EXPLORING KEY COMPONENTS OF SUPPLY CHAIN STRATEGY

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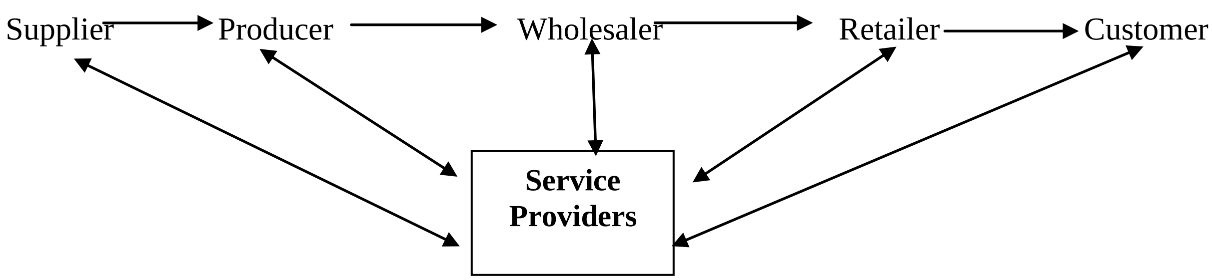
INTRODUCTION

Supply chain is a system of organizations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer. Supply chain activities transform natural resources, raw materials and components into a finished product that is delivered to the end customer.



Supply chain management includes managing supply and demand, sourcing raw materials and parts, manufacturing and assembly, distribution across all channels, and delivery to the customer (Supply Chain Council, 2001).According to the Council of Supply Chain Management Professionals (CSCMP), Supply chain management encompasses the planning and management of all activities involved in sourcing, procurement, conversion, and logistics management. It also includes the crucial components of coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies.

SCM practice enables world's leading organizations to re-align their supply chains to the flat world paradigm by providing functioning solutions for company needs in supply & demand planning and forecasting, sourcing & procurement, supply chain execution and enterprise asset management. Now-a-day every organization is becoming a part of at least one supply chain.. The supply chain is the flow of information, fund and material through a manufacturing company, from the supplier to the customer. Traditionally the flow of material has been considered only at an operational level, but this approach is no longer adequate. It is now essential for business to manage the supply chain in order to improve customer service, achieve a balance between costs and services and thereby give the company a competitive advantage. Managers must work to integrate the supply chain; i.e. to ensure that all the functions and activities involved in the chain are working harmoniously together.

In today's competitive business there is an increased focus on delivering value to the customer. The focus of most of businesses is providing products and services that are more valuable compared to its competitors. Concurrent to the focus on customer value, the marketplace in which businesses operate today is widely recognized as being complex and turbulent (Christopher, 2000; Goldman *et al.*, 1995). The growth of supply chain aims to improve profitability, customer response and ability to deliver value to the customers and also to improve the interconnection and interdependence among firms. Due to market expanding from domestic market to global market increase customer demands, for instance demanding lower prices, faster delivery, higher quality products or services and increase the variety of items (Braunscheidel, 2005).The end customer in the marketplace today determined by the success or failure of supply chains management practices(Towil and Christopher). They stated that getting the right product, at the right price, at the right time to the customer is not only improved competitive success but also the key to survival. Nowadays competition among companies is becoming keen and no longer between companies and companies, but supply chains to supply chains. In a typical supply chain, raw materials are procured and items are produced at one or more factories, shipped to warehouses for intermediate storage, and then shipped to retailers or customers. The competitive scenario changing vet drastically ethic leads to keen and fierce competition among the firms. It's become more difficult for firms to getting the business, doing the business, delivering the business and makes their customer satisfied. Supply chain plays vital role in achieving the business objectives of the firm. There are many factors which influence the supply chain success & failure. Factors such as information technology, business objectives of the firm, relationship management in supply chain, customer demand etc. should take into the consideration while formulation of supply chain strategy .Consequently, to reduce cost and improve service levels, effective supply chain strategies must take into account the interactions at the various levels in the supply chain.

IDENTIFICATION OF COMPONENTS OF SUPPLY CHAIN STRATEGY

Supply chain management (SCM) is a challenging concept, with elusive goals, and is a critical success factor for today's businesses. As a result of the importance of SCM, companies are searching for ways to improve their performance: make strategic decisions, and develop competitive strategies that add value in the eyes of customers (Lee, 2002:105; Ambe & Badenhorst-Weiss, 2011: 337). A supply chain strategy specifies how a firm will achieve its competitive advantages through its supply chain capabilities, such as cost efficiency, response speed and flexibility. A supply chain strategy also specifies how the manufacturing, purchasing, marketing, and logistics functions work together to support the desired competitive strategy (Qi, Zhao &Sheu, 2011: 372). It is therefore imperative for supply chain managers to understand customers' needs, and to choose and implement an optimal supply chain strategy to satisfy customer demands.

