

CHALLENGES AND OPPORTUNITIES OF THE LEADING EDGE IN WORLD CLASS SUPPLY CHAIN MANAGEMENT



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Department of Management
Faculty of Business and Economics
Universitas Surabaya

J. Raya Kalungbut, Surabaya, 60203
Ph: +62 31 298 1130 | Fax: +62 31 298 1131
email: cd@calmayna@gmail.com | managementsymposium@ubaya.ac.id

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SUPPLY CHAIN MANAGEMENT: STRATEGY IN INFORMATION TECHNOLOGY TO REDUCE COST

Meythi¹⁾, Riki Martusa²⁾

Master of Accounting, Faculty of Economics, Maranatha Christian University

Jl. Prof. Drg. Suria Sumantri, MPH No. 65 Bandung, 40164

Phone: (022) 2012186 ext. 1525, Fax: (022) 2017625

E-mail: meycate79@yahoo.com¹⁾, theofilus2001@yahoo.com²⁾

Abstract

Supply Chain Management is the integration of key business processes from end-user to the original supplier that provides products, services, and information that enhance customers' and other stakeholders' value. The successful practices of Supply Chain Management begins with the selection of key suppliers and then develop a relationship of mutual trust and mutual benefit. Based on of information technology development nowadays, the relationship between the parties in the chain of business activities could be developed into a more open, transparent, and soon with the help of hardware and computer software. Information technology is one of the integrated Supply Chain Management. Information technology can result a clear communication channel between each information distribution activity and network that related to the perpetrators of such information systems. Current developments in information technology make it easier for the parties concerned in the business chain supply chain to strengthen, maintain, and enhance their relationships in order to ensure continuity of operations of each company. Although information technology requires enormous investment, information technology utilization will provide significant long-term benefits by reduce on operating costs in processing the data and improve decision making.

Keywords: Supply Chain Management, Information Technology, and Cost Savings.

1. RESEARCH BACKGROUND

Recently, the development of information technology (IT) including Electronic Data Interchange (EDI) and internet via the World Wide Web (www) cause the concept of Supply Chain Management (SCM) has become a popular operating paradigm. The complexities of SCM has required companies to use online communication systems. For example, the internet can increase excellence in communication through inter-activity between enterprises and customers. In other words, IT can reduce cost on transactions between buyers and suppliers, then create a cooperation and maintain the good relationship between the supplier-buyer be closer.

Development of SCM can not be seperated from IT. Advances in IT has been created supply chain principles, namely: Business to Business (B2B), Business to Customer (B2C) E-Commerce and Supply Chain. E-commerce companies can perform SCM with excellent. One pioneer is amazon.com, which is a company that sells books, CDs, toys, and so on through the internet. This company does not have a physical warehouse or bookstore and even the number of inventories are very few books. Amazon.com has some of the largest distributors in the United States. Consumers of Amazon.com spread

around the world until now. Even for amazon.com, application of SCM requires complex management. The process from collect and search order, generate products, packaged and deliver to customer, then collect payment. Application of SCM in company can fulfill the consumer's need and generate omzet approximately hundreds of millions of dollars each year.

Business competition is currently showing the presence of customers as users of products or services are in a position to dictate the form, delivery, and price of the product or service needed (Spring and Sweeting, 2002). Configuring a traditional manufacturing business which includes product design, employee skills, production processes, and the delivery of products or delivery of services to customers has changed towards continuous improvement, ontime of delivery and service, rules flexibility, and cost savings that aims to achieve an increase in value added.

Knowledge of how a complete network operates and what its capabilities, large variability is available, and the number of parties that may be involved, now is a critical competitive advantage, both for the customer as well as for end users competitors (Spring and Sweeting, 2002). By leveraging the knowledge of the network is developing a Supply Chain Management (SCM) which is an integrated information network between the parties involved in the business chain.

This paper aims to outline the SCM as a strategy IT to reduce cost. Systematics writing begins by outlining key to successful SCM practices, followed by a discussion in SCM as a strategy IT to reduce cost, and end with the conclusion of this paper.

2. LITERATURE REVIEW

Key to Successful Supply Chain Management Practice

According to Thompson and Strickland (1996) in carrying out the activities of its operations, the company can not escape the presence of other parties. Both trading companies, manufacturing companies, and service companies require suppliers to provide merchandise for sale or raw materials to be used in the production process and equipment to provide services. In addition, three types of companies also require that consumers will buy and use the products or services they produce.

If the consumer buys the product or service and then process it back in order to produce another product that has a higher value than the value of the product or service before, then these business activities form a chain called the value chain. A company's value chain includes the major activities that create value for customers both inside and outside the company. Framework of value chain is a method to sort out the chain from raw materials into end-user customer base into relevant activities strategically in order to understand the behavior of various costs and various sources of differentiation (Shank and Govindarajan, 1992).

In particular, the value chain includes six main activities, namely: equipment purchases and logistics inbound, operations, logistics outbound, sales and marketing, service, and profit margins (Thompson and Strickland, 1996). With the framework of the company can determine the choice of a chain of events that will be the business object. If the company has limitations that prevent all activities in the value chain can be controlled

himself, the company needs to maintain relations with the related parties in the chain to maintain the continuity of the operation is performing.

