Supply Chain



Procurement

Definition: Involves obtaining or buying of goods and services from an external source. These are to be used in the production process or are to be sold on.

Supply Chain

Definition: A complex system of businesses, people, activities, information and resources involved in moving goods and services from source to customer.

Warehouse

Definition: A place where resources or finished products are stored before they are sold.

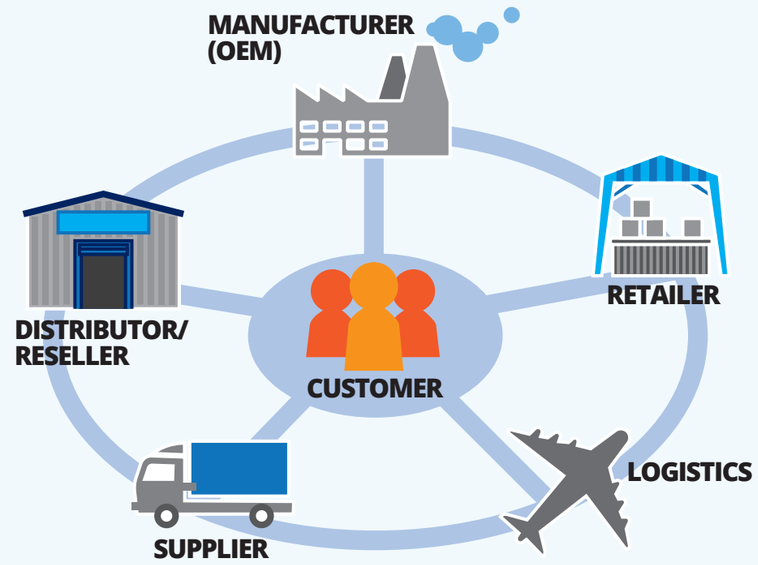
Why Supply Matters

- **Customer satisfaction ➔** businesses need stock to be delivered on time so that they can meet their own customer requirements ➔ they will not run out of supplies or be unable to produce or sell
- **Costs ➔** if suppliers can produce efficiently this will help reduce the costs of the business ➔ enables it to provide its products at a better price ➔ increases its own profit margins
- **Quality of finished goods ➔** if a supplier provides good quality products this can help with the reputation and quality of the business ➔ it will not have problems with defects and returned items
- **Reliability ➔** if suppliers can produce and deliver quickly and reliably, a business can hold relatively little stock because it can be replaced easily ➔ this reduces stockholding costs

Suppliers can cause problems for businesses if:

- their deliveries are late
- their prices are high or keep changing
- the quality of the products they supply is poor





Choosing Suitable Suppliers

The choice of suppliers is a critical one for businesses because it will affect the success of what they do.

The choice will involve a number of factors:

- **Cost**
- **Quality**
- **The range of products that can be supplied**
- **Speed of delivery**
- **Flexibility of the supplier ➔** in terms of the quantities that can be produced and the times of deliveries
- **Reliability ➔** e.g. the ability to deliver within a certain time slot
- **Reputation ➔** what have others said about working with this business
- **Payment terms ➔** e.g. how long does the business have to pay
- **The contract terms ➔** e.g. what financial compensation would be paid if deliveries were late
- **Behaviour of suppliers ➔** concerned about the ethics of the suppliers behaviour such as how they treat their staff ➔ this could affect the business' own reputation

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Logistics

Definition: Involves the management of the movement of goods from where they are to where they are needed: often between the manufacturer and the consumer.



Logistics is the flow of materials:

- **Into a business from suppliers**
  - ➔ Delivery and transportation from suppliers
  - ➔ Correct quantity and quality on time
- **Within a business as raw materials are transformed into a finished product**
  - ➔ Warehousing and stock management
  - ➔ Inventory of supplies and finished goods
  - ➔ Packaging of finished goods
  - ➔ Security of supplies and finished goods
- **Out of a business to reach the customer**
  - ➔ Transportation and distribution of finished products

Any disruptions in any part of this flow will mean that a business is unable to match supply to demand.



