A factsheet produced by the International Transport Workers' Federation

Overview of transport in supply chains

The role of transport in supply chains

A supply chain is the series of processes and organisations that a product moves through from raw materials to the final consumer. Every product has its own unique supply chain, but all supply chains include three main phases:

- **Upstream** – the processing and manufacturing of products
- **Midstream** – the transportation of products from one location or organisation to another
- **Downstream** - the sale and distribution of products to the customer

As such, transportation ¬– moving materials, components and finished products by road, rail, sea and air between different companies and sites – is vital to the effective functioning of supply chains.

For example, manufactured goods (such as mobile phones) are built from different components. Each component has its own supply chain, involving several suppliers. In turn, these components comprise various materials/parts, each with their own supply chain. As such, the supply chain of a manufactured product can contain several different levels, or tiers: the brand owner/manufacturer sources components/materials from tier 1 companies, which in turn sources components/materials from tier 2 companies, and so on. **Transport plays a key role in linking the different tiers of a supply chain so that they function as a coherent whole and materials, parts and products arrive in exactly the right place at exactly the right time.**

This strategic management of the movement of goods through the whole supply chain is known as **logistics**. Key logistics functions, such as the transportation of goods by road, air, sea and rail, are often provided in house by the producers and retailers that make up the different tiers of the supply chain. In some cases, however, transportation functions are outsourced to specialist logistics service providers, such as DHL or UPS. Most companies use a mixture of in house and outsourced logistics services.

The importance of lead firms in supply chains

Lead firms are companies, such as large manufacturers or retailers, which exercise considerable power over all other firms in a supply chain. They have this power because they dominate a particular market, and therefore suppliers have no choice but to sell to them. For example, in the UK, Tesco accounts for about 30 percent of all grocery sales. As a result, food producers cannot afford not to deal with them.

This power enables lead firms to make demands that put suppliers, transport firms and workers under great pressure. These demands can include:

- Big retailers demanding that suppliers sell goods at a lower price
- Manufacturers demanding that suppliers respond quickly to changing levels of sales so that stock is available just in time

Different types of supply chains have different lead firms. In **producer-driven chains**, a small number of upstream producers are dominant. For example, manufacturers like Airbus and Boeing dominate aeronautical supply chains. In **buyer-driven chains**, large downstream retailers exercise power over the supply chain. For example, big retailers like Walmart dominate grocery supply chains in the US. In either case, logistics firms have less power than lead firms in the supply chain.

What does this mean for transport workers and their unions?

Transport workers need to look beyond their immediate employer and establish where the power lies in the supply chain. Due to the power they exercise over a whole supply chain, lead firms are effectively the real employer for all workers in a given chain. It is for this reason that the ITF is developing supply chain-wide strategies in order to target lead firms to raise standards across the supply chain. In order to improve conditions of transport workers across the supply chain, strategies must be tailored according to the type of supply chain (producer-driven or buyer-driven) and who the lead firm is.