

Introduction of supply chain management business essay

[Business](#)



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Executive Summary

As the developments take place at a continuous pace within the business environment, it is crucial for the organisations to remain well-informed about the latest changes within their respective sectors. The newest trend in the industries is creation of strategic SCM framework which will allow the companies to compete with their rivals on the basis of efficient resource allocation framework. Emirates Airline has been leading the aviation industry by developing its competence on highly efficient SCM framework. The corporation has even created Emirates Engineering department for its strategic SCM structure so that this division can ensure that the operations of the company are effectively managed and the latest IT systems are integrated with precision as well. Hence, Emirates Airline has even capitalised on its value chain framework so that it can always remain ahead of its competitors by providing the customers with excellent quality travelling experience.

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Introduction of Supply Chain Management (SCM)

Globally, it has been observed that the trade barriers have been reduced, free markets have been created due to market liberalisation, financial markets have been integrated on international level and huge level advancements have taken place in the field of technology. As a result, globalisation has created intense competition in various countries and the customers are provided access to a wide range of product and service

offerings. One of the most effective developments has been in the field of technology that has minimised the communication and business transaction gaps for the companies that have widespread operations across the world (Bhardwaj & Mitra, 2010). It has been stated by Seghal (2011) that majority of the large corporations such as Unilever, P&G, Colgate-Palmolive, Emirates Airlines, Sony, Apple, Microsoft, LG, Nokia, McDonald's, Pizza Hut and others have expanded their business operations in international markets. The crucial drivers of their robust expansion strategy are the declining trade barriers, easy movement of capital, people and goods across the countries and the latest IT systems that ensure proper integration of their operations. However, production, logistics and supply chain systems have become highly integrated and the companies are able to properly align their efficient supply chain strategy with the business strategy (Christopher, 2011). With the help of the latest IT systems, the Strategic Supply Chain Management (SCM) has become the well-known management philosophy. Almost all the top ranked organisations have revamped their supply chain structures so that they can make their production plants efficient by utilising the cost-effective opportunities that are present in emerging countries such as India, China, Malaysia and others (Deveshwar & Rathee, 2011). The corporations are now focusing on creation of value chain production system that effectively amalgamates the core elements of the supply chain structure from the suppliers to the final customers.

Findings and Analysis

`In order to study the impact of globalisation, innovations in the field of technology and new management philosophy of Strategic SCM, Emirates

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Airlines operational system is analysed. The airline is among the leading airline companies that has been dominating the aviation industry for many years. According to Kannan and Tan (2005), the success of the corporation is embedded in its highly competent SCM framework which allows it to gain an edge in the aviation industry. Initially, the company also had a traditional form of Supply Chain framework but when severe problems were encountered in its operational mechanisms, an entirely new department by the name of Emirates Engineering was incorporated. With the implementation of this new and enhanced system, Emirates Airline has been improving its offerings at an exceptionally high rate which is evident from the widening span of its destinations. It has effectively capitalised on its geographical location by developing a central hub at UAE for all other airlines (Emirates, 2013).

Brief overview of SCM in Aviation Industry

The aviation industry is the fastest growing sector across the world that has enhanced the travelling experience of passengers so that they can have a sensational time during the flight. With breakthrough inventions happening in the aviation industry, the business environment has become tough and competitive for the airlines operating in present times (Shieh, 2010). In the last few years, the number of low-cost air carrier service providers has increased which is causing severe problems for the top ranked airline companies. Despite the low-cost edge in the aviation industry, these new entrants lack an effective SCM system which is the source of competitive edge for the leading players of the industry. Since the global economic recession in 2008, the organisation structures of the companies have been

