

LEARNING MADE EASY



2nd Edition

Supply Chain Management

for
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Apply supply chain models to understand business

Identify the best software to automate processes

Use analytics and metrics to mitigate business risks

Daniel Stanton

Supply Chain Management

for
dummies[®]
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Supply Chain Management

2nd Edition

**by Daniel Stanton,
Certified Supply Chain Professional**

for
dummies[®]
A Wiley Brand

Supply Chain Management For Dummies®, 2nd Edition

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Contents at a Glance

Introduction	1
Part 1: Getting Started with Supply Chain Management ...	5
CHAPTER 1: The Growing Demand for Supply Chain Management	7
CHAPTER 2: Understanding Supply Chains from Different Perspectives	19
CHAPTER 3: Digging into Your Supply Chain	31
CHAPTER 4: Optimizing Your Supply Chain	47
Part 2: Managing Supply Chain Processes	65
CHAPTER 5: Connecting Supply Chain Processes	67
CHAPTER 6: Planning the Supply Chain	75
CHAPTER 7: Sourcing, Purchasing, and Procurement	85
CHAPTER 8: Making Your Products or Services	107
CHAPTER 9: Delivering Your Products or Services	127
CHAPTER 10: Managing Product Returns and Reverse Supply Chains	151
CHAPTER 11: Enabling Your Supply Chain	159
Part 3: Using Technology to Manage Supply Chains	177
CHAPTER 12: Managing Supply Chain Software	179
CHAPTER 13: Integrating Advanced Manufacturing into Your Supply Chain	203
CHAPTER 14: Managing Digital Supply Chains	215
Part 4: Driving Value with Supply Chain Management ...	225
CHAPTER 15: Transforming Your Supply Chain	227
CHAPTER 16: Adopting Supply Chain Metrics	243
CHAPTER 17: Managing Supply Chain Risks	259
CHAPTER 18: Building Supply Chain Analytics	271
Part 5: Building Your Supply Chain Management Career	287
CHAPTER 19: Selecting a Supply Chain Career	289
CHAPTER 20: Pursuing Supply Chain Education	307
Part 6: The Part of Tens	325
CHAPTER 21: Ten Questions to Ask about Your Supply Chain	327
Index	335

Table of Contents

- INTRODUCTION 1
 - About This Book 1
 - Foolish Assumptions 1
 - Icons Used in This Book 2
 - Where to Go from Here 2

- PART 1: GETTING STARTED WITH SUPPLY CHAIN MANAGEMENT 5

- CHAPTER 1: **The Growing Demand for Supply Chain Management** 7
 - Defining Supply Chain Management 7
 - Exploring Complex Business Challenges 9
 - Operating Under Supply Chain Management Principles 11
 - Customer focus 12
 - Systems thinking 12
 - Bimodal innovation 12
 - Collaboration 13
 - Flexibility 13
 - Technology 14
 - Global perspective 14
 - Risk management 14
 - Visibility 15
 - Value creation 15
 - Introducing Five Supply Chain Tasks 15
 - Implementing the New Supply Chain Agenda 16
 - Placing the right people in the right jobs 17
 - Putting the right technology in place 17
 - Focusing on internal collaboration 17
 - Directing external collaboration 18
 - Applying project management 18

- CHAPTER 2: **Understanding Supply Chains from Different Perspectives** 19
 - Managing Supply Chain Flows 19
 - Synchronizing Supply Chain Functions 20
 - Purchasing 21
 - Logistics 22
 - Operations 23

