of improving the performance and minimizing uncertainty.

Supply Chain Management Flows



- **The Product Flow:** movement of goods from a supplier to a customer
- **The Information Flow:** focuses on transmitting order and updating the status of delivery
- **The Financial Flow:** involves credit terms, payment schedules, and consignment and title ownership arrangements

Principles of SCM

Supply chain refers to the processes that are involved in moving the products from the supplier to consumers. It is a network of organizations, people, resources, activities and information involved in upstream and downstream. Supply chain management (SCM) is the process of handling the flow of goods or services. The activities involved from acquiring raw materials to the final delivery of the product to consumers come under SCM. Supply chain management minimize the waste, cost and time consumed in the production process.



1. Adapt Supply Chain to Customer's Needs

The businesses and supply chain professionals understand customer's needs. Customers are divided into different groups called 'segments' in order to understand them better. On the basis of sales volume or profitability, the primitive way to segment customer is ABC analysis. It can also be done by product, trade channel and industry. Anticipating the customer's needs is also

very important. Once the needs of the customers are anticipated, the supply chain should be aligned to cater to the needs.

2. Customize Logistics Network

After the segmentation of the customers based on different requirements, SCM managers have to tailor logistics networks to serve different segments. The SCM manager has to prioritize the deliveries and make suitable provisions to quickly distribute those goods that are marked as urgent.

3. Align Demand Planning Across Supply Chain

Supply chain professionals are trained to share data with trading partners in order to avoid the unnecessary stock. The demand data must be used wisely by the SCM managers.

4. Differentiate Products Close to Customers

Standardization and differentiation are two completely opposite things. Some cosmetic companies manufacture only 1 SKU that can be sold throughout Asia instead of 1 SKU per country. Due to the economy of the sales, standardization can drastically bring down the cost.

5. Outsources Strategically

Though outsourcing is all the rage, the managers must outsource strategically. The core expertise should not be outsourced ever. This principle stands the test of time.

For Example, some cosmetics manufacturers formulate products and choose packaging and labeling that companies with regulations of multiple countries in Asia. So they only make one SKU that can be sold in 15 countries instead of 1 SKU/company. By standardizing product appropriately, they can drive cost down drastically due to economy of scale.

6. Develop IT that Support Multi-Level Decision Making

The IT projects should not be done in isolation and before IT projects, the business process reengineering should be done. This provides a proper understanding of process insufficiencies and helps to determine the kind of innovation needed.

7. Adapt Both Services and Financial Metrics

The activity-based costing (ABC) is applied to determine the customer's profitability. It is even better to exploit Time Driven Activity Based Costing in order to understand changes in activities, process, product and customers.