



A Conceptual Study on Supply Chain Management in Creating Customer Value

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Abstract: The aim of this conceptual paper is to explicate the impact of effective supply chain management in creating customers' value. This study applied secondary source to collect all the relevant information in order to derive the conceptual framework. The findings suggest that effective supply chain management has a positive impact on the sustainability, organizational performance, competitiveness and innovativeness in way to creating ultimate value for the customers.

Keywords: Supply Chain management; Sustainability; Organizational performance; Competitiveness; Innovation.

1. Introduction

The concept of supply chain management is well recognized in the business environment today. Effective supply chain management assists a company to the product development process by sourcing the valuable logistic facilities in order to create optimum value for the customers. One of the technique to improve maximize customer value is by increasing efficiency of the supply chain management within the business. According to *Sukati et al. (2012)* the importance of making a close client relationship as a major practice of supply chain which enable an organizations to react quicker to their customers. While building customer relationship is really an indispensable to improve the supply chain through the coordination between provider and distributor. The more efficient coordination between those two parties, the efficient supply chain management will be reflected in the business (*Cai et al., 2013*).

A company, who holds a full supply chain management within their job, will harvest a big benefit in long-term base. The functional efficiency in the company's business will contribute to client satisfaction and company success. In explanation, supply chain management gives a beneficial impact in fulfilling customer satisfaction through several dimensions such as sustainability, performance, competitiveness, and invention. A secure supply chain management also covers two basic flows within the lines. Firstly, the physical flows which include the transformation of raw materials converted into a product and the transportation itself to end customer. Secondly, the information flows that consist of a controlling good and productive day to day up and down supply chain management (*Chen et al., 2014*). The proposed study will investigate the impact of effective and efficient supply chain management towards creating customers value where mediation items in between these relationships also explore in details.

2. Conceptual Framework Development

Since 1990, the interest in Supply Chain Management (SCM) has increased in the company. Supply Chain Management can be defined as the several actions and different processes that occurred in the company in producing the products and services for ultimate customers (*Lotfi et al., 2013*). Supply Chain Management involves several parties such as suppliers, distributors and ending customers. The objectives of Supply Chain Management are to improve the competitiveness of the companionship and improve the client satisfaction. Another objective of the Supply Chain Management is to improve the efficiency and effectiveness in producing the products by lowering the monetary value and resources. This orientation and understanding of supply chain management practice being supported by researchers like *Charles et al. (2014)*. They argued that supply chain management practices refer to standard operational activities in the company to enhance management effectiveness through along the supply chain. According to *Perl and Adel (2013)* Supply Chain Management can be understood as the organization that include

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entities or organization, personnel, raw material information and operation that oriented in the movement of commodities and services from providers to end-customers.

There are three major Supply Chain Management practices; *Lean Supply Chain Management, Resilient Supply Chain Management and Green Supply Chain Management* (Kannan *et al.*, 2014). In explanation, Lean Supply Chain management oriented on the supplier relationship, Just in Time approach and it stresses on the participation of the suppliers relating product development. The Company that uses Lean Supply Chain Management has a focal point on total quality management and waste elimination. Lean Supply Chain Management also stresses on the delivery flexibility and relations with clients.

On the other hand the practices of Resilient Supply Chain Management focus on the strategy of sourcing that enable the change or shifting of suppliers. In addition, it also permits flexibility in supply sourcing. In the focal point of Resilient Supply Chain Management, caters the risk factors in Supply Chain Management and flexibility of transportation of goods and serves.

Green Supply Chain Management focuses on the environmental factors throughout the Supply Chain. Green supply chain management is the management between suppliers, products and the environment that the environment protection principle is brought into the supplier's management system (Payman and Cory, 2013). The objective of green supply chain management is to increase the environment protection consciousness into original products and improve the competitiveness in the market. Every phase that is managed by the company or organization in producing the products or services will give impact to the environment (Ana *et al.*, 2014). Through Green Supply Chain Management, company or firm encourages suppliers to accept cover the packaging. Through, the Green Supply Chain Management emphasizes the company to use cleaner production activities, minimizing the ways of the production and brings down the use of hazardous and material that has toxicity. The concepts of Lean Management and Green Management are ruled by principle of waste reduction, process centered focus and high level of peoples' participants (Pedro and Jose, 2013).

Supply Chain Management embodied two approaches, which are centralized and decentralized approach. Centralized approach is better than the decentralized approach because it allows the company or firm to better control its food product quality in supply chain management and it also requires more time and financial resources and not all companies will be able to have their own supply chain management (Chen *et al.*, 2014). Centralized approach also have several advantages such as cost minimization, better quality production, great control over the process, reduction of waste and cost effective (Ana *et al.*, 2014; Chen *et al.*, 2014; Pedro and Jose, 2013). On the reverse, the decentralized approach does not take more time and more financial resources along the supply chain management.

