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3rd Year Business / Financial Management

The Supply Chain Management

1. Introduction:

The global market faces a fierce competition today. The introduction of products with shorter life cycles and the heightened expectations of customers have forced business enterprises to invest in, and focus attention on, their supply chains. This, together with continuing advances in communications and transportation technologies (e.g., mobile communication, internet, and overnight delivery), has motivated the continuous evolution of the supply chain and of the techniques to manage it effectively. Recently, the pressure of the competitive market and new information technologies has affected the structures of the production systems, calling for:

- reduction of time to market
- higher flexibility of the systems
- drastic reduction of costs
- extended quality concept

2. Supply Chain:

- A supply chain is a system of organisations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer.
- A supply chain is a network of retailers, distributors, transporters, storage facilities, and suppliers that participate in the production, delivery and sale of a product to the consumer.
- These activities are associated with the flow and transformation of goods from the raw materials stage to the end user, as well as the associated information and funds flows.
- Supply chain activities transform natural resources, raw materials and components into a finished product that is delivered to the end customer.

- In simple terms, a supply chain is the link between a firm or business and its suppliers and customers
- The supply chain, which is also referred to as the logistics network, consists of suppliers, manufacturing centres, warehouses, distribution centres, and retail outlets, as well as raw materials, work-in-process inventory, and finished products that flow between the facilities.
- A supply chain has three key parts:
 - ✓ Supply which focuses on the raw materials supplied to manufacturing, including how, when, and from what location.
 - ✓ Manufacturing which focuses on converting these raw materials into finished products.
 - ✓ Distribution which focuses on ensuring that the products reach the consumers through an organised network of distributors, warehouses, and retailers.
- A supply chain encompasses all activities in fulfilling customer demands and requests.
- In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable.
- A supply chain strategy refers to how the supply chain should operate in order to compete in the market. The strategy evaluates the benefits and costs relating to the operation. The supply chain strategy focuses on the actual operations of the organisation and the supply chain that will be used to meet a specific goal.
- The supply chain integrates, coordinates and monitors the flow of materials, information, and funds.

3. Supply Chain Management:

- Supply chain management (SCM) is the oversight of materials, information, and finances distributed from supplier to consumer. The supply chain also includes all the necessary stops between the supplier and the consumer. Supply chain management involves coordinating this flow of materials within a company and to the end consumer.
- Supply chain management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, and finance and information technology.

4. Objective of Supply Chain Management:

- A supply chain is a global network of organisations that cooperate to improve the flows of material and information between suppliers and customers at the lowest cost and the highest speed. The final objective of a supply chain is customer satisfaction.

- The supply chain management takes into consideration every facility that has an impact on cost and plays a role in making the product match to customer requirements: from supplier and manufacturing facilities through warehouses and distribution centres to retailers and stores.
- The main purpose of the supply chain is to maximise overall value generated. Value is the difference between what the cost supply chain incurs and the worth end product has to the customer. Value of the commercial supply chain is correlated with its profitability generally known as supply chain surplus.
- Supply chain surplus can be defined as the total profit shared by all the stages and intermediaries of a supply chain. The greater the supply chain surplus the more successful is supply chain. But, Supply chain success is measured by its overall surplus not by the profit at each stage.
- The supply chain management has to be efficient and cost-effective across the entire system; from transportation and distribution to inventories of raw materials, work in process, and finished goods, are to be minimized. The emphasis is not on simply to minimise transportation cost or reducing inventories but, rather, on taking a systems approach to supply chain management.

5. Activities of Supply Chain Management:

There are three levels of activities of supply chain management that different parts of the company will focus on:

- Strategic: At this level, strategic decisions concerning the whole organisation, such as the size and location of manufacturing sites, partnerships with suppliers, products to be manufactured and sales markets are taken. Such decisions have a long-lasting effect on the firm. This includes decisions regarding product design, what to make internally and what to outsource, supplier selection, and strategic partnering and the flow of material through the logistics network.
- Tactical: Tactical decisions focus on adopting measures that will produce cost benefits such as using industry best practices, developing a purchasing strategy with favoured suppliers, working with logistics companies to develop cost effect transportation and developing warehouse strategies to reduce the cost of storing inventory. Such decisions are typically updated anywhere between once every quarter and once every year. These include purchasing and production decisions, inventory policies, and transportation strategies, including the frequency with which customers are visited.
- Operational: Decisions at this level affect how the products move along the supply chain. Operational decisions involve making schedule changes to production, purchasing agreements with suppliers, taking orders from customers and moving products in the warehouse. Such decisions refer to day-to-day decisions such as scheduling, lead time quotations, routing, and truck loading.

6. Barriers of Supply Chain Management:

The obstacles of supply chain management include:

- lack of top management support
- non-aligned strategic and operating philosophies
- inability or unwillingness to share information
- lack of trust among supply chain members
- unwillingness to share risks and rewards
- inflexible organisational systems and processes
- cross-functional conflicts
- inconsistent or inadequate performance measures
- resistance to change
- lack of training for new mindsets and skills