Supply Chain Management

Supply chain management is a business process which although still evolving has been in existence for many years. It affects every business irrespective of size, age, sector or location. CIPS acknowledges that supply chain management has undergone many changes in recent years; in particular in the 1980s there was a recognition that holding inventory was an inefficient use of resources and that supply chain management was one area where buyers, suppliers and internal customers could work closely together to ensure goods and services were delivered as required, of the appropriate quality and at the agreed cost.

CIPS Positions on Practice

CIPS views, opinions and beliefs are stated throughout the document; however the broad practice statements which underpin the text are as follows:

- Supply chain management is still evolving and developing and there are, therefore, numerous definitions of it, some of which are presented in this paper. Supply chain management may be said to be broadly about the efficient and effective management of all activities from primary suppliers right through to the point of sale.
- In some sectors supply chain management is a key activity whilst in others it is somewhat less important. Purchasing and supply management professionals should become increasingly involved in supply chain management, ideally playing a leading role in its development wherever possible.
- For best results, supply chain management requires a senior sponsor appropriate to the sector.
- Supply chain management has a pivotal role to play within the organisation, involving as it does responsibility for predicting and satisfying end customers' demand back through to the suppliers.
- Supply Chain Managers have a vital role to play in managing cost, being, as they are, in a position to monitor and influence the whole cost base across the business and the supply chain.
- Supply chain management creates opportunities for the purchasing and supply management professional to contribute to the organisation's success. It is an important activity that purchasing and supply management professionals need to understand and interface with; furthermore they should develop their supply chain management skills so as to supplement the knowledge they possess as far as traditional procurement procedures are concerned.

Background

In essence, the supply chain starts with the extraction of raw material (or origination of raw concepts for services) and each link in the chain processes the material or concept in some way, or supports this processing. The supply chain extends from the raw material or extraction or raw concept origination through many processes to the ultimate sale or delivery to the final consumer, whether goods or services. Arguably it can also include the disposal of the waste associated with the consumed product.

Although an accepted term, 'supply chain' as one expression is inadequate to cover all the complexities to be found in the interconnections within and between organisations; an alternative way of thinking is to consider it as a network with various nodes in which the nodes can be customer of other suppliers, supplier to other customers and collaborator or competitor with many.

The primary function of the supply chain might be said to be the provision of goods or services required by the end customers. However the chain also acts as a channel or medium for the exchange of information as well as the communication of orders or instructions. As well as providing for the flow of products it also provides a channel for the flow of customer requirements and ultimately payment back up the chain.

Although, as noted above, supply chain management is an evolving process, there are distinctions to be drawn between supply chain management 'as was' and supply chain management 'as is'. Reasons for these differences include the following:

- New management thinking on supply chain management as such, and on partnership sourcing generally.
- New opportunities for close liaison with key suppliers and their key customers, supported through the use of IT.
- New legal, consumer and ethical demands on the supply chain - for instance the emergence of the preference for GM-free food and the avoidance of child labour.
- The drift of branding (and hence of product responsibility) from the manufacturer to the retail level recognising however that product liability is not easily transferred.
- The number of mergers within industry and the rise of multinationals gave certain parties an increasingly dominant position within their supply chain. Effective supply chain management is certainly facilitated if the most powerful party decides to enforce on the others but power to force is not the most productive approach. Co-operation can be argued to surface costs hidden in traditional approaches whose removal permits both to benefit.

CIPS considers that this new profile for supply chain management creates opportunities for the purchasing and supply management professional - in, for example, developing a deeper involvement in the procurement of production materials and by bringing supply chain management thinking into MRO (Maintenance, Repairs and Operations) purchasing and in the strategic issues associated with partner selection and relationship management.

What Is Supply Chain Management?

There are numerous definitions of the supply chain and supply chain management:

"The supply chain conceptually covers the entire physical process from obtaining the raw materials through all process steps until the finished product reaches the end consumer. Most supply chains consist of many separate companies, each linked by virtue of their part in satisfying the specific need of the end consumer."
Supply chain management may be thought of as the management of all activities aimed at satisfying the end consumer; as such it covers almost all activity within the organisation. It has been suggested that it incorporates a number of key success factors which include a clear procurement strategy, effective control systems, and development of expertise. Supply chain management therefore represents and reflects a holistic approach to the operation of the organisation. In other words, supply chain management relates to the entire procurement cycle not just at the end (which is the commonly-held view). In particular it has a pivotal role to play in the development of an initial sourcing strategy.