According to Charles *et al.* (2014) the factors that give impact to the functionality of supply chain management are Information and Communication Technology (ICT), supply and material management, operations, and client services. The information and communication engineering is a critical component in assuring the good functionality of supply chain management. It is because by having well managed data transfer throughout the chain of supply from supplier to end clients, it will make business interaction between these parties become smoothly. In addition the information that has been shared will avoid inaccuracy of data of all parties that affect in the interaction between them. The furtherance of technology can serve to improve the effectiveness of the ICT, especially interaction throughout the supply chain (Patrick *et al.*, 2013).

Material and supply management is an important major element in securing supply chain management function well. In explanation the semi-finished product and raw material that's been well managed and well transferred throughout the supply chain indicates that company has a good supply chain management (Charles *et al.*, 2014).

Furthermore, supply chain management functionality is dependent on the company operation it. It entails that the companies that have a serious procedure in their management will lead to the stratum of the effectiveness of supply chain management. Client service is one of the most significant elements that reflect supply chain management. By providing a needed service required for satisfying customers, it will contribute to business performance which from the necessary feedback of the customer # will help the product development as well as creating new products in order to fulfill customer satisfying. Other factors give an impact directly to supply chain management or technology, cost, inventory management and external regulation (Charles *et al.*, 2014). All of this component will assist to accomplish the goals of supply chain member as well as create a value to the end client. Sukati *et al.* (2012) indicated that there are distinctive characteristics that differentiates supply chain management strategy; Lean supply chain, Agile Supply Chain, and Hybrid Supply Chain. The lean strategy is about making continuous improvement by eliminating waste of resources which involve advanced technology. Meanwhile agile strategy is about the flexibility of the organization that responds to the global situations that have changed rapidly. In other hand, hybrid supply chain strategy is a combination of lean and agile supply chain strategy to satisfy the complex product requirements. Even though supply chain management practice focuses on the relation management throughout the supply chain, the concept of supply change management can be adopted within the management of the company (Lengnick-Hall *et al.*, 2013). In explanation the supply chain management practice can be embraced inside the house because it can improve and enhance the flexibility of the data transfer between the departments in the governing body. In summation, it can assist the company to adjust and align the movement of the company assets throughout the sections. To sum up the wide application of supply chain management practice that involves external stakeholders like suppliers and customers can be narrow to the management of human resource, management of material within the companies.

In order to see the impact of supply chain management towards the output of marketable product, the concept of marketing concept itself should lead into consideration first. Kerin *et al.* (2013) stated that marketing can be understood as the set of actions that being contracted in society to evolve, having an interaction, conveying and exchange the good and services that can benefit various stakeholders; consumer, company, staff, supplier and investor. They also argued that marketing should strive in order to fulfil consumer's need and desires. Therefore, in order for the firm to make the product, the product itself, must satisfy the requirement of consumers. Faizan *et al.* (2011) stated most of the top firms, especially a financial institution believe that the customers always look at for what they're serving. The ability to fulfil customer demand is aligned with the production of marketable product. By producing the product that fulfils customer demand, customer willingness and rate of preferable to buy the product reflects marketability of the products (Shaharuddin *et al.*, 2014). The success in producing marketable product that satisfying customer demand, will reflect on company growth which cannot be attained without a systematic supply chain management system. Zhao and Wijewardana (2012) stated that there is a major impact on supply chain management towards producing marketable products.

Supply Chain Management (SCM) is pivotal and important tool system that can give direct effect and impact to the marketability of a product to consumers. The impacts are; sustainability, performance, competitive advantage, and innovativeness. According to Kannan *et al.* (2014) supply chain management has a directly positive impact on the sustainability. The concept of sustainability can be interpreted as the ability and capability of the company to ensure all stakeholders in the supply chain, including suppliers, customer, employees, and shareholders' interests being relatively easily protected. In the simple word, the company that has good sustainability elements will have good relation with all stakeholders because the firms itself try to manage of all shareholders' interest. This orientation being supported by other researchers like Pedro and Jose (2013) supported this orientation by adding the elements of lean supply chain management are beneficial in enhancing sustainability of the company.