	Connecting Supply Chain Communities	23
	Designing Supply Chain Systems	26
	Measuring Supply Chain Processes	29
CHAPTER 3:	Digging into Your Supply Chain	31
	Prioritizing Supply Chain Goals	31
	Step 1: Understand what customers value	31
	Step 2: Recognize your competitors	33
	Step 3: Understand your products or services	33
	Looking at Cost Drivers	35
	Procurement costs	35
	Transportation costs	36
	Inventory costs	36
	Quality costs	36
	Dealing with Trade-Offs	37
	Sales versus operations	37
	Customer versus supplier	40
	Engineering versus procurement	40
	Inventory versus customer service	41
	Inventory versus downtime	43
	Procurement versus logistics	44
CHAPTER 4:	Optimizing Your Supply Chain	47
	Designing Your Network	47
	Improving and Innovating Processes	49
	Lean	49
	Six Sigma	51
	Theory of Constraints	53
	Structuring Supply Chain Projects	55
	Managing cross-functional project teams	55
	Creating cross-functional project plans	56
	Creating a RACI matrix	59
	Designing project scorecards	60
	Using the DIRECT model	61
	PART 2: MANAGING SUPPLY CHAIN PROCESSES	65
CHAPTER 5:	Connecting Supply Chain Processes	67
	Introducing the SCOR Model	68
	Establishing Process Metrics	72
	Building the Right Supply Chain	73

CHAPTER 6: Planning the Supply Chain	75
Balancing Supply and Demand	76
Aligning Resources with Requirements	77
Analyzing Your Customers	79
Planning Your Products	80
Planning Your Production Systems	81
Planning Your Delivery Systems	82
Planning for Returns	83
CHAPTER 7: Sourcing, Purchasing, and Procurement	85
Understanding Strategic Sourcing	86
Segmenting Your Supply Chain	86
Managing Life Cycle Costs	88
Minimizing input costs	89
Sourcing your inputs	90
Forecasting your demand	92
Insourcing, outsourcing, and offshoring	92
Managing Supplier Relationships	93
Managing Procurement Processes	95
Establishing Supply Contracts	95
Selecting contract terms	96
Selecting payment terms	97
Mitigating Supplier Risks	99
Dealing with risks	100
Deciding which risks to manage	100
Implementing supplier development	103
Increasing supplier diversity	103
Establishing Purchasing Ethics	104
Sustainable Sourcing	105
CHAPTER 8: Making Your Products or Services	107
Planning and Scheduling Production	108
Planning production	108
Considering capacity	112
Identifying Manufacturing Process Types	114
Operating a discrete manufacturing process	115
Operating a continuous manufacturing process	117
Choosing Your Production Environment	117
Make-to-stock	118
Make-to-order	119
Engineer-to-order	121
Implementing Quality Control and Quality Assurance	121
Considering the risks of poor quality	121
Controlling quality and variability	122
Reducing Manufacturing Waste	124

CHAPTER 9: Delivering Your Products or Services	127
Understanding Modes of Transportation	128
Pipeline	129
Cargo ship.....	129
Rail.....	129
Truck	131
Parcel.....	133
Air.....	133
Selecting Modes of Transportation.....	134
Managing Warehousing and Inventory	136
Receiving.....	138
Put-away.....	138
Inventory counts	138
Picking.....	139
Packing	139
Shipping	140
Yard management.....	141
Over, short, and damaged	141
Establishing Inventory Ordering Policies	142
Selecting Material Handling Equipment.....	143
Managing and Filling Orders	145
Maintaining Visibility of Shipments.....	147
Leveraging Third-Party Logistics	148
Optimizing Freight Audit and Payment	149
CHAPTER 10: Managing Product Returns and Reverse Supply Chains	151
Growing Revenue with Easy Returns	151
Processing Returns of New or Excess Products	153
Minor wear and tear	154
Damage or tampering.....	154
Substitution	154
Processing Returns of Used or Defective Products	155
Managing Closed-Loop Supply Chains.....	155
Handling Unauthorized Returns and Fraudulent Products.....	156
Managing Trade-Ins	157
CHAPTER 11: Enabling Your Supply Chain	159
Managing Your Business Rules	159
Managing Supply Chain Performance	160
Setting performance goals.....	161
Align your metrics with your customers	161
Share your metrics with your suppliers.....	162
Managing Your Assets	162

Labeling Your Products	164
Preventing Tampering	166
Addressing Supply Chain Security Issues	166
Ensuring physical security	166
Dealing with counterfeiting	167
Tackling regulatory compliance	168
Addressing unique product requirements	168
Protecting supply chain information	170
Leveraging Information Technology	170
Leveraging Human Resources	171
Mastering Project Management	174

