

SUPPLY CHAIN MANAGEMENT AS AN ELEMENT OF COMPANY STRATEGY

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Abstract: The process of supply chain management is a huge challenge for managers of many companies. In today's market situation more and more often it is the effective supply of products at minimum cost and a guarantee of an adequate level of customer service which determine the competitiveness of organizations. As a result, companies implement strategies for supply chain management. The constantly increasing role of logistics and supply chain management results, among others, from the fact that both the logistics and supply chain management can have a significant impact on changes in the management of enterprises, which translates into getting a larger market and economic benefits for the enterprise, as well as the benefits to the customers. The aim of this study is to present the functioning of the supply chain in one of Częstochowa wholesalers serving as an example, as well as the demonstration of how to manage it, so that it is most beneficial for the company. As we know, supply chain management aims at synchronization of material flow and in consequence, ensuring optimal performance of individual departments within the company. The article presents the objectives of supply chain management, as well as the problems that a company may encounter.

Keywords: supply chain, SCM, company strategy, logistic management

1. Introduction

The process of globalisation, together with the ever-growing competition, affect suppliers, manufacturers and distributors to integrate its activities through appropriate management of material flow and information flow. There are many different flows, because managers are designed to anticipate and resolve problems with the structure of the supply chain, the number of participants and trade between them [1, 2]. The globalisation processes has accelerated and the uncertainty about how markets will evolve has made it increasingly important for companies to be aware of the supply chains they participate in and to understand the roles that they play. Those companies that learn how to build and participate in strong global supply chains will have a substantial competitive advantage in their markets.

The supply chain is a dynamically developing concept, whose origin is associated with the economic changes in the late eighties. Then the concept was understood as the physical network, which starts at the supplier and ends with the final customer. It contained aspects of purchasing, production, product development, physical distribution, after-sales services and supplies carried out by external speakers [3].

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Supply chain management is a fundamentally different philosophy of business organization and is based upon the idea of partnership in the marketing channel and a high degree of linkage between entities in that channel. Traditional models of business organization were based upon the notion that the interests of individual firms are best served by maximizing their revenues and minimizing their costs. If these goals were achieved by disadvantaging another entity in the channel, then that was the way it was. Supply chain management model the goal is to maximize profit through enhanced competitiveness in the final world markets – a competitiveness that is achieved by a lower cost to serve, achieved in the shortest time-frame possible. Such goals are only attainable if the supply chain as a whole is closely coordinated in order that total channel inventory is minimized, bottlenecks are eliminated, time-frames compressed and quality problems eliminated.

In the literature there is no uniform definition of the supply chain. Specialists in the field of supply chain logistics define it in different ways. Fechner defines the supply chain - as a process - which is the sequence of events in the movement of goods, increasing their value [4].

Supply chain management is being defined by Simchi-Levi: “Supply chain management is a set of approaches utilized to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that merchandise is produced and distributed at the right quantities, to the right locations, and at the right time, in order to minimize system wide costs while satisfying service level requirements [5].

According to Szymonik supply chain is a network of manufacturers and service providers who work together in order to provide the processing and movement of goods - from the stage of raw material to the end-user level. All of these entities are combined by flows of physical goods, information and cash [6].

Another definition says that the supply chain is the process of product life cycle including physical flows, as well as information, financial and knowledge flows- whose aim is to meet the physical requirements of the end users of products and services from a number of related suppliers [7].

Supply chains are conglomerates formed by several companies to respond to customer needs. Under the management of supply chains there are complex systems with different structures and proportions of opportunities between partners. Basing on the agreement between them, particular groups of companies form a supply of the product, but if they lack continuous relationships, supply chain stops working [8].

The concept of supply chain management was formed as an alternative to the traditional way of understanding the relationship between suppliers and customers. In a traditional SCM approach affects the supply chains in order to achieve the lowest initial purchase prices while ensuring supply. Characterized by: multiple vendors, the choice of supplier was based largely on the price of the acquisition, with outdistancing in negotiations, formal short-term agreements and supply central [9].

The concept of supply chain management was established as an alternative to the traditional way of understanding the relationship between suppliers and customers. Effective supply chain management (called Supply Chain Management, SCM) has never been more important than at the present time. Currently, companies make an endeavour to have and to offer high quality products and services, responding effectively to changes in product prices and market requirements and to reduce the ever-increasing costs of

production. At the same time they have an aim to train workers in the field of appropriate responding to the challenges of the market and gaining relevant experience in the effective management of supply chain. Companies are focused on developing core competencies, restructuring wasteful processes and using only effective management techniques to get the power and resources, as well as get and keep customers [10].

One of the important definitions of SCM is described by P. K. Bagchi, who says that 'supply chain management consists of the entire set of processes and procedures supporting organizations and activities of enterprises in order to connect sellers and buyers in the market' [11]. In contrast, M. Christopher defines supply chain management as 'the management of relationships with suppliers and customers, and customers to deliver superior customer value at a lower cost for the entire supply chain' [12]. According to the mentioned definitions, SCM focuses on the relationships between customers and suppliers, and not only on the effectiveness of the decision relating to the business and financial benefits. The supply chain creates a certain value that a customer sees and receives. Optimizing this value and minimizing its costs require a decision-making perspective that spans the entire supply chain [13].