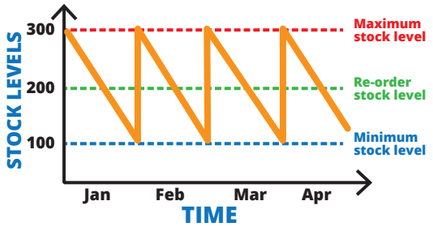
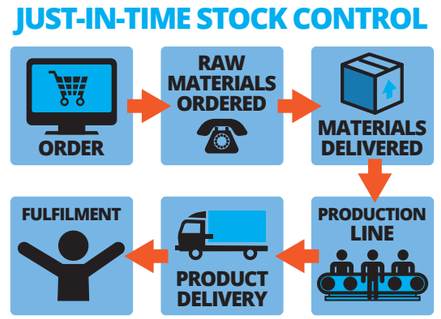
Stock

Definition: Raw materials that have not yet been used or products that have been made, but not sold.

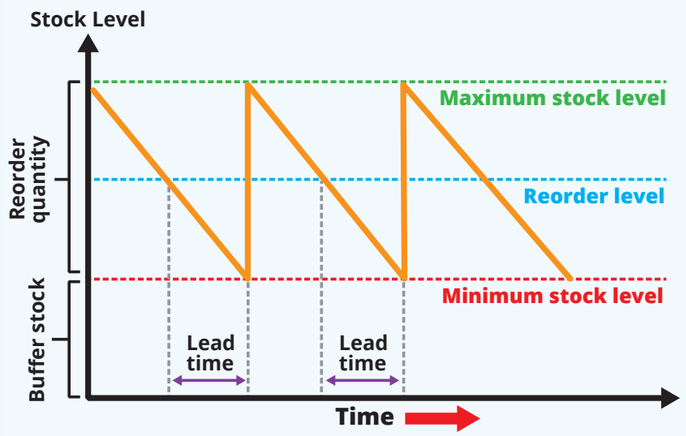
It can also include semi-finished goods or finished goods.

Holding stocks are important in order to:

- have supplies to keep production going
- have stocks to meet customer demand.

Stock Control Method	Just-in-Case (Traditional)	Just-in-Time
Definition	• Holds stock just-in-case there is a delay from suppliers or a sudden unexpected increase in demand.	• Requires businesses who adopt the idea to keep their stocks of finished goods and / or materials to a minimum. • Goods will only be produced when orders are received and / or materials are only received when they are needed. • This process saves storage costs and avoids having assets tied up in stocks.
Advantages	☑ **Stock usually available ➔** not held up by bottlenecks / delays in delivery ☑ **Bulk purchases ➔** discounts available ➔ lower prices ➔ lower costs ☑ **Quality of stock can be checked ➔** longer time available ☑ Stock can be kept in correct environment 	☑ **Stock only bought when needed ➔** no need for warehouse ➔ lower storage cost ☑ **Materials generally in good condition ➔** straight from manufacturer ☑ **Up-to-the-minute materials bought ➔** based on current technologies ☑ **Little waste ➔** only buying what needed ➔ small surplus of stock in downturn ☑ **Stock delivered straight to where it is needed ➔** no extra cost / reduced chance of damage ☑ **Can reduce cash flow problems**
Disadvantages	☒ **Need to find storage ➔** warehousing can be expensive ➔ may be lost depending on other business ☒ **Stock needs to be moved from where it is stored to factory ➔** expensive / greater chance of damage ☒ **Labour costs ➔** involved in looking after stored goods ☒ **Materials may deteriorate ➔** perhaps wrong environment ☒ **Materials may become out-of-date ➔** technology means new material always being developed ☒ **Downturn in business means high cost materials not needed ➔** cannot be resold ➔ will not get outlay back	☒ **Depend on suppliers ➔** if they run out of materials ➔ production may have to stop ☒ **Delivery difficulties ➔** delays through weather / congestion / accidents ☒ **No bulk buying ➔** deliveries more expensive ➔ more need to be paid for ➔ no economies of scale **JUST-IN-TIME STOCK CONTROL** 