**PART 3: USING TECHNOLOGY TO
MANAGE SUPPLY CHAINS 177**

CHAPTER 12: Managing Supply Chain Software	179
Understanding How Processes Evolve	180
Using Transportation Management Systems	182
Using Electronic Load Boards	184
Using Warehouse Management and Execution Systems	185
Using Demand Planning Systems	187
Using Material Requirements Planning Systems	188
Using Manufacturing Execution Systems	190
Using Distribution Requirements Planning Systems	191
Using Labor Management Systems	192
Using Customer Relationship Management Systems	193
Using Supplier Relationship Management Systems	194
Using Enterprise Resources Planning Systems	195
Using Supply Chain Modeling Software	196
Using Business Intelligence Software	198
Leveraging Software Analysts	199
Anticipating the Future of Supply Chain Software	201

CHAPTER 13: Integrating Advanced Manufacturing into Your Supply Chain	203
Avoiding Obsolescence	204
Preparing for Industry 4.0	205
Capitalizing on Advanced Manufacturing	206
Automated manufacturing	206
Computer-aided design	207
3D printing	207
Automated Mobile Robots	210
Unmanned and Autonomous Vehicles	212

CHAPTER 14: Managing Digital Supply Chains	215
Digitalizing Products and Services	216
Integrating Planning, Execution, and Visibility	217
Creating Customer Centricity	218
Sharing with Blockchains	219
Harnessing the Internet of Things, Big Data, and the Cloud.....	220
Connecting with Social Media	222
Employing Artificial Intelligence	222
Preparing for Quantum Computers	223
Retooling for Omnichannel	223
PART 4: DRIVING VALUE WITH SUPPLY CHAIN MANAGEMENT	225
CHAPTER 15: Transforming Your Supply Chain	227
Improving Transparency and Visibility	227
Deploying Demand Shaping	228
Performing Postponement	229
Renewing Regional Sourcing	230
Reducing Stock-Keeping Units.....	231
Optimizing Inventory	232
Incorporating Vendor-Managed Inventory	234
Adjusting Payment Terms	235
Using Supply Chain Finance.....	236
Controlling the Bullwhip Effect	237
Sharing information with your partners	238
Reducing and aligning lot sizes	238
Managing promotions	238
Starting with Small Improvements	239
Creating Sandboxes	240
Investing in Innovation	241
CHAPTER 16: Adopting Supply Chain Metrics	243
Understanding Metrics	243
Identifying Performance Attributes	245
Understanding SCOR Metrics	246
Reliability.....	246
Responsiveness	247
Agility.....	247
Cost	248
Asset management efficiency	248
Optimizing Operational Metrics	249
Supplier metrics.....	249
Procure to pay metrics.....	249

Customer service metrics	249
Capacity, throughput, and yield metrics	250
Formalizing Financial Metrics	251
Accounts payable metrics	251
Total spend metrics	252
Savings metrics	252
Perfecting People Metrics	253
Engagement metrics	253
Productivity and efficiency metrics	253
Turnover metrics	254
Safety metrics	254
Solidifying Sustainability Metrics	255
Consumption metrics	255
Waste metrics	256
CHAPTER 17: Managing Supply Chain Risks	259
Challenging Assumptions about the Future	259
Building Supply Chain Resilience	261
Identifying Risks	262
Classifying Risks	264
Scoring Risks	265
Managing Risks	267
Accepting the risk	267
Transferring the risk	268
Avoiding the risk	268
Mitigating the risk	268
Handling a Crisis	269
CHAPTER 18: Building Supply Chain Analytics	271
The Rise of Big Data, Sensors, and the Internet of Things	272
Outline of an Analytics Plan	273
Define your theory of the problem or opportunity	273
Acquire relevant data	274
Clean, structure, and filter the data	275
Query the data and test your theory	275
Look for correlations and patterns	276
Correlation, Causation, and Interpolation	276
Modeling, Simulation, and Optimization	280
Simulation	280
Optimization	281
Scenario Planning	281
Scorecards, Dashboards, and Control Towers	283