A distinction may be drawn between strategic and tactical supply chain management, the respective definitions being:

“The selection and linking of suppliers and customers through negotiation and agreement to achieve customer satisfaction by providing value added products and services within beneficial and profitable relationships of all parties within the supply chain.”

and

“Supply chain management is the continuous planning, developing, controlling, informing and monitoring of actions within and between supply chain links so that an integrated supply process results which meets overall strategic goals.”

Supply chains are not linear; rather, any organisation has several supply chains coming into (upstream), going through and going out of (downstream) the organisation. Supply chain management is the management of the whole demand process, starting with the end customers' requirements - be that external customers (e.g. consumers) or internal customers (e.g. end users) - and managing the meeting of their requirements right up to, and in some cases, beyond the supplier of the required goods or services.

Few organisations have fully integrated their supply chains; one example of where supply chain management has been successfully implemented is in the automotive sector where Nissan, the car manufacturer, has integrated its upstream supply chains - certainly for its car production if not for its entire business. The supermarket sector is an excellent example of where the supply chains close to the final customer have been managed to the extent that all goods and services required by the organisation are demand-driven, with technology enabling end-customers' requirements to be communicated direct to suppliers. CIPS encourages organisations to manage their supply chains for both direct spend i.e. those goods and services required for the business (components for a manufacturing process for example), as well as indirect spend i.e. those goods and services required to support the business - professional services for instance.

Supply chain management involves identifying where the value lies within the whole supply chain i.e. identifying the value chain and then segmenting it so that each segment can be addressed individually. It is also concerned with analysing and identifying all the non-value adding activities across the entire supply chain and removing them. This process is sometimes referred to as 'diagnostics'. The purpose of this is to diagnose each value segment to determine whether the organisation could improve it whether the value segment could be more enhanced, whether cost could be taken out or whether knowledge about it could be bettered, for instance.

Supply chain management is evolving it is becoming more complicated with many organisations having 80% of their turnover comprising bought-in goods and services. This trend has been exacerbated by an increase in outsourcing; make/buy decisions resulting in more goods and services being bought in, and longer-term partnering arrangements leading to fewer key suppliers who are more willing to take a greater responsibility for efficient upstream supply chains. Technology, notably eProcurement, eMarketplaces and eAuctions, are creating new and alternative upstream supply chains which also have to be managed. Some organisations have outsourced their production to their suppliers so that the organisation's role becomes one of brand management; this is an example of where supply chain management is critical to the success of an organisation.

Practical aspects/issues associated with supply chain management within the organisation will vary from one organisation to another but a typical list might include:

- Perception by individuals that supply chain management represents a threat; for example, the job profile may change perhaps necessitating new approaches to supplier management
- Suppliers, buyers, manufacturers and sub-contractors may all be at different levels of development
- Upstream - some clients are keen to develop supply chain management but the great majority are price-driven - therefore education as to the benefits of supply chain management is very important
- Board members sponsor the supply chain management programme and the work being carried out by the buying teams
- Whole cost rather than lowest price is key
- Supply chain management will only be a success where the relationship is two-way and risk/profit/opportunities are shared
- New eCollaborative software has emerged which facilitates supply chain management

Supply Chain Management - A Strategic Role

Supply chain management has a strategic role to play within the organisation; it is pivotal because, as stated above, its spans all demand, right from the end-customer's requirement to the suppliers that provide the goods and services to meet that need. Sometimes, supply chain management involves going beyond the suppliers that interface with the organisation to their suppliers, in order that improvements can be made. These may include removing cost, increasing quality or ensuring ethical, environmental or socially responsible inputs. Very few organisations have worked closely with their suppliers’ suppliers; working at more than two suppliers removed is unusual.

