

Project Procurement and Supply Chain

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PMG 433

Lecture 1



Introduction to Supply Chain Management

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Chapter
01

Course Agenda

- 1-Discuss the goal of a supply chain and explain the impact of supply chain decisions on the success of a firm.
- 2-Identify the three key supply chain decision phases and explain the significance of each one.
- 3-Describe the cycle and push/pull views of a supply chain.
- 4-Classify the supply chain macro processes in a firm.

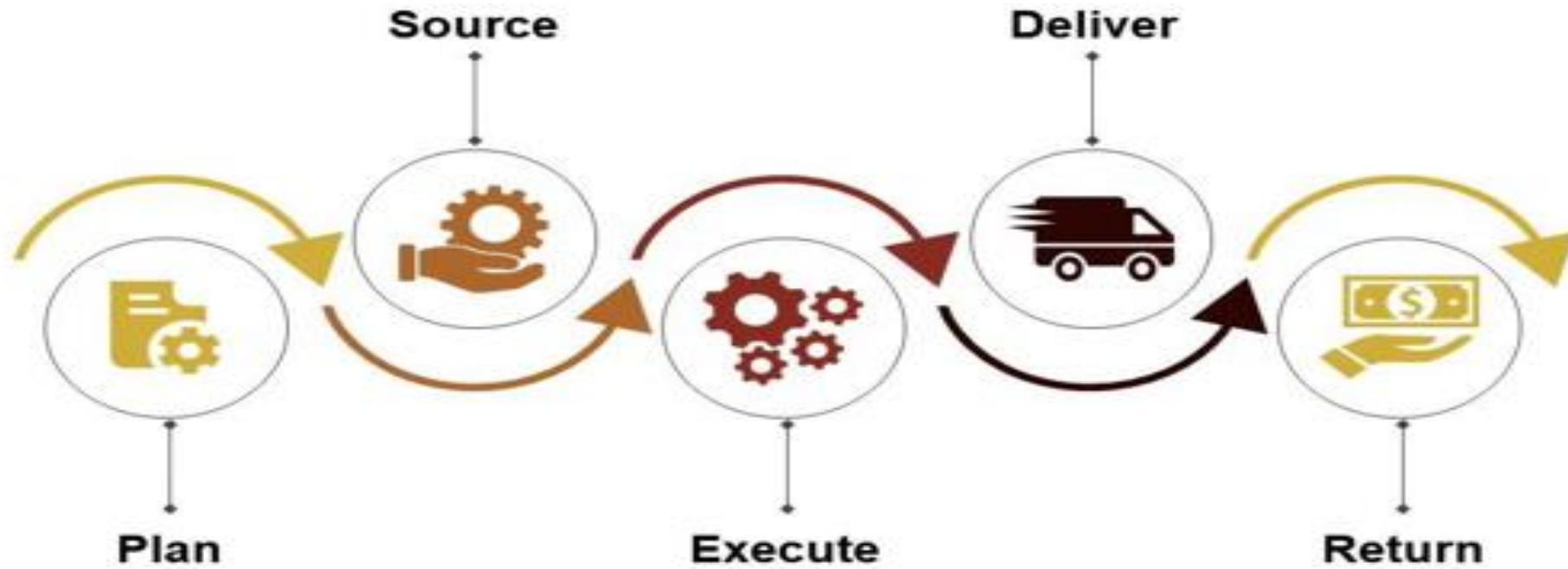
What is Supply Chain Management

- ☐ All stages involved, directly or indirectly, in fulfilling a customer request.
- ☐ Within each company, the supply chain includes all functions involved in fulfilling a customer request (product development, marketing, operations, distribution, finance, customer service).
- ☐ All facilities, functions, and activities, associated with the flow and transformation of goods and services from raw materials to customer, as well as the associated information flows.
- ☐ An integrated group of processes to “Plan,” “Source,” “Make,” and “deliver” products to customers.