PART 5: BUILDING YOUR SUPPLY CHAIN MANAGEMENT CAREER	287
CHAPTER 19: Selecting a Supply Chain Career	289
Doing Your Homework	289
Examining Supply Chain Career Categories	290
Associates	293
Technicians	295
Planners and analysts	297
Engineers	298
Supervisors	299
Managers	300
Sales representatives	302
Information technology managers	303
Project managers	304
Executives	304
Journalists	305
Educators	305
Humanitarian supply chain professionals	306
CHAPTER 20: Pursuing Supply Chain Education	307
Earning Certificates and Certifications	307
APICS certifications from the Association for Supply Chain Management	308
Council of Supply Chain Management Professionals	311
Institute for Supply Management	312
The International Society of Logistics (SOLE)	314
Project Management Institute	314
The Futurist Institute	315
International certifications	316
Earning Degrees and Diplomas	317
Undergraduate degrees	317
Graduate degrees	318
Exploring Online Education Options	318
Traditional online programs	319
MITx MicroMasters in Supply Chain Management	319
Arizona State University Online MS-SCM	319
Coursera	320
LinkedIn Learning	320
YouTube	320
Playing Supply Chain Games	321
The Beer Game	321
The Fresh Connection	322
Rise of Industry	322
Following Supply Chain Media	323

PART 6: THE PART OF TENS	325
CHAPTER 21: Ten Questions to Ask about Your Supply Chain	327
Who Are Your Key Customers?.....	327
What Do Your Key Customers Value?.....	328
How Could Your Supply Chain Create More Value?.....	328
How Do You Define Supply Chain Management?.....	329
What Information Do You Share with Suppliers?.....	329
How Do You Compare with Competitors?.....	330
What Changes Could Increase Revenue?.....	331
What Changes Could Lower Costs?.....	331
What Affects Your Supply Chain Now?.....	332
What Will Affect Your Supply Chain in the Future?.....	333
INDEX	335

Introduction

Supply chain management is about seeing your business as an interconnected system. *Supply Chain Management For Dummies* covers the tools, rules, and language that you need to understand how the parts of your company's supply chain fit together. The book also shows you how to plan and manage your supply chain in ways that reduce costs, increase profits, and minimize risk.

About This Book

Many books treat supply chain management as part of operations, logistics, or procurement, but this book takes a broader approach, showing that those functions are interconnected parts of a system.

I include lots of everyday examples that make it easy to understand each step in any supply chain and how virtually any company can employ supply chain principles.

Most people get to see only a small part of the supply chains that they work in. This book helps you understand all the other processes and systems in a supply chain, as well as how decisions that you make affect others up and down the supply chain, including your customers and suppliers. The book uses language that's easy to understand and is organized in a way that makes access to specific topics easy.

Foolish Assumptions

In writing this book, I assumed that supply chain management is important to you because

- » You need to understand it for your current job.
- » You need to understand it for a future job.
- » You need to explain it to other people so that they can do their jobs better.

I assume that you have some connection to supply chain management, probably because you've studied or worked in logistics, operations, or procurement. I assume that you may have been taught to see supply chain management from a narrow, functional perspective rather than as an end-to-end, integrated system.

I assume that you want to understand how decisions made in one part of a supply chain can influence the results in another. Many companies have made bad choices with expensive consequences simply because they didn't recognize the effects of those choices on their supply chains. When you consider that more than 70 percent of costs and 100 percent of revenue depend on supply decisions, it's clearly worth the time and energy to understand how to manage a supply chain efficiently.

Icons Used in This Book

Icons emphasize a point to remember, a danger to be aware of, or information that you may find helpful.



TIP

The Tip icon marks tips (duh!) and shortcuts that you can use to make supply chain management easier.



REMEMBER

Remember icons mark information that's especially important to know. To siphon off the most important information in each chapter, skim the paragraphs that have these icons.



TECHNICAL
STUFF

The Technical Stuff icon marks information of a highly technical nature that you can normally skip.



WARNING

The Warning icon tells you to watch out! It marks important information that may save you headaches.

Where to Go from Here

You can read this book in different ways, depending on why you're reading it. You can certainly start at the beginning and skip the things you already know, but I've written the book so that you can start reading anywhere that catches your eye and then hunt for additional bits that sound interesting.

