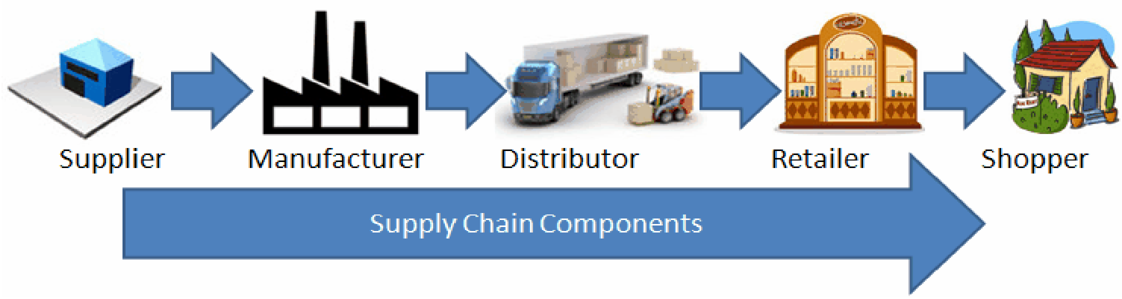
Supply Chain Management: Overview of Supply Chain Components

What are the basic components of a supply chain? And how do they work together? Most companies are utilizing five supply chain components in order to bring products to the marketplace. The five supply chain components are Suppliers, Manufacturers, Distributors, Retailers, and Consumers/Customers.



Effective integration and management of supply chain components and processes is helping to cost reduction and improve customer service. SC integration also gives a new set of capabilities which helps the company to increase revenue and achieve a competitive advantage.

The supply chain consists of five main components:

- **Suppliers**. They provide **raw materials**, component parts, semi-finished products, and other materials that occur early in the supply chain - unfinished or non-consumable products.
- **Manufacturers**. The producers are considered as the center of supply chain. In reality, both suppliers and manufacturers are producing the products. Suppliers produce semi finished goods, while manufacturers are performing the final assembly or product integration.
- **Distributors**. They are responsible for storing and handling of materials at warehouses and distributing to retail outlets.
- **Retailers**. They are the intermediate step between supplier and consumers. They buy and resell the product
- **Consumers**. They buy and use the product.

But not all companies are using the same supply chain model. Some companies are skipping the "distributor" component of the supply chain completely. They simply take orders, product is manufactured and shipped directly to consumer.

The supply chain management is not limited only to these five components. There are other parties that take part of the activities toward customer. They can be:

- **Logistics providers.** Perform individual tasks such as transportation of products, or operating strategically placed warehousing or distribution operations. In some cases logistics providers provide multiple, integrated services. They are referred as third party logistics providers 3PLs.

- **Contract manufacturers (subcontracting).** They give subcontracting manufacturing services. This practice is well accepted, since those companies can stay focused on main processes, while giving the operative part to the subcontractors.
- **Information-based service providers.** This refers to the companies that have either software or other information technologies which assist with the activities of supply chain planning and/or execution.
- **Financial institutions.** This includes banks and other financial institutions that provide supply chain services such as freight payment and billing, inventory financing, and inter-firm transaction management. Services may be for individual companies or combinations of companies within the supply chain.

Supply chain management plays a very important role within the company. The supply chain generates most of the costs of the company, due to the width and complexity of the function (manufacturing, warehouse, distribution). Any inefficiency can create tremendous negative impact to the company. On the other hand, good supply chain management can bring huge benefits and competitive advantage to the company.