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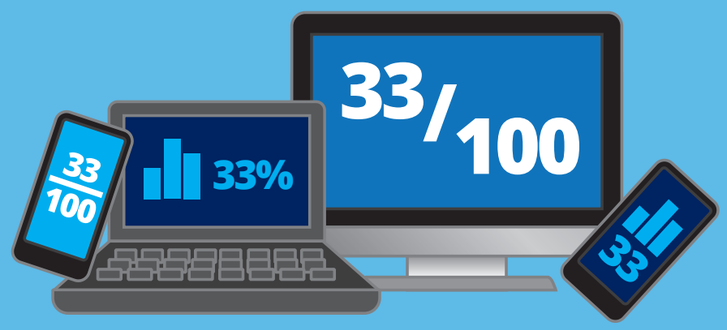
Computerised Stock Control

Stock control systems can be computerised.

When a specified quantity is reached new stock is automatically ordered.

Stock levels are recorded using barcodes and scanners i.e. each time materials are removed from a warehouse they are scanned and the stock level updated.

Relies on accuracy e.g. all workers remember to scan, no loss of stock, system is set up correctly.



Buffer Stock

Definition: The amount of stock held between the minimum stock holding and zero stock. Used in case of late deliveries or extra orders.

Lead Time

Definition: The amount of time that elapses between placing an order and the delivery of that order.

The relationship between the functional areas of a business and its supply chain

Marketing
- Cost of raw materials and manufacturing to inform pricing decisions
- Product features and functions
- USP e.g. ethically sourced
- Quality of product ➔ leading to brand loyalty and repeat sales
- Customer satisfaction
- Place available to end customer

Operations
- Quality of supply will affect the quality of the product
- Frequency of delivery will affect the operations process

Finance
- Cost of raw materials
- Payment terms negotiated with suppliers, impacting on cash flow
- Sales revenue
- Higher profit margins from increased efficiency, lower stock holding costs and less waste

Where to Source Supplies

Locally v globally and less developed countries

- **Ethics**
  - ➔ Are suppliers paid a fair rate?
  - ➔ Can ethical behaviour be tracked back through the e-supply chain e.g. working conditions or child labour?
  - ➔ Impact on local economy e.g. jobs
- **Costs**
  - ➔ Do cost savings justify the uncertainties or risk to quality?
- **Logistics**
  - ➔ Delivery time
  - ➔ Risk of stock not arriving or being damaged



How to Store and Distribute Supplies

This will depend on the:
- frequency and size of deliveries
- storage requirements e.g. security or special conditions such as refrigerated
- flow of materials through the production process
- distribution of finished goods
- right quantity and quality at the right time
- ability to match supply to demand to achieve customer satisfaction.

Picking a Supplier

Suppliers will **affect unit costs** in the following ways:

- The price of the components directly affects the cost of a product.
- Discounts may be offered for buying in bulk.
- Appropriate payment terms will help businesses avoid bank charges.
- If a supplier can deliver reliably and regularly then stock holding costs can be reduced.

