

# University Name

Course Code

Course Title -- #####

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## How Effective Supply Chain Management Drives Real Customer Value

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**Student ID:**

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**Module Leader:**

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**Word Count:**

2498 words (Excluding References, Title Page and Table of Contents)

July 1st, 2024

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Background and Importance of Customer Value**

According to Christopher (2016), customer value, which varies subjectively among individuals based on personal needs, preferences, or experiences, is the difference between the perceived benefits from a purchase or relationship and the total costs incurred, with successful companies being those that deliver more customer value than their competitors (pp. 29 - 30).

### **1.1 Introduction to Supply Chain Management (SCM)**

According to Christopher (2016), Supply Chain Management can be defined as the management of upstream and downstream relationships with suppliers and customers in order to deliver superior customer value at less cost to the supply chain as a whole (p. 3). Asthana (2018) emphasizes that the ultimate goal of SCM is to match supply to customer demand as accurately and efficiently as possible.

An efficient supply chain ensures that products are delivered on time, in the right quantity, and at the correct location, which enhances customer value by boosting customer confidence and enhancing their experience (Tom K., 2023).

## CHAPTER TWO

### THEORETICAL FRAMEWORK OF SCM

#### 2.0 Evolution of SCM

Over the past few decades, supply chain management has undergone tremendous evolution. Supply Chain Management evolved from basic logistics to integrated logistics for efficiency, then to coordinated SCM emphasizing collaboration and technology. Wang et al. (2022) explains that today, digital supply chains use technologies like big data and IoT to promote supply chain collaborative management by improving real-time information transparency, information systems integration, and big data processing capabilities improved visibility and efficiency (p. 21).

#### 2.1 Components of SCM

The five major components of SCM are planning, sourcing, production, delivery, and return. All of them are crucial in ensuring that the supply chain functions efficiently and effectively.

- i. **Planning:** This involves the development of strategies to balance supply and demand and ensure that resources are effectively used to meet consumer needs. Chopra and Meindl (2016) highlights that planning includes making decisions regarding which markets will be supplied from which locations, the subcontracting of manufacturing, the inventory policies to be followed, and the timing and size of marketing and price promotions (p. 19).
- ii. **Sourcing:** Chopra and Meindl (2016) define sourcing as a set of business processes required to purchase goods and services, and emphasizes on how appropriate sourcing decisions raise supply chain profits by assigning supply chain functions to the right party,

which brings higher economies of scale (pp. 68 - 72). Additionally, Teller et al. (2016) emphasizes that strong relationships between companies and their supplies enable significant business process integration and agility, leading to improved responsiveness, profitability, and overall SCM execution (p. 21), while also ensuring the secure acquisition of high-quality materials at competitive prices, essential for maintaining product quality and cost-efficiency.

- iii. **Production:** Ronoh (2014) describes this component as the manufacturing step where the activities necessary to transform raw materials into finished goods, testing, packaging, and preparation for delivery are scheduled (p. 62). Efficient production processes can enhance product quality, reduce costs, and shorten lead times.
- iv. **Delivery:** Delivery, also known as distribution, is simply moving the finished products from production locations to customers. According to Ronos (2014), this includes warehousing, order fulfillment, transportation, and logistics management (p. 62). Effective delivery practices enhance customer satisfaction by ensuring reliable and timely access to products.
- v. **Returns:** Return or "Reverse Logistics", is a post-delivery customer support process crucial for supply chain management that involves handling returned products to maintain customer relationships, and also allows firms to return low-quality, defective, expired, or excessive raw materials to their suppliers (Bhardwaj, 2020). Effective returns management can enhance customer satisfaction by providing a seamless return experience, maintaining the company's reputation, and potentially recapturing value from returned items (Ba Awain et al., 2023).

## 2.2 Key SCM Strategies

Companies often adopt certain strategies to optimize their supply chains. Lean SCM, Agile SCM, and Green SCM are some of these strategies.

- i. **Lean Supply Chain:** This strategy seeks to reduce costs through a system of identification and elimination of waste, making the customer receive exactly what they need, at the requested time and in the quantity requested (Ferreira et al., 2017). The application of lean manufacturing practices in the supply chain allows organizations to achieve higher reliability, and a sharp reduction in inventories (Alvim et al., 2020).
- ii. **Agile Supply Chain:** An agile supply chain, characterised by its flexibility and responsiveness to short-term market changes and uncertainties, enables businesses to excel in risk management, planning, inventory control, and demand anticipation (Çelikkol, 2021).
- iii. **Green supply chain:** this supply chain management strategy incorporates environmentally friendly practices into the supply chain. The main objectives of this strategy are to reduce waste, improve efficiency, and minimize the environmental impact of supply chain activities (Ba Awain et al., 2023). According to Shafique et al (2017), Green SCM practices include reducing waste, environmental protection and saving energy (p. 98).

## CHAPTER THREE

### LINKING SCM TO CUSTOMER VALUE

#### 3.0 How SCM Affects Customer Value

Supply Chain Management plays a vital role in elevating consumer satisfaction by facilitating the efficient and effective transfer of goods, services and information between sellers and buyers. The impact of SCM on customer value can be witnessed in several facets, including cost reduction, quality improvement, speed, flexibility, and sustainability.