Maintenance of the relationship can be done by trust and mutually beneficial relation with them for a long time. Alliances with suppliers usually important only for the vendors that supply components integral and strategic importance in the process manufacturing (Albright and Davis, 1999). Purpose of making a close alliance with the suppliers is not to get a lower price, but to secure accepted of the price in response for good service and trust.

Another advantage of developing close alliances with suppliers are key components in order to help our suppliers can offer design components and new production processes (Albright and Davis, 1999). By maintaining relationships with suppliers, the company can maintain the continuity of production without worrying about facing obstacles due to lack of raw materials.

SCM is integrally involved in the three links in the chain, namely the purchase of equipment and inbound logistics, operations, outbound logistics and, as well as be integrated into corporate strategy. In developing a strategic plan, the company must carefully analyze potential relationships with suppliers. Because the success of SCM is a key element in other management techniques such as just-in-time (JIT), Total Quality Management (TQM), Electronic Data Interchange (EDI), Target Costing, and Outsourcing (Albright and Davis, 1999).

JIT requires assurance that the necessary raw materials will be available just in time for the production process will be implemented. To implement TQM needed assurance that the raw materials available are of good quality, because the quality of the raw materials that will support the achievement of the production is good too. EDI will only work if the relationship between the parties relating well maintained. Target costing can be done if there is price stability, the main components that make up the product. To implement an outsourcing certain services, it must be assured that the party receiving outsourced from companies trying to maintain the quality of these services to maintain the company's credibility in the eyes of its customers.

From the description it can be concluded that the success of SCM practices begins with the selection of key suppliers and then develop a relationship of trust and mutual benefit. With the development of IT as it had happened today, the relationship between the parties in the chain of business activities can be developed into a more open, transparent, and soon with the help of hardware and computer software.

3. DISCUSSION

Supply Chain Management as a Strategy of Information Technology to Reduce Cost

The role of information in SCM is affected by the use of IT. IT plays an important role in supporting the performance of the SCM. The concept of SCM is inseparable from the development of IT. Even judging from history, it gives rise to technological advances the basic principles of SCM. The reason is quite simply, is that the essence of integrating the various processes and business entities in the domain of SCM is to share the information that is owned and produced by the various parties. Computer and

telecommunications technology is rapidly evolving to make the creation and dissemination of information becomes faster, cheaper, and better quality.

According to Blanchard (2003) SCM is a management concept through the integration of production activities formed between supplier, producer-manufacture, distributor, warehouse, and retail customers, in order to obtain a pattern of distribution of the product by the number, location, and time so as to reduce costs while improving service to customers. With the rapid use of IT, the current SCM can be grouped into a new economic paradigm as follows: (1) time-based competition, (2) the creation of the synchronization functions of the company, (3) services tailored to the needs of suppliers and users and (4) increased consolidation among suppliers and companies.

According to Indrajit and Djokopranoto (2003) the role of IT in SCM can be viewed from two perspectives, namely:

1. Technical Perspective

Judging from the technical side, there are two functions of IT that must be met, namely:

a. Creation Functions

Aspects that must be done by IT are as follows:

- IT must be able to be a means to alter the facts or events are encountered daily in the company's business into quantitative data format. There are two common ways are commonly used, namely manual and automatic.
- IT must be able to transform the raw data collected into information relevant to stakeholders, the management, staff, customers, business partners, business owners, and other parties concerned. For the management and staff of the company, information is processed data is the raw data needed to make decisions strategically and tactically.
- The results of the decision-making will provide a variety of direct and indirect impact on business performance of the company. Information generated from the daily data processing equipped with the experience and intellect of the decision makers will eventually become a knowledge or knowledge for the concerned. Feedback of the results is very good decision to be known by a variety of stakeholders in the company. The results of good decision-making should be an example for others in the company, while poor results have also learned that not happening again in the future. IT is the next task, to process information obtained by various existing organizational context, a knowledge that can be accessed by all parties within the company.
- Finally, a collection of knowledge obtained and studied for the company operates will be a provision of wisdom which is priceless. Wisdom gained is the result of an learning organization which is the identity of the company in the future. Wisdom is embedded in each individual offender everyday business activities are expected to make the company related to an organization that is always increasing performance. Transform knowledge into wisdom is the last IT job in the creative process. Has many applications in the category of artificial intelligence and expert systems have been implemented in various multinational companies to replace human functions in making critical decisions in business.

b. Function Deployment

To the entities facts, data, information, knowledge, and wisdom, the IT has functions relating to aspects of the deployment as follows:

- **Gathering**
IT must have facilities that are able to collect entities and put it in a digital storage medium. Storage media must be able to capture a variety of unique characteristics of entity-related entities, which is represented in various multi-media, such as text, audio, image, video, and others.
- **Organising**
To facilitate the search for entities at a later date, IT must have a standard mechanism for organizing the storage of entities on the storage medium. The concepts of data structures, database, and file system are the basics of the science that is often used in connection with this requirement.
- **Selecting**
At the various parties within the entities companies require it, IT must provide facilities to facilitate the search and selection. Portal technology is one way of being favored by the company in solving this problem.
- **Synthesizing**
Often the decision makers need more than one entity (a combination of several entities) to make it easier to see the company's business situation.
- **Distributing**
Finally, IT must have the infrastructure to distribute the various entities of the entities are kept to those who need it. The process of deploying these entities must also pay attention to the level of need, such as speed of access, the importance of the entity, and so forth. To be able to distribute multi-media entity, for example, needed a transmission medium width ribbon (high bandwidth) so that the performance can be effectively spread.