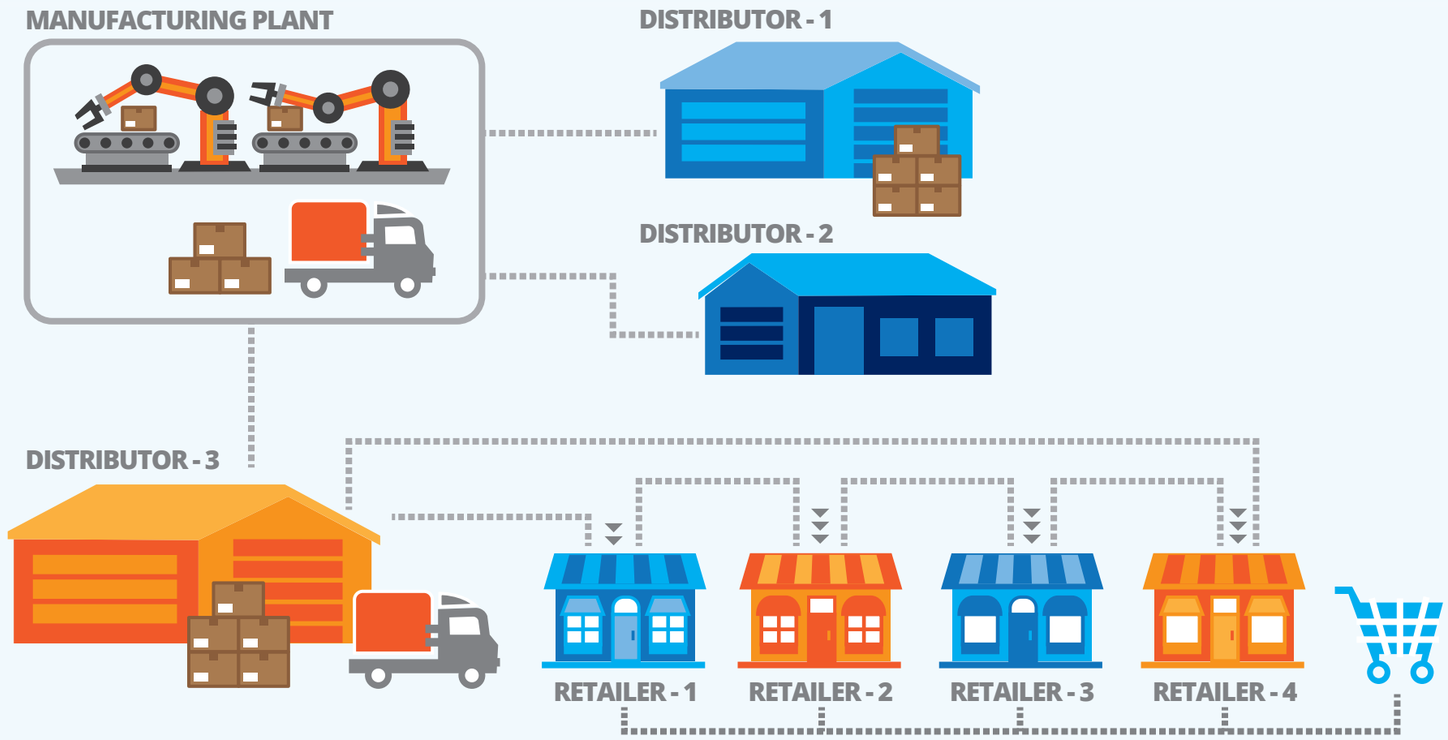
Suppliers will have a **direct influence on prices** as:

- High quality components allow businesses to charge a higher price.
- Reliability and speed of supply can add value to a product and allow a premium price to be charged.
- Reliability and quality will help a business establish a good reputation.

Suppliers will affect **reputation and customer satisfaction**:

- quality of raw materials entering the production process
- delivery of supplies on time
- flexibility to match supply to demand
- speed of delivery





Summary of the impacts a supplier can have on a business

Selecting the right supplier is important as they will impact on a business in the following ways:

- costs.
- quality of finished goods.
- price changes.
- customer satisfaction.
- reputation.
- sales.
- profits.



The impact of supply decisions on stakeholders

The owners of the business ➔ supply decisions impact on features such as quality of the products, the costs and the speed of delivery ➔ this will affect sales, profits and dividends

The local community ➔ transportation of products will impact on air pollution and congestion ➔ choice of local suppliers can create jobs and help grow the community

The suppliers themselves ➔ if a supplier wins a contract it may be able to expand and reward its own staff and investors ➔ if they lose a contract then they may see sales and profits fall