If your goal is to discover what supply chain management is, start with Part 1. If you're trying to get a sense for how the pieces of a supply chain fit together in a framework, read about the Supply Chain Operations Reference (SCOR) Model in Part 2. If you need to get a handle on the technologies that are key to supply chain management, check out Part 3. If you're looking for ways to drive strategic value for your company by using supply chain management tools, jump into Part 4. Finally, Part 5 is packed with information that can help you grow your career in supply chain management.



TIP

Some of the material in this book will be useful if you're preparing for a supply chain certification such as Certified Supply Chain Professional or SCPro (see Chapter 20), but you shouldn't use it as a substitute for the official study guides.

No matter how you go through the book, you'll eventually want to read all the chapters. Each chapter is useful on its own, but the chapters work together to help you see how interconnected the parts of a supply chain are and why you need to think about all of them when you make decisions that affect your business, your customers, and your suppliers.



TIP

For some helpful information about how to describe supply chain management, how to lead supply chain projects, and how to use the SCOR Model, check out the Cheat Sheet for this book by visiting <https://www.dummies.com> and entering the book's title in the search field.

1

**Getting Started
with Supply
Chain
Management**

IN THIS PART . . .

Simplify the concept of supply chain management by breaking it into pieces.

Analyze supply chain management from different perspectives to see why it's important.

Align supply chain management with the goals of your business.

Optimize supply chain performance to drive better results for you, your suppliers, and your customers.

IN THIS CHAPTER

- » Understanding complex business challenges
- » Focusing on supply chain tasks
- » Understanding supply chain management principles
- » Getting started with the New Supply Chain Agenda

Chapter **1**

The Growing Demand for Supply Chain Management

These days, it's hard to find a copy of *The Wall Street Journal* that doesn't have the phrase *supply chain* somewhere on the first page. You hear about supply chains everywhere: in company reports, on the news, and even in casual conversation. But it hasn't always been that way. Only in the past 35 years has supply chain management gone from being a vague academic concept to a critical business capability. This chapter covers why supply chain management has become so important and explains the process for building best-in-class supply chain management into your company.

Defining Supply Chain Management

In spite of the current hype, supply chains aren't really that new. Entrepreneurs have been buying things from suppliers and selling products to customers for almost as long as people have inhabited the earth. Supply chain *management* is

new, however. In fact, the basic principles of supply chain management began to take shape in the 1980s, at about the same time that personal computers came onto the business scene. You can see the trend clearly by using Google's N-Gram Viewer, shown in Figure 1-1, which illustrates how often the term *supply chain* has been used in book titles.

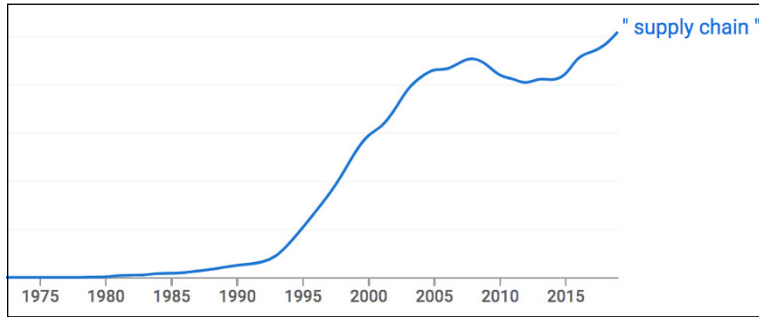


FIGURE 1-1:
Frequency of
supply chain in
book titles.

Supply chain management is the planning and coordination of all the people, processes, and technology involved in creating value for a company. Managing a supply chain effectively involves aligning all the work inside your company with the things that are happening outside your company. In other words, it means looking at your business as a single link in a long, end-to-end chain that supplies something of value to a customer.



TIP

The word *value* shows up a lot when people talk about supply chain management. Basically, *value* means *money*. If a customer is willing to pay for something, it has value.

Negotiating prices, scheduling manufacturing, and managing logistics all affect the value equation for a company, and they're critical to a supply chain, but because they're so interdependent, it's a bad idea to manage them separately, in silos. As companies grow larger, supply chains get longer, and the pace of business gets faster, making it more important to align the various functions in a supply chain. Ironically, many of the strategies and metrics that businesses relied on in the past, and that managers have been taught to use, can actually drive the wrong behaviors. A sales rep might hit her quota by landing a huge deal with a customer, for example, but the deal might be unprofitable for the company because of the costs it will drive to the logistics and manufacturing functions. Sales, logistics, manufacturing, procurement, and all your other functions need to be aligned to ensure that the business is pursuing profitable deals.