changed so that they can effectively cope up with the tough economic crisis which has affected the spending power of the aviation industry customers (Blanchard, 2010). Since the aviation industry has become dynamic and competitive, every player in the market has to ensure that it meets the demands of its target market effectively. In the airline sector, only those companies can survive that have a competitive edge in their SCM process which will ensure that they are providing premium quality services at competitive rates to their customers (Bhardwaj & Mitra, 2010). Emirates Airline is among those companies that entered the market with the aim of becoming the leader in the aviation industry worldwide. It is among the top-ranked airlines available in the aviation sector which has been providing an excellent range of services to its customers ranging from leisure to business travelling packages. Emirates Airline was the pioneer in introducing the concept of online booking and Internet check-in system in UAE. In order to exceed the expectations of its customers, the management team has developed a separate division ' Emirates Engineering' for developing an effective SCM framework (Emirates Engineering, 2013a). On international level, Emirates airline is considered to be equipped with the strategic SCM system which has allowed it to maintain its competitiveness within the aviation industry. Since the competitors find it difficult to replicate this excellent and spectacular framework of SCM, the company ensures that it upgrades it on continuous basis and exploit the opportunities that are available because of increasing and quickly emerging trend of globalisation. Presently, Emirates Airline has a well-designed and strategically developed SCM system but there are some areas that need to be addressed by the

organization to effectively manage the prospective challenges in the aviation industry.

Background of Emirates Airline

Emirates Airline also known as Emirates is the top-ranked airline that has its headquarters at Dubai International Airport in Dubai, UAE. It is considered to be the prime airline in the Middle Eastern region that has been operating about 2, 500 flights on weekly basis from Terminal 3. Emirates is offering its services in more than 122 cities that are spread in seventy-four countries; it is the chief subsidiary of the Emirates Group and employs more than fifty thousand employees. The airline is owned by the Government of Dubai and its cargo activities are performed by the Emirates SkyCargo division of the Emirates Group (Emirates, 2013). Emirates was incepted with the aim of offering high quality and sensational travelling services to the customers on international level. For every airline, the crucial element utilised in the performance evaluation is the quality of offerings provided to the customers and not the quantity of customers served in each flight (Harrison & Hoek, 2011). From regional travel destinations, Emirates Airline has evolved into an international airline that carries millions of passengers to various destinations on yearly basis. In order to effectively meet the demands of the travellers, Emirates has divided its airline businesses into three broad categories i. e. airline IT developer, full-fledged travel and tourism destination management division and international cargo division (Emirates, 2013). Since the efficiency of an airline company is dependent on the fleet of airlines possessed by it, Emirates has developed cordial relations with its suppliers by entering into strategic alliance with them. The entire fleet of

Emirates comprise of various models of Airbus and they have been developed in customised way in accordance to the specifications given by the engineering team (Emirates Engineering, 2013b). Emirates has an exclusive range of wide-bodied aircraft fleet that comprises of three main aircraft families i. e. Boeing 777, Airbus A380, and Airbus A330/A340. It has set a policy that it will always keep a young fleet which stands as 6. 7 years on average and it ensures that the fleet is renewed frequently (Emirates Engineering, 2013a). In order to have effective operational facilities for its aircrafts, Emirates has developed an entire new division ‘ Emirates Engineering’ where all the matters related to quality assurance, maintenance and repair of the fleet is performed. Currently, it has passenger aircraft fleet of 175 and nineteen aircraft are still on order (Emirates Engineering, 2013c).

Detailed analysis of SCM framework at Emirates Airline

To compete strategically on international level, every corporation has to ensure that it has technologically advanced, efficiently coordinated and effectively working SCM so that it exceeds the satisfaction level of the customers by significant level (Seghal, 2011). The airline companies have identified that they can compete proactively by developing a SCM framework which can tackle all the challenges related to the raw materials, inventory management, procurement, production and scheduling. When the corporation competes on the basis of its highly integrated system, it is definitely able to prosper successfully within its competitive industry.

Initially, Emirates had a Procurement and Operations department that had the responsibility of managing the information and data related to input sources of the airline such as equipment, spare parts, materials and many