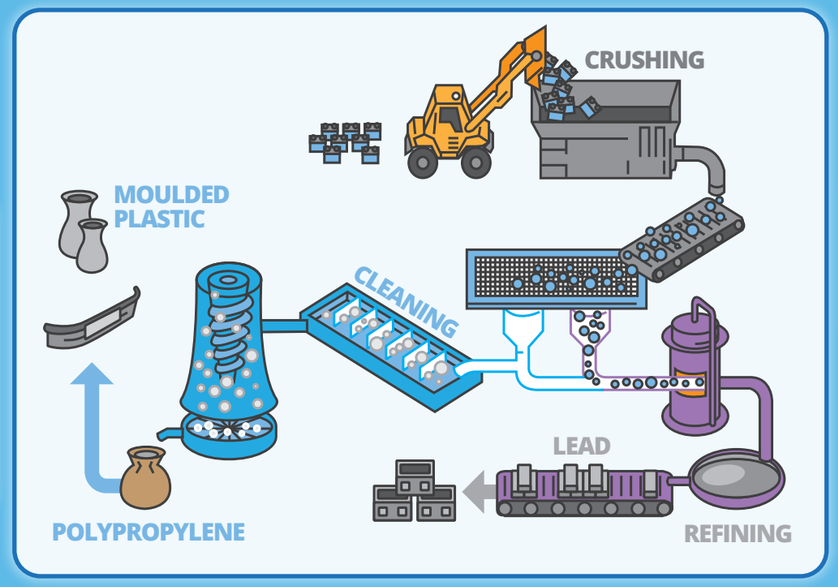
The government ➔ movement of products around the country will affect the pressure on infrastructure such as the road system. Choosing a UK supplier will boost the economy.

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Functions of Production Department

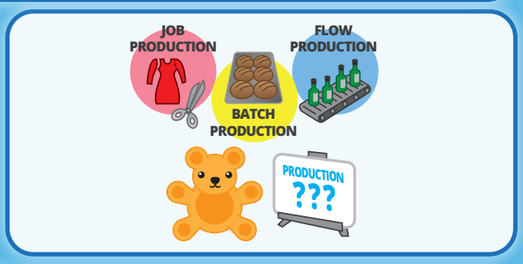
- Production planning and scheduling ➔ making sure that the correct number of items are produced to fulfil order on time
- Deciding the best production methods to use
- Managing product quality (including process control and monitoring)



Production

Definition: The process of changing inputs such as labour services into goods and services that can be sold.

Methods of Production



Method of Production:	Job	Batch	Flow/Mass
Definition	• Involves the manufacture of an individual good from start to finish. • Each product is different and offers a unique good for the consumer or meets specific consumer requirements.	• Found when a small number of identical products are made at once. • Each batch goes through one stage of the production process before moving onto next stage.	• Goods are produced continuously usually on a production line. • Partly finished goods move along the assembly line with parts being added through the process.
Examples	Wedding dresses, Hairdresser	Clothing Manufacturer, Bakery	Golf balls
Advantages	☑ **Unique ➔** bespoke ➔ to customer specification. ☑ **Higher quality ➔** product is made one at a time ➔ everyone different.	☑ **More products can be produced ➔** allow for higher sales. ☑ **Costs for producing each product (unit costs) are lower.** ☑ **Production is more efficient ➔** workers can specialize in performing specific tasks. ☑ **Specialist machinery can be used ➔** speed up production.	☑ **Efficient use of labour and machines ➔** division of labour. ☑ **Produces similar/identical goods ➔** production quicker. ☑ **Reduce unit costs of production ➔** benefit from economies of scale.
Disadvantages	☒ **Expensive ➔** workers tend to have higher skills and therefore higher wages. ☒ **Time-consuming ➔** completion takes longer due to greater attention to detail and high quality. ☒ **Replacements more difficult to find ➔** products were made for a specific purpose to a particular design.	☒ **Products no longer produced to a unique specification** ☒ **Quality is not as high compared to job production ➔** less time and care is taken on individual products ☒ **High level of stock may be needed ➔** materials have to be stored and this is expensive. ☒ **Machines have to be cleaned and reset before producing a different batch ➔** this takes time and adds to costs.	☒ **Machinery is expensive ➔** smaller businesses may not be able to afford it. ☒ **Lack of flexibility ➔** flow production produces identical products ➔ what if the customer wants a slight modification? ☒ **Bored workers ➔** could lead to lower quality.