2. Managerial Perspective

In terms of managerial business, particularly in relation to SCM, there are four roles expected by the company of an effective implementation of IT, namely:

a. Minimize Risks

Every business has its risks, especially those associated with financial factors. In general, the risk comes from the uncertainty in various ways and other external aspects that are beyond the control of the company. IT presence in addition to be able to help the company to reduce the risk of an existing business, it should also be a means to assist in managing risks faced everyday.

b. Cost Savings

Another bid is offered IT efficiency improvements and optimization of business processes in the company. There are four ways to offer IT to reduce costs that are often incurred for activities of daily operations, namely:

- **Elimination Process**
Implementation of various IT components are able to remove or eliminate non-value added processes. An example is the provision of ATM to reduce customer queues at each bank teller or call center to replace the function of customer service in dealing with customer complaints.
- **Simplification Process**
Various processes are lengthy and convoluted (bureaucratic) can usually be simplified by implementing various IT components (databases and applications for example). Call it a series of processes in a bank loan application to approval usually have to go through a few tables, can be

alleviated by using intranet applications. Or the transfer of money from one bank to another bank teller who often have to go through now be done through bank websites linked on the internet.

- Integration Process

IT is also capable of integrating multiple processes into one that feels faster and more convenient (directly improve customer satisfaction). Examples include a driver's license application process. In developed countries, such a series of serial processes taking photographs, fingerprints, signature, weight, and height, has to be carried out simultaneously. An applicant does not need to spend time queuing up from one place to another to carry out a series of activities above, but enough standing alone in a place with a certain position, so photography, fingerprint, weight and height, as well as the signing can be performed simultaneously because of the digital devices.

- Process Automation

Changing the manual process into an automated classic IT bids. An example is the application of robotics in the manufacturing industry to replace humans, or fuzzy logic to replace the function of various machinery and equipment, or a scanner to replace the function of the human eye in laying and seeking goods in the warehouse, and so forth.

- c. Add Value

The next role of IT is to create value for customers. The ultimate goal of creating value not only for customer satisfaction, but further to create customer loyalty that the customer is willing to always be a consumer company for a long period of time (customer bonding). The ability to create relationships on a one-to-one between the company and customers is the key to establishing fruitful interaction in the eyes of the customer, in addition to the company's business to always create products or services that are cheaper, better, and faster compared with business competitors. Noteworthy here is that the value that determines whether or not a service or process is the customer or the market, rather than internal, so IT must be able to create value addition, it can also be an effective tool to identify things that can be transformed into value for enterprise customers.

- d. Create New Realities

IT developments are characterized by the rapid recent internet technology, has been able to create a new competitive market for the company, which is in cyberspace. Various concepts of e-business kind of e-commerce, e-procurement, e-customers, e-loyalty, and other that basically a new way of looking at the business in response mechanism in the globalization of information.

4. CONCLUSION

According to Simchi-Levi et al. (2002) SCM is a set of approaches used to efficiently integrate between suppliers, manufacturers, warehouses, and stores, so that goods are produced and distributed on the quantity, location, and the time is right, to minimize the costs to satisfy the conditions required levels of service.

According to Goldhar dan Jelinek (1983), the main of SCM is the exchange of information between the parties concerned. Parties may submit the information supplied on the specifications of materials or products you need and make payment through an intermediary banking institution, while the supplier can send the price list and also accept payments through an intermediary banking institution. Some situations (especially at the level of individual components) to use a microprocessor-controlled

production equipment to reduce costs involved in the change between the product and of the production of new products as a whole, by changing the turn of the hardware (equipment adjustments and measurements) to changes in program variables.

The success of SCM practices begins with the selection of key suppliers and then develop a relationship of trust and mutual benefit. With the development of IT as it had happened today, the relationship between the parties in the chain of business activities can be developed into a more open, transparent, and soon with the help of hardware and computer software.

Nevertheless, the use of IT is not without limitations. IT still has some limitations in speed of response to changes in scheduling a dynamic leadtime attention, capacity limitations, and other variables are not allowed. Regeneration of fixed production plans take time and significant resources calculation of significant and perhaps as a result only done daily or weekly (Chambers, 1996).

According to Hoek (2002) provide evidence that SCM practices in operations and supply chain technology has not been fully developed for the realization of the strategic approach to greening. These studies should be developed and the impact of greening technology and operations in the relationship and supply chain challenges can be discussed.

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