SUPPLY CHAIN MANAGEMENT: A PRACTICAL VIEW [1]

INTRODUCTION

Today's increasingly competitive markets and customers with greater access to information and choices require companies to design and manage excellent Supply Chains (SCs). To this end, all processes must be oriented towards end consumers, and the main actors in the supply chain must collaborate in their optimisation and have a long-term vision.

Many shortcomings in SCs are due to the lack of coordination between the different links in the chain. Therefore, all the stakeholders involved must be aware of their role in the supply chain and strive to improve it.

For the purpose of this document, a Supply Chain is deemed to refer to all the activities that need to be performed in order to transform and deliver a product or service from the raw material stage to the end consumer. Clearly, this definition is extremely broad. For example, if we were to consider a SC that offers end users cans of tomato on the shelves of a supermarket, upstream we would reach the farmer who grows the tomatoes and this could be considered the start of the SC. But we could go back further and consider the suppliers of phytosanitary products for farmers and the suppliers of these products. On the other hand, the steel used to manufacture the cans could be traced back to the suppliers of that steel and subsequently to the mines where the iron ore is extracted, and we would never end ... The same reasoning could be applied downstream. Therefore, before analysing any SC, we must first define its scope and the raw material and end customer to be considered.

Some argue vehemently that the main source of differentiation and competitive advantage in the coming years will be determined by excellence in Supply Chain Management (SCM). In the final years of last century, excellent SCs provided three main advantages: lower costs, faster delivery and better quality. Today, however, these benefits, while necessary, are not always sufficient. A new, more sophisticated paradigm of SCs is appearing; SCs that also serve as vehicles for achieving and

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maintaining competitive advantages. New SCs are closely linked to strategy and guided by the concept of differential value creation for customers. In today's extremely complex and dynamic economic and business environment, SCM becomes one of the key pillars for the creation of total value (the concept of value will be discussed in the next section).

The consulted experts agree that excellence in SCM will be absolutely essential for companies that want to survive in the 21st century. General and sales managers are obliged to take into account the operational aspects of their businesses since the SC is the mechanism through which they will be able to transform their business goals and ideas into reality.

Obviously, SCM will have a greater or lesser impact on a company's performance depending on the sector in which it operates. SCM is even more critical for companies engaging in the physical movement of raw materials, components and consumer products. For example, in the distribution sector, SCs are the main factor driving efficiency improvements in many enterprises, even with less investment than other initiatives. SC improvements can sometimes even prompt disinvestments as a result of inventory reductions.

This technical note aims to provide a practical insight into the main concepts related to SCM. It is aimed at managers with executive experience but who are not necessarily non-experts in this area.

The document then examines the concepts of value and the relationship of the SC with company strategy. Readers will then come to the three main blocks into which it is structured: The first block examines SC dynamics through an in-depth study of customer-supplier relationships, competition between SCs and a detailed analysis of their parameters. The second block deals with other relevant aspects of SCM, such as inventories, information systems, the relationship between the product and its corresponding supply chain, the effects of vertical integration and disintegration and collaboration between companies in the SC. The third block analyses future trends and presents the author's opinion regarding the key factors for the success of SCs in the future. The document ends with a section presenting the conclusions. See appendix 1 for the table of contents of the document.

VALUE

Customers are increasingly demanding in terms of quality and service. Even those with greater financial resources[2] are more price-demanding. Thanks to easy access to vast

[2]For example, in Spain, the devastating effects of the economic crisis on consumption after the fall of *Lehman Brothers* in 2007, have given rise to a types of consumers known as a *"smart shoppers"* due to their behaviour. The profile of this type of buyer is someone who actively seeks the best offer on the market and refuses to be "hypnotised" by advertising campaigns.

amounts of information, customers and consumers can very easily compare products from different companies and countries and buy the ones they consider offer the best value for money.

Value is deemed to refer to something appreciated by the customer. This may be value in terms of the quality and functionality of a product or service, security, prestige, availability, accessibility, etc. Of course, the price the customer pays must include concepts such as the actual price, as well as others such as the cost of accessing the product or service and all the work that this involves. For example, for a customer to buy a piece of furniture from IKEA[3], he or she must weigh up the advantages afforded by the value that the furniture will provide from a design and functionality perspective and the effort required: namely going to the store, selecting the piece of furniture, buying it (which includes carrying it to the cashier's desk), paying for it (the price is only relevant here), taking it to his or her car and then home, and finally assembling it.

Therefore, we must not forget that it is the customer or consumer who decides what is valuable and how much he or she is willing to pay for a given product or service. If they do not feel they are getting enough value for their money, they will simply not buy it. And what is worse, they will give any explanations for not buying it.

SUPPLY CHAIN MANAGEMENT AND ITS RELATIONSHIP WITH STRATEGY

The optimisation of SCs is clearly a source of competitive advantage for companies; the aspects involved in supply chain management must therefore form part of company strategy. Indeed, companies sometimes base their competitive strategies exclusively or predominantly on the improvement of their SCs.

Michael Porter, in his Five Forces of Competitive Strategy Model[4], expressed his fear that companies had lost sight of the importance of strategy. Porter argued that if they only pursued operational effectiveness with a view to reducing the gap between costs and quality, the survivors would simply be firms that "would survive the others, not companies with real advantage". Porter said that operational effectiveness was not a strategy and defined strategy in a manner that reinforced the separation of strategic operations. According to Porter, *"strategy is the creation of a unique and valuable position, involving a different set of activities*". He also highlighted that *"strategy is about choosing what to do [in order to compete]"* including *"deciding what not to do"*. Finally, he emphasized the importance of compatibility between the activities of a company: *"The success of a strategy depends on doing many things well - not just a few - and integrating among them"*.

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[3] http://www.ikea.com/es/es/preindex.html
[4] More in-depth information on this model is available at the Institute for Strategy and Competitiveness, founded and directed by M. Porter, at http://www.isc.hbs.edu/Pages/default.aspx (available in English only).