Supply chain management involves the sharing of risk with suppliers - this can involve moving the risk up the supply chains to those suppliers best able to manage it. Such devolution of risk will come at a cost and so it is to that extent an economic decision. An organisation has to determine the right approach to meet its own objectives; it should therefore evaluate the economic drivers to develop an appropriate level of sophistication in respect of its supply chains - this may involve deciding to bear most risks internally. For instance, organisations must ensure that the goods and services that are critical to them have security of
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supply and that the supply chains are managed accordingly. However supply chain management is not only about sharing risk - it is also about sharing benefits, which is an aspect which not all organisations would necessarily be comfortable with.

CIPS encourages purchasing and supply management professionals to appreciate that passing responsibility on to suppliers in terms of risk, or even outsourcing a service, requires more, not less, management of supply chains on the part of the buying organisation. Some organisations make the mistake of outsourcing a requirement and believe that the supplier in question is then responsible for managing that need. CIPS believes that it is sometimes the reverse and outsourcing, and similar strategies, require very careful supply chain management in order to be successful.

Who Should Be Responsible For Supply Chain Management?

CIPS believes that purchasing and supply management professionals should become increasingly involved, and where possible lead, the development of supply chain management. However, it is recognised that not all buyers have the skills necessary to manage even the upstream part of an organisation’s supply chains; these can be complex networks of complex supply chains, notwithstanding the supply chains within and downstream from the organisation.

For best results, supply chain management requires a senior sponsor appropriate to the sector; this is because it is such a central function and is fundamental to the commercial management of the business. CIPS holds that supply chain management is at the fulcrum of the business as it involves responsibility for the end customers’ demand right through the organisation to the suppliers, and where appropriate, beyond. Such a role, requires objectivity, an open mind and an ability to work with all stakeholders within the chains such as Sales, Marketing, Finance, Production (if manufacturing), Procurement, Logistics and Distribution. In particular, supply chain management need to work closely with Account Managers who are best placed to feed information back into the supply chain. Many organisations still work in functional silos instead of cross-functionally - supply chain management demands this crosscutting approach to managing the customers’ needs.

The key skill of an effective supply chain manager is relationship management. Good purchasing and supply management professionals are well equipped in this skill. The ability to manage customer relationships, both internal to the organisation and external, and supplier relationships is fundamental to success in supply chain management.

In the context of supplier relationship management, whilst CIPS would endorse backward integration as a technique; it would argue also that supply chain management is able to provide benefits over and beyond backward integration. In essence both supply chain management and backward integration are means to an end, and companies should select whichever of these two approaches is most appropriate for them in specific circumstances.

There are also many hard skills which are also key, notably process design (redesign); IT integration/role of eCommerce; supply chain modelling; and performance management.

The skill of the purchasing professional working in a supply chain management environment lies in getting suppliers interested in working with the buying organisation i.e. so that the suppliers position and perceive the buying organisation as a valuable long-term client relationship which is worth investment. A key competence is sophisticated interpersonal skills e.g. an ability to persuade, influence, communicate, facilitate, coordinate and manage the human implications of change. Another valuable competence is the ability to challenge existing processes, policies, procedures; CIPS encourages all purchasing and supply management professionals to continually question and challenge where it is appropriate to do so, and not just within the purchasing dimension.

Purchasing and supply management professionals wishing to promote and develop supply chain management must adopt all of the above skills and competencies but most importantly, should be able to think in terms of the whole business.

To achieve maximum benefit, supply chain thinking would of course pervade the whole of the company’s corporate strategy; supply chain considerations would be as integral a part as Marketing, Production or Finance.

Summary

CIPS suggests that the supply chain managers have a vital role to play in the management of total cost - they are able to see and influence the whole cost base across the business. Supply chain management is responsible for bringing a product to market utilising all the resources, internal and external, available and aligning this activity directly with the organisation’s strategies and objectives.

Supply chain management is spreading within the business world as larger blue chip and global organisations are demanding this approach in order to remain competitive. The effect of this is that smaller organisations, further down supply chains, are becoming involved with, or appreciative of, supply chain management. CIPS encourages all purchasing and supply management professionals to equip themselves with supply chain management skills not least ‘hard’ skills such as process and performance management and to move from traditional procurement, namely managing upstream supply chains into the organisation-wide application of supply chain management.