TIP

The difference between the amount of money your company brings in (revenue) and the amount of money it spends (costs) is your profit. In other words, your profit is the amount of value that you have captured from your supply chain.

On the other hand, companies that do a good job of managing their supply chain are better able to take advantage of value-creation opportunities that their competitors might miss. By implementing lean manufacturing, for example, companies can reduce inventories. By being responsive to customer needs, they can build stronger relationships with their customers and grow their sales. By collaborating closely with their suppliers, they can get access to the materials they need, when they need them, and at a reasonable cost.



TIP

Part 4 of this book is all about ways you can use supply chain management to create more value.

Keeping all the parts of the supply chain aligned is key to ensuring that revenue is greater than costs and running any business successfully. That's why supply chain management has become so important so quickly.

Exploring Complex Business Challenges

Managing a business is like playing a full-contact sport: So many moving pieces are involved, and so many things can change in an instant, that making long-term plans is virtually impossible. How can you really plan for commodity price swings, natural disasters, and financial meltdowns? You can't. You can't ignore those possibilities, either. Instead, you need to think about them and design your business so that it can function well under a range of scenarios. In other words, you need to think about the many possibilities that the future holds, try to imagine each one as a series of events, and then think about how it would affect your business.

To use scenario planning to prepare for the unknown and the unknowable, you need to understand three really important things:

- » Which scenarios are most important to you.
- » What you'll do — and how — in each scenario. (Each scenario calls for a different plan.)
- » How you can tell when a scenario is becoming reality. You need to have triggers that help you decide when to implement which plan. Then the job of supply chain management becomes a process of sensing and responding to those triggers.

You need to determine how your business will sense what's happening and how events will respond. Figure 1-2 shows how your sensors help you recognize which scenario is unfolding so that you can implement the proper plan.

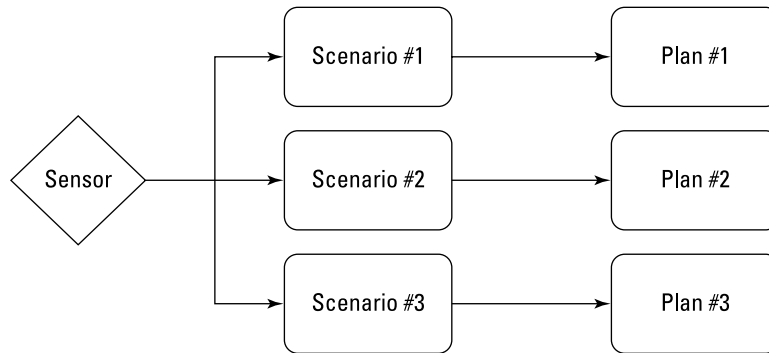


FIGURE 1-2:
Scenario-planning
model.

I can explain this concept with a few practical examples:



- » You run a manufacturing company that imports products from overseas, so you need to consider what you'd do if one of your inbound shipments is lost at sea, impounded by customs, captured by pirates, or caught in a port strike. One option might be shutting down your factory until the issue is resolved. You might also consider placing a new order with a different supplier. In an extreme case, you might declare *force majeure* and tell your customers that you won't be able fulfill your commitments to them.

Force majeure is a legal concept used in contracts to free one or both parties from liability if they're unable to meet their obligations due to an extraordinary circumstance.

- » You work for a wholesaler that has been selling a product at a steady rate for months, and one month, the company sells twice as much as normal. You don't have enough inventory to fill all your customer orders, and now you also have back orders to fill. You may even be at risk of losing sales and customers. You might decide to place bigger orders in the future and keep more inventory on hand. That means you'll be investing more working capital in inventory, and if sales drop off in the future, you'll have to figure out what to do with that extra inventory.
- » You work for a transportation company. The company's customers pay you to deliver their products around the world, and they count on your deliveries to help them meet their commitments to their own customers. Therefore, your ability to deliver on time is essential to them. Suddenly, a volcano in a distant part of the world spews ash far into the sky, making it dangerous for airplanes

to use a heavily traveled flight path. You could reroute your planes, but this process is an expensive one that involves developing flight plans, scheduling airplanes, and finding available crews. Alternatively, you could tell your customers that their deliveries are on hold until normal operations can resume.