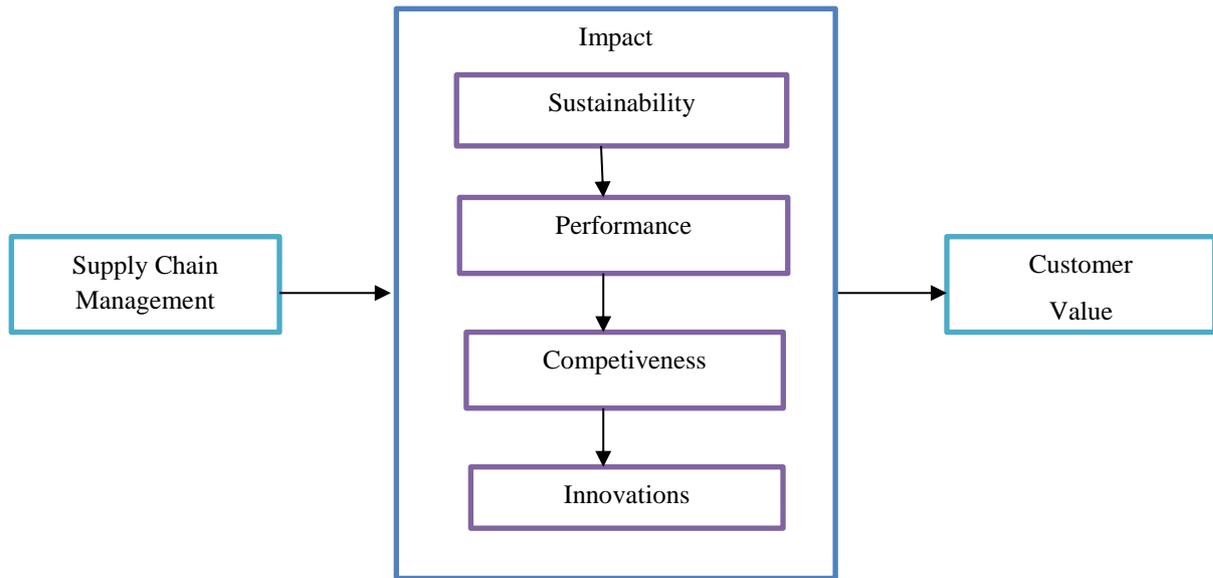
Regarding performance, according to Charles *et al.* (2014) supply chain management is able to enhance and measure the performance of the company in its business activities such as to assess the performance of business which includes assessment of financial measure of performance, assessment of marketing inputs, and assessment of effectiveness and efficiency. Besides, as evidence in the sales performance by maximizing is system-full cost while meeting customer service level demands. Likewise, supply chain management practice includes set of approaches and practices that effectively integrate with providers, manufactures, distributors and customers, to ameliorate the long-term business operation and their supply chain.

In terms of competitive advantage, Huseyin *et al.* (2013) effective supply chain management (SCM) has become a potentially important advance of ensuring competitive advantage in five dimensions of SCM practices which are strategic supplier, partnership, customer relationship, the level of information sharing, quality of information sharing, and deferral. This is understood that higher levels of SCM practice can contribute to an enhanced competitive advantage and improved organizational performance. In gain, competitive advantage can have a direct, positive impact on organizational functioning. Besides that, according to Zahra *et al.* (2013) supply chain management is able to create the competitive advantage by letting down the cost of resourcing.

Furthermore, Supply Chain Management has an impact on innovativeness. This has been supported by Voon-Hsien *et al.* (2014) confirms that Supply Chain Management able to improve technological innovation performance because technology is very significant to the progress and also development of modern industry. Therefore, it will improve the efficiency by lowering the cost and increase productivity. Furthermore, researchers have found that innovation is positively related to a company's competitive advantages. Moreover, Jury and Matteo (2014) Supply chain management focuses on eliminating waste. In addition, supply chain management also can be employed to check and determine the global sourcing effects in the business operation (Ruggero and Matteo, 2011). The concept of global sourcing can be understood of buying of products beyond the geographical area from which the frames are located by applying supply chain management. Companies are able to ensure the continuity of provision from the suppliers even though they are placed in the different geographical area. It is due to the good relations that have been developed throughout the application of supply chain management. Based on the above discussion the following relationship can be developed.

It is expected that supply chain management will give a positive impact to the production of marketable products. Thus supply chain management give direct impact to the production of customers value in terms of products or services by using four significant dimensions; sustainability, performance, competitiveness, and inventions. The company that has best supply chain management will have good sustainability within the company. While sustainability is almost certain in a good supply chain management, it will also get a more respectable performance in term of financial measurement, marketing input, and operational efficiency. An efficient supply chain management also brings a bigger impact on competitive advantage of commercial enterprise which includes strategic partnership between supplier and distributor and also a great customer relationship. In exercising a good supply chain management, a company, perhaps carries a technological innovation performance by increasing the efficiency within their lines.

Figure-1. Supply Chain Management and Customer Value



3. Conclusions

Referable to the high competition within the business environment, most companies are now trying to improve their efficiency and productivity. One of the techniques is to improve those by enhancing their quality in the supply chain management. Supply chain includes the relationship between supplier, manufacturer, distributor, and even with the customer himself or herself. There are four dimensions of supply chain management in customer value creation, which is sustainability, performance, competitiveness, and innovations. By implicating a good supply chain these four dimensions may be considered in order to bring the efficiency and effectiveness in the company. Further research requires testing the proposed model under a specific industry perspective before the conceptual framework to be generalizable. On the other hand, the researchers also can add the concept of “*Halal*” especially in supply chain management regarding for a particular group of customers. The display of halal logo can provide a confidence to purchase the halal products because companies involved in halal business are mainly the non-Muslims (Al-Qudsi, 2014) thus the studies of halal supply chain management is also encouraged.

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