more; its main focus was on developing a strong internal value chain. The primary focal point of the department was to be a supplier's supplier to the customer's customer. When Emirates faced problems in the functioning of its aircraft in 2004, the management team decided to restructure the complete procurement, operations and logistics aspects of the business (Emirates Engineering, 2013a). As a result of the divesting of Procurement and Operations department, Emirates Engineering division was created. Under this new department, SCM was defined as " combining the impacts of all companies that are involved in the production, distribution and sales of the airline goods and services i. e. from suppliers to the manufacturers to the distributors to the final consumers." According to this new approach, every stakeholder involved in the production and operation network is part of the supply chain. According to Emirates Engineering (2013c), this division has enhanced the operations of the airline as it has integrated the technologically advanced systems with the competent resources required for maintenance and servicing of the air fleet. Like all other companies, Emirates has outsourced the maintenance contracts to the third parties so that it can focus its attention on other aspects of the business such as introducing innovative and unique products for the customers. The employees of the department ensure that all industry benchmarks are met by emphasising effective management of crucial aspects of the aircraft engineering. All aspects of Engineering, Quality, Planning, Logistics and Maintenance are given utmost attention as the corporation employs only efficient and competent professionals. The experts have ample years of experience in the field and they have sufficient knowledge about the dynamics of SCM

(Emirates Engineering, 2013b). There is a Procurement section in the Emirates Engineering division that provides support to the airline operations by undertaking all contracting and outsourcing contracts of every commodity of aircraft that comprise of fleet, equipment, spares, power plants, catering services and many more. There are four broad categories in the procurement department classified as power plants, airframe systems, cabin and avionics. The entire team is implementing a precise process approach by working as a cross-functional team; in such teams, the experts of all divisions are included to ensure that the supply chain requirements of the business are met at optimum level. Emirates Engineering has been given the responsibility of managing cordial relations with suppliers for ensuring 100% satisfaction within the delivery and performance processes of the goods and services provided by them. In the airlines, quality of the aircraft is the utmost priority (Bhardwaj & Mitra, 2010) and Emirates Engineering section ensures that this area is never overlooked by the experts of the division. There is a distinctive management team for warranty and product support that is responsible for carrying out an array of activities such as contracts management, ensuring presence of a safe and secured storage area for every contractual documentation, compliance with digital recording of documents and appropriate administration of warranty and guarantees (Emirates Engineering, 2013b).

SCM Network of Emirates Airline

The present Supply Chain network of Emirates Airline (Refer to Appendix I) can be divided primarily into three main chains that are inter-linked:

Emirates Engineering – It is providing top quality aircraft and facilities within

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the fleet to the Emirates Group so that it can meet the requirements of its customers who are the passengers. Product Support Agreements (PSAs) - These contracts are signed between the Procurement Department and supplier of the division who ensure that the airline is provided aircrafts in accordance with the specifications. Supplier-supplier agreements - The suppliers then have agreements with their suppliers named as ' direct suppliers' who ensure that the finest raw materials are provided for manufacturing the fleet with precision.

Value Chain of Emirates Airline

In today's business environment, every organisation strives to present its customers with the value added offerings so that they remain satisfied with their purchasing decisions. With the proper utilization of value chain analysis of entire SCM process, Emirates' management team ensures that it properly allocates its resources for efficient management of inventory while adhering to the high quality standards required in the aviation industry (Emirates Engineering, 2013b). The value chain analysis of Emirates Airline is explained below to briefly describe its activities as highlighted in Appendix II:

Product Development - This section of marketing department carries out the market surveys on frequent basis to generate ideas for new products and services and work on its feasibility policy to decide about the cost requirements in accordance with the service standards of the industry. Three tier production team - The material management team, component management team and procurement team work with the suppliers to ensure there is effective co-ordination among the teams. This team gives attention to the supplier selection process so that right suppliers are included in the

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PSAs and proper measures are taken in developing healthy relationships with them. Flight and Ground operations - This department of component management teams ensure that the inputs are effectively transformed into products of high quality that will add value to the airline's operational activities. Customer Relations department - It is an integral part of the after-sales service ensures that the passengers having any problem with their flights or baggage are properly handled. The personnel are trained in providing the superb service to the passengers both in-flight and on ground so that they have an excellent travelling experience. Human Resource department - The personnel of this division ensure that all employees are provided detailed information about the company's policies, strategies and rules so that they ensure compliance with the work standards. The employees are given sufficient training so that they can exceed the expectations of the customers. that will ease decision making processes for various departments of the airline. Finance Department - The staff members are responsible for controlling the costs of managing the operations along with ensuring maintenance of effective auditing procedures so that everything is conducted within the legal boundaries. IT Department - This section has the main responsibility of ensuring that a well-developed SCM system is implemented and managed to allow efficient flow of information