Thousands of companies have had to face every one of these scenarios in the past few years. In every case, making the right decision about how to respond requires understanding supply chains and supply chain management.



TIP

You can find more information about supply chain scenario planning, as well as a link to the MIT Scenario Planning Toolkit, in Chapter 18.

Some supply chain management professionals are generalists, and others are specialists. Generalists look at the big picture; specialists focus on a particular step in the supply chain. A good way for you to start learning about supply chain management is to think like a generalist and become comfortable with some of the general principles.

The next sections cover ten supply chain management principles, five supply chain tasks, and the five steps for implementing a new supply chain agenda. Each section provides a slightly different perspective on supply chain management, but the sections explain the same challenge in different ways. The supply chain management principles express the essence of supply chain management. The five supply chain tasks are like the job description of a supply chain manager. And the New Supply Chain Agenda is a strategy for planning and implement effective supply chain management practices.

Operating Under Supply Chain Management Principles

Many people try to define supply chain management by talking about what they do, which is a bit like describing a cake by giving someone a recipe. A different approach is to explain what supply chain management creates. To continue the cake analogy, that approach communicates how the finished cake tastes and what it looks like.

The key supply chain management principles illustrated in Figure 1-3 are good places to start.

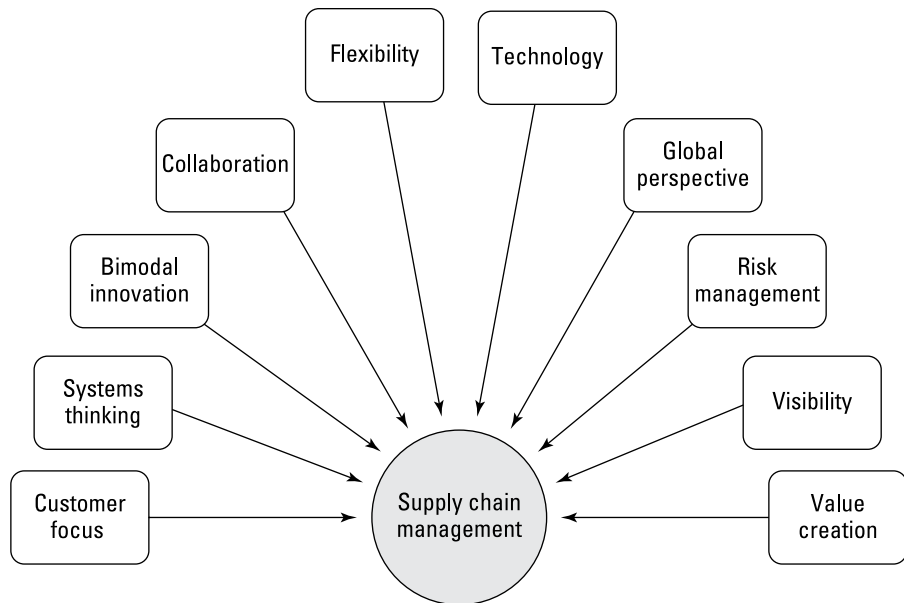


FIGURE 1-3: Supply chain management principles.

Customer focus

Supply chain management starts with understanding who your customers are and why they’re buying your product or service. Any time customers buy your stuff, they’re solving a problem or filling a need. Supply chain managers must understand the customer’s problem or need and make sure that their companies can satisfy it better, faster, and cheaper than any competitors can.

Systems thinking

Supply chain management requires understanding the end-to-end system — the combination of people, processes, and technologies that must work together so that you can provide your product or service. Systems thinking involves appreciation of the series of cause-and-effect relationships that occur within a supply chain. Because these systems are complex, supply chains often behave in unpredictable ways, and small changes in one part of the system can have major effects somewhere else.

Bimodal innovation

The world of business is changing quickly, and supply chains need to keep up by innovating. Two kinds of innovation are important for supply chains: