

P&SM: Supply Chain Management

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Introduction

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This document is about supply chain management (SCM).

Definition

There are numerous definitions of the supply chain and SCM. The CIPS definition of a supply chain is:

“The supply chain conceptually covers the entire physical process from ordering and 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.”

SCM 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. SCM therefore represents and reflects a holistic approach to the operation of the organisation. In other words, SCM relates to the entire procurement cycle and 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.

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 a customer of other suppliers, supplier to other customers and collaborator or competitor with many.

A supply chain can be described as the set of linkages providing goods and services to end users and to intermediate customers. It can also be seen as part of the overall value chain, which has both demand and supply components that need to be balanced dynamically at levels of uncertainty and risk (which are understood and accepted by each key participant), and which focuses on optimising net value added at each linkage, as well as in total to the end user.

Background

SCM 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 SCM 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 SCM was one area where buyers, suppliers and internal customers could work closely together to ensure

goods and services were delivered as and when required, of the appropriate quality and at the agreed cost.

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 and to satisfactory consumption, whether goods or services. Often, it will also include the disposal of the waste associated with the consumed product.

The primary function of the supply chain might be said to be the provision of goods or services required by the end customers and the key intermediaries. However, the chain also acts as a channel or medium for the exchange of information/data 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.

Explanation

SCM is an evolving process, and there are distinctions to be drawn between SCM 'as was' and SCM 'as is'. Reasons for these differences include the following:

- New management thinking on SCM.
- 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; e.g. the emergence of the preference for GM-free food, the avoidance of child labour and compliance with environmental targets and legislation.
- The drift of branding (and hence of product responsibility) from the manufacturer to the retail level; this must recognise, however, that product liability and risk ownership are not, in practice, transferable.
- The number of mergers within industry and the rise of multinationals gave certain parties an increasingly dominant position within their supply chain; effective SCM is facilitated if the most powerful party decides to enforce procedures on the others, but power to force is not the most productive approach to achieving the most cost-effective shared processes and thereby optimising net added value.

Co-operation can be argued to bring to the surface costs which are hidden in traditional approaches and whose removal permits both parties to benefit. CIPS considers that this new profile for SCM creates opportunities for the P&SM professional, for example, in developing a deeper involvement in the procurement of production materials and by bringing SCM thinking into MRO (Maintenance, Repairs and Operations) purchasing and in the strategic issues associated with partner selection and relationship management.

Supply Chains

Supply chains are not linear; rather, any organisation has several supply chains coming into (upstream), going through and going out of (downstream) the organisation. SCM is the management of the whole demand process; this starts with the end customers' requirements, be that external customers (e.g. consumers) or internal customers (eg. 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 SCM has been successfully implemented is Nissan, the car manufacturer, which has integrated its upstream supply chains 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 (e.g. components for a manufacturing process), as well as indirect spend, i.e. those goods and services required to support the business (eg. professional services).

SCM 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, e.g. whether the value segment could be more enhanced, whether cost could be taken out or whether knowledge about it could be bettered.

Issues

SCM is evolving, with many organisations having 80% of their turnover comprising of bought-in goods and services. This trend has been exacerbated by a rapid increase in outsourcing on a global scale (including HR and other services), 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.

Technological advances, notably e-procurement, e-marketplaces and e-auctions, are creating 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 and overall co-ordination.

Practical aspects/issues associated with SCM within the organisation will vary from one organisation to another and from one industrial sector to another, but a typical list would include:

- It is vital that the uncertainties (risks and opportunities) of key supply chains are fully recognised, evaluated and (where necessary) mitigated. A supply chain may link an organisation to the cheapest supplier at the far side of the world, but be at great risk to rises in fuel price, political upheaval, etc.
- Perception by individuals that SCM represents a threat; for example, their job profile may change which may necessitate new approaches to supplier management. Procurement cannot be effective without taking full account of SCM. Indeed, in some organisations there will be an overall supply/value chain function within which procurement operates.
- Suppliers, buyers, manufacturers and sub-contractors may all be at different levels of development.