In order to understand how a supply chain works, it is important to identify the factors which influence supply chain management. The identification of these factors has been based on

Extensive literature review. The following sections show generic supply chain management factors and sub-factors that might affect supply chain activities.

ENVIRONMENTAL UNCERTAINTY

Environmental uncertainty refers to the controllable and uncontrollable issues in the product chain. Ettlie and Reza (1992) described this as the unexpected changes of customer, supplier, competitor, and technology. It was said by Yusuf (1995) that government support plays an important role for business success. Paulraj and Chen (2007a) mentioned that environmental uncertainty is an important factor in the realization of strategic supply chain plans. The increase of outsourcing activities in the industry had augmented the awareness of the importance of strategic supply chain management, which leads to better relationship among organizations. Under this factor, there are two sub-factors were identified: I) company environment & II) Uncertainty aspects from overseas.

Company environment - This sub-factor is related to the company's relationship management, which includes relationship with end-users and suppliers, and their level of trust and commitment. Company environment is also related to the company's expectations of quality, on time delivery, competition in the sector, and the level of rivalry among firms. In order to respond effectively to demand, companies realize that imports are a good option for obtaining flexibility in response, even though working with countries from overseas implies working with uncertainty (Wu, 2006). According to a study carried out by Ambrose et al. (2010), uncertainty negatively affects company performance. But this can be reduced if a strategic relationship with critical suppliers is established (Chen et al., 2004). Thus, companies need to implement new strategies that allow them to deal with environmental uncertainties in the supply chain (Wu, 2006) in order to perform in a proficient manner.

Uncertainty aspects from overseas - When requiring the outsourcing of raw materials or products, it is important to acknowledge the existence of environmental factors such as political uncertainties in other countries that can increase risk for suppliers, provoke decisions of no investment, change business strategies, and in general influence business decisions. Social uncertainties such as religion, environment, language, cultural issues, limitations of communication (Bhattacharyya et al., 2010) and also the technology used in other countries might interfere with supply chain planning and function (Bized, 2007).

INFORMATION TECHNOLOGY AND COMMUNICATION TOOLS

Telecommunications and computer technology allow all the stakeholders in the supply chain to communicate among each other. The use of information technology allows suppliers, manufacturers, distributors, retailers, and customers to reduce lead time, paperwork, and other unnecessary activities. It is also mentioned that managers will experience considerable advantages with its use such as the flow of information in a coordinated manner, access to information and data interchange, improved customer and supplier relationships, and inventory management not only at the national level but also internationally (Handfield and Nichols, 1999). Also the advantages will include supply contracts via internet, distribution of strategies, outsourcing and procurement (Simchi-Levi et al., 2003). All companies are looking for cost and lead time reductions with the purpose of improving the level of service but also to enhance inter-organizational relationships (Humphreys et al. 2001). A study carried out by Tim (2007) states that through the use of communication tools, such as the web sites, industrial organizations can build value in their supply chain relationships. According to Turner (1993), another key for supply chain management success is the use of planning tools. He also mentions that without the use of information systems, companies cannot handle costs, offer superior customer service and lead in logistics performance. Turner (1993) indicates that firms cannot effectively manage cost, offer high customer service, and become leaders in supply chain management without the incorporation of top of-the-line information technologies.

SUPPLY CHAIN RELATIONSHIPS

Supply chain relationships play an important role in achieving the firm's goals. The coordination and integration of activities with suppliers and understanding of customer's needs results in greater benefits for companies. According to Fraza (2000), supply chain management is directly related to relationship management, which includes suppliers and customers. Strategic supplier partnerships and customer relationships are main components in the supply chain management practices (Li et al., 2005), leading to information sharing, which is one of the five pillars in achieving a solid supply chain relationship (Lalonde, 1998). Two sub-factors are considered in the model relationship with suppliers and customers**.**

***Relationships with suppliers* -** Companies are inclined to work with different suppliers in different ways. It is important that the relationship with suppliers satisfies their company needs. Hines (2004) mentioned that in commodity products, it is common to find an adversarial relationship mainly based on price between buyer and supplier. This type of relationship with suppliers does not allow for cost reduction in the supply chain. It may be beneficial to network the supplier, to develop partnerships and alliances that will benefit both partners. This could be based on production, personal, and or symbolic networking, that will turn on strategic alliances (Hines, 2004), allowing the information sharing, risk sharing, obtaining mutual benefits and coordinating plans, permitting the improvement of the supply chain.

***Relationships with customers* -**The global markets offer a variety of products of different quality and cost. As a result, companies are always competing and trying to reduce costs and improve quality. According to Burguess (1998) and Hoek (1999), customers look for more choices, better service, higher quality, and faster delivery. The relationship with customers has turned a strategic issue for today's companies.

CHANNEL MANAGEMENT

It is a major component of supply chain strategy. A firm's sense and respond to its customer through is a primary determinant of its overall success. Channel management defines the linkage between the firm and its end-users to provide products and services to the marketplace. Channel management deals with issues like channel design, market demand, and supply chain configuration. Channel Design is refers to, a variety of alternatives structures exits through which the firm's products and services reach the end-users.