Another definition, which is worth quoting says: 'supply chain management is planning, coordinating and controlling the flow of materials, components and finished products from suppliers to customers, which includes two separate streams of cash flows (material and information)' [14]. Supply chain management is the process of decision-making that seeks to integrate the participants and control the corresponding transfer between the products, information and the capital [15, 16].

The essence of the system of supply chain management is important here, as it defines the SCM as a system of decision-making which relates to the integration of physical, information and financial flows of supply and demand between the participants in the chain. It allows to make decisions and activities that affect the quality of customer service, and determines the corresponding efficiency and effectiveness of goods, enabling the achievement of competitive advantage and maintenance of adequate profitability of the supply chain [3].

The appropriate use of supply chain management system allows companies to achieve their objectives, such as profitability units, respectively, high capital, the possibility of partial elimination of competition and building appropriate confidence of the customer in the enterprise.

It is worth to notice that supply chains are not only connected with huge corporations, also small and medium sized enterprises play a significant role on the international area. Enabling small and medium-sized enterprises (SMEs) to enter the international supply chain relies on the development of a supportive business environment for SMEs and the build-up of the human, technical, and financial capacity of these SMEs so they can understand the policies and operations of global supply chains and profitably respond to those requirements [17].

2. Supply chain management in practice

The analysis of the supply chains has been carried out on the basis of information received from one of Częstochowa warehouses. The analyzed electrotechnical wholesale company has existed on the market since 1991. The company specializes in comprehensive

services for small and large investment companies operating supplies for power engineering, installation companies, wholesalers and retail customers. The company offers its own transport including unloading and loading. It also provides professional technical advice offered in the field of materials and equipment, and provides customers with convenient conditions of sale - negotiating discounts and payment terms [18].

The strategic objective of the company is to increase the value of its business by satisfying customer needs with the wide choice of electrical equipment. To meet the demands of today's market, the company cares about customer satisfaction and their comprehensive service - the company employs specialist staff who offer help and technical advice in the field of materials and equipment. Regular customers have the possibility to negotiate prices and terms of payment. The wholesale provides warranty and post-warranty service of the offered products. Caring for continuity and a wide range of offers is another objective of the company. Through the direct collaboration with leading manufacturers and distributors of electrical industry the company offers a wide range of quality branded products at most competitive prices, whereas innovative IT and logistic solutions enable a quick execution of orders. Focusing the business operations on the customer brings a lot of benefits. It allows consumers a greater choice of branded products and lower prices while strengthening the company's competitive position, the stability of co-operation with manufacturers or shortening the movement of goods. Special emphasis is placed on time delivery. The company maintains stock, allowing quick access to its materials.

The company is a part of the supply chain. The effective cooperation between the companies in the chain contributes to the reducing of costs in all stages of the business. Suitable logistics chain connects the individual companies involved in the delivery of the product to the market. The essential processes that allow for the implementation of the supply in such a system is the transportation and warehousing.

The supply chain illustrated in Figure 1. starts from the supplier, then the product is sent to the manufacturer, where it is transported subsequently to the warehouse for storage, and then transported directly to the final customer.

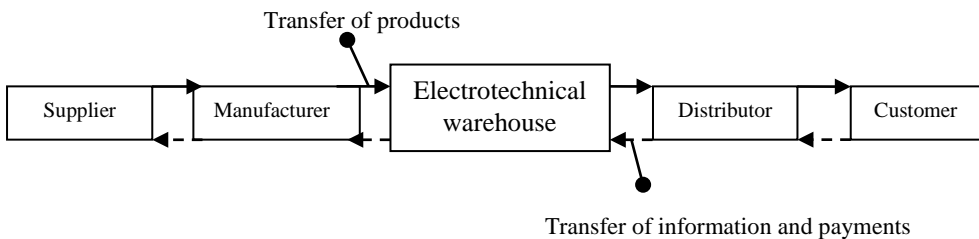


Figure 1. The supply chain of the X enterprise [19]

The wholesale is a part of another one- a shorter chain, in which the physical flow of materials in the supply chain begins with the manufacturer supplying goods directly to the wholesale company, where it is stored in a warehouse. The product is then sent to the distributor and next to the final customer, contractor or direct investor.

Direct cooperation with the manufacturer provides the company with the opportunities and stability of product delivery, full range of products offered by manufacturer, fast delivery, concrete and professional service in the field of completion of an order as well as technical advice on the product introduced to the market and the possibility of obtaining relatively lowest price for a given commodity.

The entire operation of the supply chain of the X company is also improved by information transfer system, which is used to send orders and confirmations and contains the following data: manufacturer's number, the number and name of the product, quality, expected delivery date and place of delivery.

An important factor in the supply chain is also the time from the order to delivery. The company has streamlined the supply chain accordingly to minimize the time up. Delivery times varied from 35-50 days, the timing now is reduced from 10 days to a maximum of 30 days. The improvement of the process from the order to delivery is based mainly on the continuous forecasting of customer demands.