Information Technology (IT) and SCM

An effective SCM is one which has a strong IT system providing support to the organization in managing its operations effectively and productively (Blanchard, 2010). With the help of an efficient IT system, the inventory and warehousing costs are reduced to a great extent; efficiency of the production

process is enhanced; and in-flight services are upgraded on constant basis to ensure that passengers are provided an extraordinarily appealing and thrilling travelling experience. In order to have a highly productive SCM system, Emirates has installed an Electronic Data Interchange (EDI) system that is operated primarily by the Engineering Materials Management section; the experts are responsible for developing the policies, processes and procedures for optimization of the inventory and earning high Return on Investment (ROI). When an effective IT system is installed in the SCM framework, the key functions such as provisioning the material requirements, forecasting the demand of customers, planning of procurement, reviewing the stock level, storing and usage of materials, repairing and replacement of parts and disposal of materials are efficiently performed (Christopher, 2011). The team responsible for material provisioning has to perform four major functions i. e. establishment of optimum levels for re-ordering and safety maintenance, increase the number of requests required for timely purchases to ensure that items are available on time, data is accurately stored and high standards of safety and quality policies are followed that are set by the agencies of the aviation industry. Similarly, the component management team deals with the high value and rotatable assets of aircraft components so that initial provisioning and re-provisioning can be easily done. Emirates has ensured that it implements the top notch systems in its supply chain so that it can enhance its level of service within the aviation industry.

Challenges encountered by Emirates Airline in SCM

After analysis and assessment of the SCM process implemented at Emirates, it can be concluded that it has an efficient and well-designed system that ensures that it has adequate stock of supplies (Deveshwar and Rathee, 2011). The key challenges and issues that can be faced in SCM of Emirates are as follows:

- Globalization** - With the advent of globalization, the IT infrastructure needs to be compatible with the requirements of the corporations so that all the latest issues are effectively addressed. Since Emirates is a global airline, it has to ensure that it has effective SCM system on all of its destinations so that there is proper management of its fleet; the repair and maintenance services should be constant everywhere so that the top quality of services is provided to every customer.
- Supply Chain disruption** - As SCM systems are based on IT infrastructure, there are chances that the system can get disrupted by any of unforeseen events such as interruption of IT system, improper functioning of the system, trouble in the airline systems that can affect the customer database and flight scheduling can be severely impacted and many more. If Emirates does not have a contingency plan for dealing with severe problem in SCM system, then it can effectively impact its operations and flight schedules.
- Mitigation of damage** - When SCM system is implemented in the organisation, it is vital for the professionals to keep some manual records and avail the insurance policy option so that damage can be mitigated. Emirates has bought insurance policies to minimize any loss that can be encountered when supplies are either damaged or are not compatible with the quality standards of the aviation industry.

Conclusion and Recommendations

For every organisation, it is important to have a well-integrated SCM system that will ensure that its supply chain strategy is complementing the business strategy. With the help of an effective SCM system, Emirates Airline and its consumers and partners can have quicker and on-time orders, production planning and inventory management is effectively done, high rate of order fulfilment rate is observed, forecasting is efficiently completed and performance of the company can be easily monitored. In today's competitive and dynamic business environment, only those companies can survive who follow agile supply chain by ensuring that they are flexible enough to quickly respond to the changing demands of the customers. Moreover, the rising inflation rate and fuel prices have compelled the airline companies to switch to lean structures so that they can counter the increasing cost of their operations. Hence, both lean and agile production methods have to be aligned with the company's strategic SCM framework so that the desired objectives of the corporation are attained on continuous basis. The strategic SCM framework of Emirates Airline ensures that the logistics of the company are planned out in advance so that there is an adequate supply of raw materials, minimum level of inventory is maintained and the supply chain operations' cost is reduced. All of these measures ensure that Emirates Airline is able to generate an appropriate amount of profit and maintain its strong position in the industry.

Appendix I – SCM network of Emirates Airline

Appendix II – Value Chain framework of Emirates Airline