- i. **Cost Reduction:** Companies can enhance customer value by providing affordable products without compromising quality through logistics optimization and waste minimization. Lean supply chain strategy, as described by Alvim et al. (2020) ensures low cost and high efficiency by reasonable resource allocation (p. 6).
- ii. **Quality Improvement:** McFarlane (2013) describes quality simply as the customers' perception of how well a company's products and services meet expectations (p. 64). By implementing robust quality control measures and fostering a culture of continuous improvement, companies can ensure that their products meet or exceed customer expectations. Christopher (2016) emphasizes that the whole purpose of supply chain management is to provide customers with the level and quality of service that they require and to do so at less cost to the total supply chain (p. 43).
- iii. **Speed:** A critical component of customer value is the ability to deliver products quickly, which can be achieved through efficient supply chain management that reduces lead times and ensures timely delivery to meet customer demands promptly. Chopra and Meindl (2016) discuss how Companies like Zara have leveraged their supply chain capabilities to offer fast delivery options, enabling it to introduce new designs weekly

and refresh 75% of its merchandise every three to four weeks, which closely aligns its products with customer preferences, resulting in most items being sold at full price and having about half the markdowns compared to competitors (p. 26), thus significantly enhancing customer satisfaction and loyalty.

- iv. **Flexibility:** Flexibility in the supply chain refers to a company's ability to respond swiftly to changes in customer demand or market conditions. Agile supply chain strategy's flexibility can increase responsiveness and provide strategic advantages, such as better risk management, improved planning, and enhanced inventory control (Çelikkol, 2021), ensuring that customer needs are met even in dynamic environments, thereby enhancing value.
- v. **Sustainability:** Companies that adopt sustainable SCM practices are more attractive to patronize, especially to environmentally conscious customers, which can improve the company's brand image and thus increase customer value. Green supply chain management incorporates sustainable practices such as recycling, waste reduction, responsible sourcing, and energy-efficient logistics (Ba Awain et al., 2023).
- vi. **Customer Satisfaction and Loyalty:** Enhancing customer satisfaction and loyalty is the ultimate objective of SCM. Consistent and reliable supply chain performance leads to increased customer satisfaction which according to Weinstein (2012) is crucial for retention and comes from delivering superior customer value.

### 3.1 Case Studies of Effective SCM

Case studies of effective Supply Chain Management demonstrate how innovative strategies can greatly improve operational efficiency and customer satisfaction.



### **3.1.0 Amazon: Exemplary SCM Strategy**

Amazon, a global leader in e-commerce, has been remarkably successful since its inception, due to its excellent supply network (Bharadwaj, 2019). Amazon's supply chain management strategy revolves around innovation, efficiency, and customer-centric operations through key elements such as anticipatory shipping, Fulfilment by Amazon (FBA), technology and automation, extensive logistics network, and strategic warehouse placement (Sharanya & Nair, 2018).

#### **Specific SCM Strategies Employed**

According to Bharadwaj (2019), Amazon employs an in-house supply chain strategy, also known as online-only supply chain, which relies on extensive product sales forecasting and inventory management systems to fulfill orders quickly and accurately while optimizing shipping, allowing Amazon to offer a wide variety of shopping options and excellent after-sales services through its website (p. 3).

#### **How These Strategies Enhance Customer Value**

Amazon's SCM strategies result in fast delivery, often within the same day, meeting customer demands for speed and reliability, which ensures high product availability, and exceptional convenience, all of which significantly enhance customer value (Sharanya & Nair, 2018).

### **3.1.1 Zara: Agile SCM for Fashion Retail**

Zara's supply chain management is renowned for its rapid responsiveness in fulfilling the demands of the fast fashion industry. This responsiveness is achieved through a tightly integrated supply chain that emphasizes speed and flexibility (Melisa & Ellitan, 2024).

## **SCM Practices and Innovations**

Zara's SCM practices include vertical integration, Just-in-Time (JiT) manufacturing, automated production and distribution, information technology, and supply chain flexibility (Melisa & Ellitan, 2024).

## **How These Strategies Enhance Customer Value**

Zara's agile SCM enhances customer value through its rapid responsiveness, high product variety and availability, and localized pricing strategies, all of which ensures that customers have access to the latest styles, thus enhancing the corporation's competitiveness (Melisa & Ellitan, 2024).

## **Results**

The efficient management of production and distribution costs, combined with rapid response to market demand, has enabled Zara to maintain competitive pricing while achieving strong profit margins (Melisa & Ellitan, 2024).

## **3.2 Case Studies of SCM Failures**

Examining case studies of SCM failures highlights critical pitfalls that can disrupt operations, escalate costs and damage customer relationships.

### **3.2.0 Nike: Supply Chain Disruption and Lost Customer Trust**

Nike faced significant supply chain disruptions in the early 2000s due to issues with implementing a new inventory management system.