BUSINESS STRATEGY

Every firm has its own business strategy which describes the structure of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. It is the process of specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs. Strategic management seeks to coordinate and integrate the activities of the various functional areas of a business in order to achieve long-term organizational objectives. A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives. A firm must ensure that the supply chain configuration supports the strategic objectives of the firm and increases the supply chain surplus in the long term.

CUSTOMER ORIENTED STRATEGY

This section involves two sub category I) Customer satisfactions. II) Customer services.

***Customer satisfaction* -** The customer's perception is not always the same as the product manufacturer's perception. Customers may give more value to low cost, on time delivery, delivery date certainty, or receiving a customized product (Simchi-Levi et al., 2003). According to Kurata and Num(2010), manufacturers and retailers are always looking for practical after-sales policies that will permit them to enhance customer satisfaction levels. Furthermore, an analysis conducted by Ou, Liu, Hung and Yen (2010) showed that customer-firm-supplier relationship management improves operational performance and customer satisfaction. Based on this, a sub-factor customer service is identified.

Customer service **-** The goal of the companies is to give customers the best service in an efficient and effective manner (Handfield and Nichols, 1999), without forgetting about information such as product description, product availability, order status, shipping dates, and assisting them in all what they need (Lambert and Cooper, 2000). Quayle (2006) states that customer service is defined by demand forecasting, service levels, order processing, parts/service support, and aftermarket operations.

FLEXIBILITY

The complex markets, fierce competition and fast changes in demand require that companies be ready to react promptly to customers' needs. Flexibility can be understood as the ability to react and adapt quickly to changes in the market due to an increase or decrease of customers' requirements, accelerating or decelerating the manufacturing processes when it is requested. Bowersox, Closs, and Cooper (2007) mention that a logistical competency of a firm can be measured by how well it is able to adapt to unpredictable situations.

QUALITY

Quality is not a bonus for the customer; it is expected. Quality is also important for the acceptance of a product. High costs, low productivity, and loss of market share are directly related to poor quality (Dramm, undated). Quality is meeting or exceeding the expectations of your customer (Bishop, 1990). This could be achieved, for example, by the use of quality metrics, which improves the production system (Juran, 1988). Achieving better efficiency, quality and productivity, and acquiring the highest value of a product at lower cost will improve the business performance of a company.

DELIVERY

Delivery performance has two basic characteristics; speed and reliability. Delivery speed is the elapsed time from the receipt of an order to final delivery. A firm with superior delivery speed can deliver more quickly than its competitors or to meet a required delivery date when only some or even none of the competition can do so. Typical strategies for improving delivery speed include streamlining the order entry process, holding inventory at key point in the supply chain, maintaining excess capacity with which to meet “rush” orders, and using faster transportation. Delivery reliability refers to the ability to deliver products or service on time. Typical measures of delivery reliability include the percentage of order that is delivered by the promised time and the average tardiness of late order. Delivery reliability is especially important to companies that are linked together in a supply chain.

COST

Cost is always a concern, it's a process by which a firm decides how much to charge customers for its goods and services. Cost affects the customer segments that choose to buy the product, as well as the customer's expectation. This directly affects the supply chain in term of the level of responsiveness required as well as the demand profile that the supply chain attempts to serve. Cost is also a lever than can be used to match the supply and demand.

CONCLUSIVE REMARKS

Supply chain formulation and its execution are of critical importance for successful supply chain in today's fierce and competitive environment. Supply chain strategy is all about reconstruct business design for creating a better supply chain framework that drives business objectives forward in the long run with distinction. A good supply chain strategy makes a clear difference between the leaders and followers because it contributes significantly in growth and better long term performance in compare to the competitors. It accelerates firm to gain sustainable competitive advantages, maximise value to all the stakeholders as well as maintain and improve supply chain partnerships for collaboration.

Companies have choices to make related to the supply chain. There are many factors which directly or indirectly influence the supply chain process of the company. These factors decides how efficiently and effectively a supply chain could achieve its objectives .The company have to decide which factors they should give more importance in the formulation of supply chain strategy. By focusing on holistic approach towards supply chain strategy, firms will be in better position to achieve the needs of the market and integrate with supply chain partner to deliver improved shareholder value.

After examine literature related to supply chain variable and its impact on the performance of supply chain, it is suggested that the above ten variable must be considered important at the time of formulation of supply chain strategy. The framework for formulating a supply chai strategy consists of ten key components namely: environmental uncertainty, information technology and communication tools, supply chain relationships, channel management, business strategy, customer oriented strategy, flexibility, quality, Delivery and cost. The basic proposition of strategic management is that these choices critically influence the failure and success of the enterprise, and that they must be integrated. The interaction of these choices forms strategy. The architecture of a supply chain strategy certifies its alignment with the firm's overall business strategy. Ultimately the success of any supply chain strategy is only as great as the firm's ability to execute it.

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