The system developed by the X company optimizes all flow processes in the enterprise whose logistics chain is extended to form a network. It eliminates any waste of time, materials, inventory or space, while contributing to customer satisfaction, as he or she receives the product faster and at a lower price. While minimizing the cost of logistics system, the wholesale makes the customer meet his/her needs and have the satisfaction of the purchased products.

3. Decisions taken in the enterprise supply and the functioning of the supply chain

The basis of the logistic decisions connected with the supply is to answer the basic questions, such as: what to buy? how much to buy? when to buy? where to buy? The employees from the supply department must carefully specify:

- range and number of products ordered,
- suppliers,
- terms of price and quality of purchased materials,
- choice of transport service,
- procurement process,
- volume of deliveries,
- policy.

The electrical wholesale company, before the winter season, is trying to reduce to a large extent its stocks, because its existence is dependent on the seasonality of sales. The minimization of inventory reduces costs, as the company does not have to pay for additional storage. The right choice of suppliers is the most important issue of supply decision taken in the company. The most commonly used method of selection of suppliers in the enterprise is a point method.

It includes elements such as timely delivery, reliability, financial position of the supplier, the quality of materials. The company works with many suppliers, such as: TELEFONIKA Group, Kable SA, RADPOL SA, WIRBET SA, Siemens AG. z oo, EMITER Inc., BELOS-PLP SA, Philips, Osram, Bosch, Duracell, Sony. The variety and the

corresponding reputation of the suppliers guarantees that the company provides the customer with the final product of high quality and durability.

Increasing the number of suppliers results in a reduction of uncertainty due to the lack of consignment on time. The company, in order to reduce the procurement costs, where possible signs contracts with suppliers near its place of business. An important issue is the choice of transport service that allows to transport materials to the recipient, the purchase price of materials is always increased by the transport costs.

Wholesaler uses three types of transport of goods:

- dedicated freight forwarding (forwarding leased to the specific needs of the transport, for example: large-size transport)
- transport of supplies,
- personal collection by the warehouse, which gives the company additional profits, as manufacturers offer lower prices for their own transportation.

4. Complications of the supply chain in the warehouse

The dynamic development of the market offer has led to the high complexity of processes in an integrated supply chain. Complications in the supply chain can lead the company to bankruptcy. To avoid this the wholesaler, for the security of the transmitted range of products, has insurance contracts with shipping companies and freight distribution companies, in which the warehouseman of the supplier is responsible for the loading of expensive and heavy products (own transport is not insured). The company is also insured in case of theft, it checks its counterparties using a specially hired company, which guarantees the stability of contracts. Moreover, it provides high-quality materials and ensures the shortest delivery time. The supply chain is then more efficient, but it is also prone to errors. In addition, the warehouse has also a trade agreement between the wholesaler and the manufacturer. The company can apply for quality complaints, in the case of incurring additional costs due to the failure of timely delivery by the distributor or manufacturer [20].

The examples of complications include:

- random events that meet the consignment (theft, damage of shipments), the quality of the loading of the goods,
- complications related to the situation on the roads (delivery delays caused by unexpected accidents),
- lack of confidence in the transmission of information among partners (providing partners with false information cost),
- inadequate coordination of organizational undertakings,
- uncertainty of payment,
- inadequate supplies,
- communication barriers.

One of the major obstacles limiting the effective supply chain management and flexible adaptation to changing environment is the lack of knowledge about the actions taken by individual divisions responsible for product distribution, marketing and sales. Communication barriers between these cells are the cause of many delays in the supply of goods on the market.

The purposes of supply chain management in the enterprise include:

- the increase of all time compression storage phenomenon and transport operations within the supply chain,
- maximization of earnings in the long term (the analysis of the economic situation of the company and its environment, the maintenance of liquidity by planning revenue and expenditure, the allocation of resources in the most efficient project),
- the focus on the activities constituting a value to customers,
- minimization of inventory,
- optimization of the use of business assets,
- fast response to changes in market demand.

5. Summary

In conclusion, the strategic supply chain management is an important support for the implementation of the company strategy. By partnering with global electrical industry manufacturers and thus offering branded products, the wholesale has the ability to compete with other companies, both in terms of price and quality. Taking into account the above-mentioned dimensions of competition, it is worth noting that the supply chain provides high flexibility of response to customer needs.

Constant fluctuations show how important the role played by demand and supply planning is. Quick obtainment of information about the factors that may affect the production or distribution of goods requires close relationships with key suppliers and customers. In order to improve further the accuracy of its forecasts of demand for goods and services, the company performs more detailed segmentation of audiences, based on including schedules of planned delivery times. The competition for the favour of customers is based primarily on their needs: customers want useful and valuable products supplied in the shortest time and at the lowest possible cost, and require appropriate service that meets their needs. Cooperating with many companies brings the wholesale many benefits, among others, attractive rates, reliability and integrity of operators, thereby helping to increase the efficiency of the logistics chain.

Supply chain management is promising concept for enterprise strategy and the connections with little treat for copying and using by competing enterprises however more and more often supply chain management in realized in global scale seems to be a great challenge.

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