- Some clients are keen to develop SCM but the great majority are price-driven and therefore education as to the benefits of SCM is very important.
- Board members sponsoring the SCM programme and the work being carried out by the buying teams.
- Whole and through life costs, rather than lowest price, are key.
- SCM will only be a success where the relationship is two-way and risk/ profit/opportunities are shared.
- New e-collaborative software has emerged which facilitates SCM.

SCM – A Strategic Role

SCM has a pivotal strategic role to play within an organisation as it spans all demand, right from the end-customer's requirement to the suppliers that provide the goods and services to meet that need. Sometimes, SCM involves going beyond the suppliers that interface with the organisation to the organisations which supply them, 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 (Value Chain Tiers); working at more than two suppliers removed is very unusual.

SCM involves the sharing of risk with suppliers; this often involves moving key responsibilities for risk management up the supply chains to those suppliers best able to manage it. However, the ownership of risk must remain within the organisation at a high level. Such joint management of risk could come at a cost and so it is to an extent an economic decision. However, the impacts of this risk transpiring may well still affect the buying organisation; CIPS encourages P&SM professionals to appreciate that sharing responsibility with suppliers in terms of risk requires more, not less, management of supply chains on the part of the buying organisation (for more information, please see the CIPS position on practice on risk management which is also available from this site).

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 SCM in order to be successful as the outsourcer may lose core expertise, (for more information, please see the CIPS position on practice on outsourcing which is also available on this site).

However, SCM is not only about sharing risk; it is also about sharing benefits, which is an aspect that not all organisations would necessarily be comfortable with. 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, which 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 supply and that the supply chains are managed accordingly.

There may be cases where the insurance of certain risks is appropriate, in areas where safe insurance cover exists. A cost/benefit analysis is essential in order to decide whether or not to bear the costs internally.

Who Should Be Responsible for SCM?

CIPS believes that P&SM professionals should become increasingly involved in and, where appropriate, lead the development of SCM (including outsourcing). 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. Indeed, comprehensive supply/value chain management is unlikely to be led by P&SM professionals, although it will be a key player. Effective supply/value chain management demands cross-functional integration oversight at senior management/board level.

For best results, SCM requires a senior sponsor appropriate to the sector as it is such a central function and is fundamental to the commercial management of the business. CIPS holds that SCM 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 Planning, Sales, Marketing, Finance, Production/Operations, Procurement, Logistics and Distribution.

In particular, Supply Chain Managers 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; SCM demands this crosscutting approach to managing the customers' needs.

The key skill of an effective supply chain manager is relationship management. Good P&SM professionals are well equipped in this skill. The ability to manage customer relationships, both internal to the organisation and external, and supplier relationships are fundamental to success in SCM (for more information please see the CIPS position on practice on managing supplier relationships which is also available on this site).

In the context of supplier relationship management, CIPS' endorses backward integration (i.e. gain ownership and power over their suppliers) as a technique, but also argues that SCM can provide benefits over and beyond backward integration. In essence, both SCM 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 key to SCM, notably business process design (re-design), data integration, IT integration/role of e-commerce, supply chain modelling, outsourcing and performance management. The skill of the P&SM professional working in a SCM environment lies in getting suppliers interested in working with the buying organisation so that the suppliers perceive and position the buying organisation as a valuable long-term client relationship which is worth investment.

A key competence is sophisticated interpersonal skills, i.e. 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 and procedures. CIPS encourages all P&SM professionals to continually question and challenge where it is appropriate to do so, and not just within the purchasing dimension. P&SM professionals wishing to promote and develop SCM 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 should pervade the whole of the company's corporate strategy; supply chain considerations should be as integral to the organisation as marketing, production or finance.

Conclusion

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. SCM 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.

SCM 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, SCM. CIPS encourages all P&SM professionals to equip themselves with SCM 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 SCM.

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