## **SCM Issues and Failures**

The company attempted to modernize its supply chain processes by integrating an advanced demand and supply planning software system (i2), however, the problems stemmed from the complexities involved in integrating the new system with existing processes, causing an imbalance in inventory levels, leading Nike to experience both overstocking and under stocking of products, which affected its ability to meet customer demand accurately. (Christopher Koch, 2004).

## **Impact on Customer Value and Satisfaction**

The impact was substantial, leading to dissatisfaction among consumers who either found their desired products out of stock or faced excessive delays in delivery, thus costing Nike more than \$100 million in lost sales, depressing its stock price by 20%, and triggering a flurry of class-action lawsuits (Christopher Koch, 2004).

## **Lessons Learned and Corrective Measures**

Nike stopped using i2's demand planner for its short and medium range sneaker planning in the spring of 2001, moving those functions into its SAP ERP system, which was grounded more in orders and invoices than in predictive algorithms (Christopher Koch, 2004).

### **3.2.1 KFC UK**

In 2018, KFC UK decided to switch its logistics partner from Bidvest Logistics to DHL (Felix Allen, 2018) in an effort to reduce costs, streamline operations, and create a more efficient supply chain that could better meet the needs of the company's numerous outlets. However, the transition was poorly managed, leading to severe supply chain disruptions (Felix Allen, 2018).

## **The Disruption**

The primary issue was DHL's inability to effectively manage the distribution of fresh chicken to KFC outlets, leading to inadequate warehousing, poor route planning, and a lack of contingency planning, and as a result, many KFC outlets ran out of chicken, forcing them to close temporarily (Felix Allen, 2018).

## **Impact on KFC UK**

- i. **Financial Losses:** The closure of more than 600 outlets led to significant financial losses due to lost sales and the cost of wasted perishable goods ("Chicken chaos as KFC closes outlets", 2018).
- ii. **Brand Reputation:** The incident received widespread media coverage, negatively impacting KFC's brand reputation and customer trust ("Chicken chaos as KFC closes outlets", 2018).

## **Lessons Learned and Corrective Measures**

KFC apologised to its customers in a pretty cheeky way by taking out a full page ad in the Sun and Metro newspapers showing an empty bucket of chicken with crumbs spilling out, and the letters switched around to read "FCK" instead of "KFC" ("KFC's Apology is pretty Cheeky", 2018). Its previous supplier, Bidvest supplier was quickly reinstated, and a dual-sourcing strategy was implemented to reduce dependency on a single supplier. This approach, according to Norbis and Meixell (2011), minimizes the risk related to supply disruptions by having multiple sources available.

### 3.3 Best Practices in SCM for Delivering Customer Value

Ensuring that the right strategies are implemented in supply chain management guarantees efficiency, responsiveness and sustainability, which are very important in meeting the expectations of the customers and securing a competitive edge.

- i. **Collaboration and Partnership:** Supply chain collaborations produce benefits including reduced lead time, reduced bullwhip effect, development of distinctive capabilities, increased flexibility and increased end-customer satisfaction, market share and profits (Kumar et al., 2017).
- ii. **Technology Integration:** Jabbour et al. (2020) explains that AI can help businesses create the best possible products by quickly understanding client expectations, analyzing market trends, leveraging failure modes, optimizing supply chains, and fostering a more creative workforce through the automation of routine tasks. According to analysts, blockchain technology can enhance the contemporary structure of the supply chain by enhancing supply chain efficiency, trust, as well as transparency (Meidute-Kavaliauskiene, 2021).
- iii. **Lean and Agile Practices:** Lean supply chain strategy seeks to reduce costs by identifying and eliminating waste ensuring customers receive exactly what they need at the requested time and in the quantity requested (Ferreira et al., 2017), while agile strategy allows business to be more flexible and responsive to short-term market changes and uncertainties in order to efficiently handle fluctuations and meet customer demands promptly (Çelikkol, 2017). Both strategies guarantee efficiency and responsiveness in the supply chain, thus increasing customer value and satisfaction.

- iv. **Sustainability:** Sustainability is becoming increasingly important for customers. Green Supply Chain Management integrates environmental considerations into supply chain activities to reduce waste, and minimize environmental impacts, thereby enhancing operational efficiency and brand image (Ba Awain et al., 2023).
- v. **Customer-Centric Approach:** Singh et al (2019) describes a customer-centric approach as one that focuses on aligning the supply chain processes and practices to meet the evolving needs and expectations of customers, thus enhancing customer satisfaction and loyalty.

## **CONCLUSION**

Effective supply chain management is key to delivering real customer value. Companies can achieve this by fostering collaboration and partnership, integrating technology and optimizing supply chain processes, thus leading to a reduction in costs and expenses, and improvement in customer satisfaction. High-profile corporations like Amazon and Zara are cited as examples of companies that created significant customer value via effective supply chain management, while Nike and KFC UK are cited as examples of corporations that experienced serious consequences due to poor supply chain management. Businesses aiming to increase customer value and thrive in today's competitive market must employ best practices in SCM, such as sustainability, customer-centric approach and technology integration, among others.

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