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Role of Supply Chain Management in Economy

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Supply chain management is the management of the flow of goods and services and it includes all entire processes that transform raw materials into a final product. This process involves managing the flow of goods and services from their origin to consumption, covering procurement, logistics, and distribution. Supply chain management is crucial to almost every aspect of modern commerce, impacting the cost of goods and customer satisfaction alike. Without the supply chain, we would not have access to food and health products, or the items that allow us to work, travel and entertain ourselves. Supply chain management involves a network of suppliers connected via a centralized management process. Each supplier acts as a link that moves a product along a chain of production, from raw material suppliers to manufacturers to retailers. Today supply chain management is largely a result of market evolutions, digital transformations, and changing consumer preferences.

Key Takeaways

- Supply chain management (SCM) is the centralized management of the flow of goods and services and includes all processes that transform raw materials into final products.
- By managing the supply chain, companies can cut excess costs and deliver products to the consumer faster and more efficiently.
- Good supply chain management keeps companies out of the headlines and away from expensive recalls and lawsuits.
- The five most critical elements of SCM are developing a strategy, sourcing raw materials, production, distribution, and returns.
- A supply chain manager is tasked with controlling and reducing costs and avoiding supply shortages.



Supply Chain Management (SCM)

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Investopedia

Role of Supply Chain Management

Supply chain management sets the foundation for economic growth by enabling the exchange of goods between businesses and consumers. The important role of supply chain management and its impact on economic growth is possible because of the entities involved in the supply chain, which include the following:

- **Materials processors.** This includes companies that process raw materials, such as metal, rubber, and wood, from natural resources.
- **Manufacturers/producers.** These are the companies that create the products available for sale, turning raw materials into products for consumer use. Not all supply chains produce physical products. For example, in the energy sector, energy producers use raw materials, such as coal, to produce a form of energy for consumption.
- **Vendors.** Also known as sellers, vendors sell products to the next link in the supply chain. Manufacturers can also be vendors.
- **Warehouses.** Once the products are sold, they need to be stored. Warehouses are often located in major hubs where those involved in the next link in the supply chain can acquire them and ship them to distribution centers.
- **Transportation companies.** Examples of transportation companies include freighter, container ship and trucking companies. At this point in the supply chain, the products arrive at another site with one purpose: to distribute the product to retailers.
- **Distribution centers.** Distribution centers are regional facilities that house the products to be redistributed to retailers, wholesalers, and, sometimes, directly to consumers. A distribution center can include refrigeration facilities to preserve perishable products.
- **Retailers.** At the tail end of the supply chain are the retailers who sell products directly to consumers in shopping centers, stores, and online.

In considering what supply chain management is and why it is important, it is useful to highlight other business functions that impact or are affected by the supply chain.

Product development. This is the process of introducing and bringing products to the market. It can also involve updating or renewing an existing product. Product development hinges on the materials available to make a product and the ingenuity of individuals to design, engineer and determine the purpose and function of a product.

- **Marketing.** It is often said that a good product sells itself. In reality, organizations must try to stimulate demand for their goods. This is where marketing comes in. Marketing strategies include advertising and promotion, packaging, pricing, product placement, distribution, and target audience selection.
- **Operations.** A key aim of operations managers is to ensure the inner workings of a business run efficiently to maximize productivity and reduce costs.
- **Distribution.** This function is often considered part of the marketing mix. It describes the process of making products available to end-users in business and consumer markets, whether through direct or indirect distributors.
- **Finance.** This area works with departments like sales to set revenue goals, acquire money or capital and decide how to spend and invest.
- **Customer service.** This function plays a critical role in how an organization is perceived by its customers. The aim of customer service is to serve customers throughout the buying life cycle, from providing information that may help customers make informed decisions to supporting customer inquiries and troubleshooting customer problems.

Why Is Supply Chain Management Important?

Modern supply chains help improve living standards by enabling consumers to buy essential products at lower costs. This is because an effective supply chain streamlines the process of getting products to market, and ultimately to consumers. Supply chain management is

important because it can help achieve several business objectives. For instance, controlling manufacturing processes can improve product quality, reducing the risk of recalls and lawsuits while helping to build a strong consumer brand. At the same time, controls over shipping procedures can improve customer service by avoiding costly shortages or periods of inventory oversupply. Overall, supply chain management provides several opportunities for companies to improve their profit margins and is especially important for companies with large and international operations.

Some key reasons why supply chain management is important to include:

- **Basic life necessities.** Through supply chain management, individuals access necessities such as food and clothing, as well as life-saving medicines and health care products.
- **Power and light.** People use electrical energy for homes and businesses for light, heat, and air conditioning. The energy supply chain involves the transformation of raw materials into usable energy and uses supply chain management principles to bring energy resources to consumers.
- **Infrastructure.** Interstate highway systems, railroads, ports, and airports facilitate the exchange of goods between businesses and consumers.
- **Jobs.** Supply chain management plays a critical role in job creation. Supply chain professionals work in areas such as transportation, warehousing, inventory management, packaging and logistics information.

How Supply Chain Management (SCM) Works

With all its complexity, the supply chain contains just five steps. Here are those steps and how they work.

Step 1: Planning. This is where the manufacturer decides how many items to produce based on estimates of demand versus available supply, along with other economic factors including popularity of the product, consumer spending, employment, and so forth.

Step 2: Sourcing. This step involves gathering raw materials or components needed to manufacture the products that will eventually be offered for sale. These materials must be collected, transported, and stored until used in the manufacturing process.

Step 3: Manufacturing. Manufacturing or making the product from sourced materials also involves several other embedded processes including quality control, testing, and packaging.

Step 4: Delivery. During this step, finished products go to a distribution center for delivery to retailers and ultimately the customer. This process can include the so-called last mile, a name used to describe the final delivery leg that moves the product from the retailer to the customer's doorstep.

Step 5: Return. Also known as reverse logistics, the return process may be activated at the consumer level (returning a defective product) all the way down to the sourcing level (returning defective or excess raw materials to vendors).