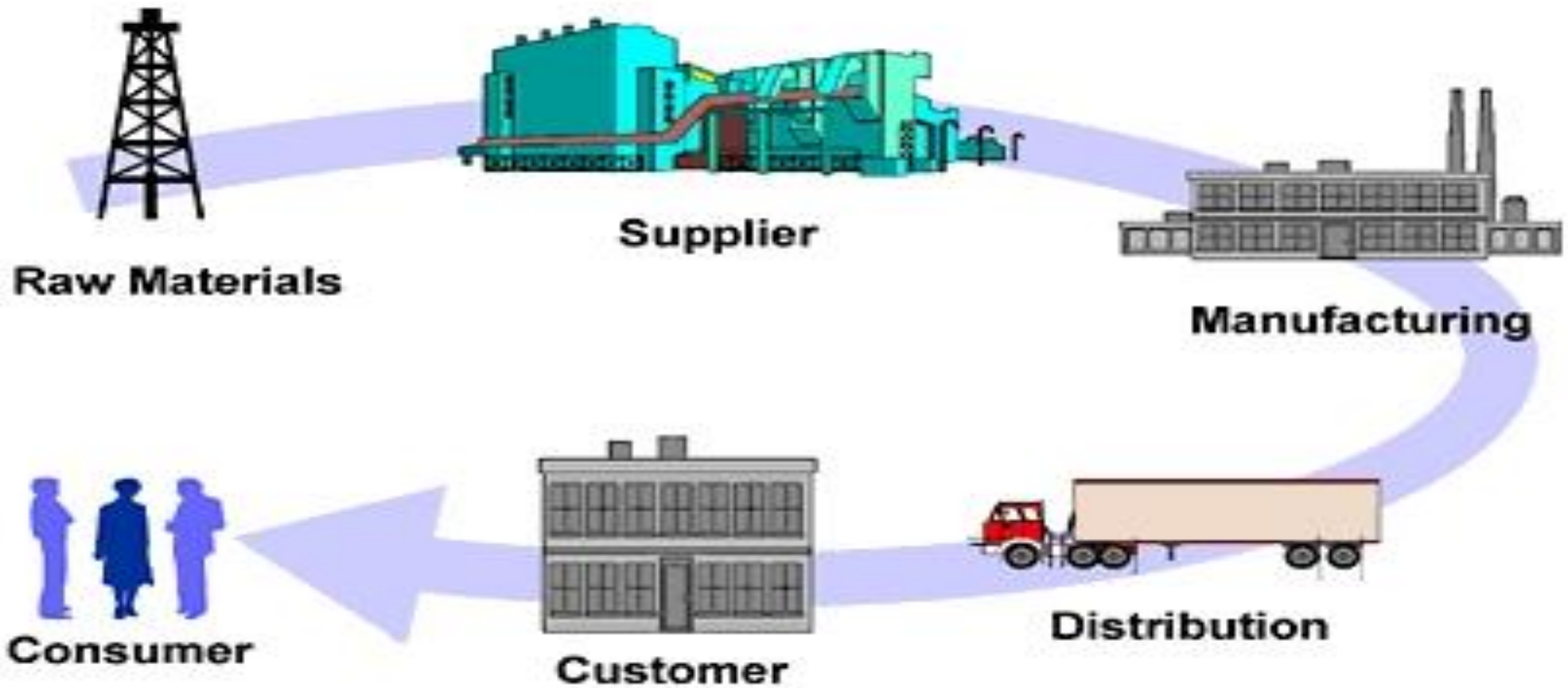
What is Supply Chain Management

- ☐ Customer is an integral part of the supply chain
- ☐ Includes movement of products from suppliers to manufacturers to distributors and information, funds, and products in both directions
- ☐ May be more accurate to use the term “supply network” or “supply web”
- ☐ Typical supply chain stages: customers, retailers, wholesalers/distributors, manufacturers, component/raw material suppliers
- ☐ All stages may not be present in all supply chains (e.g., no retailer or distributor for Dell)

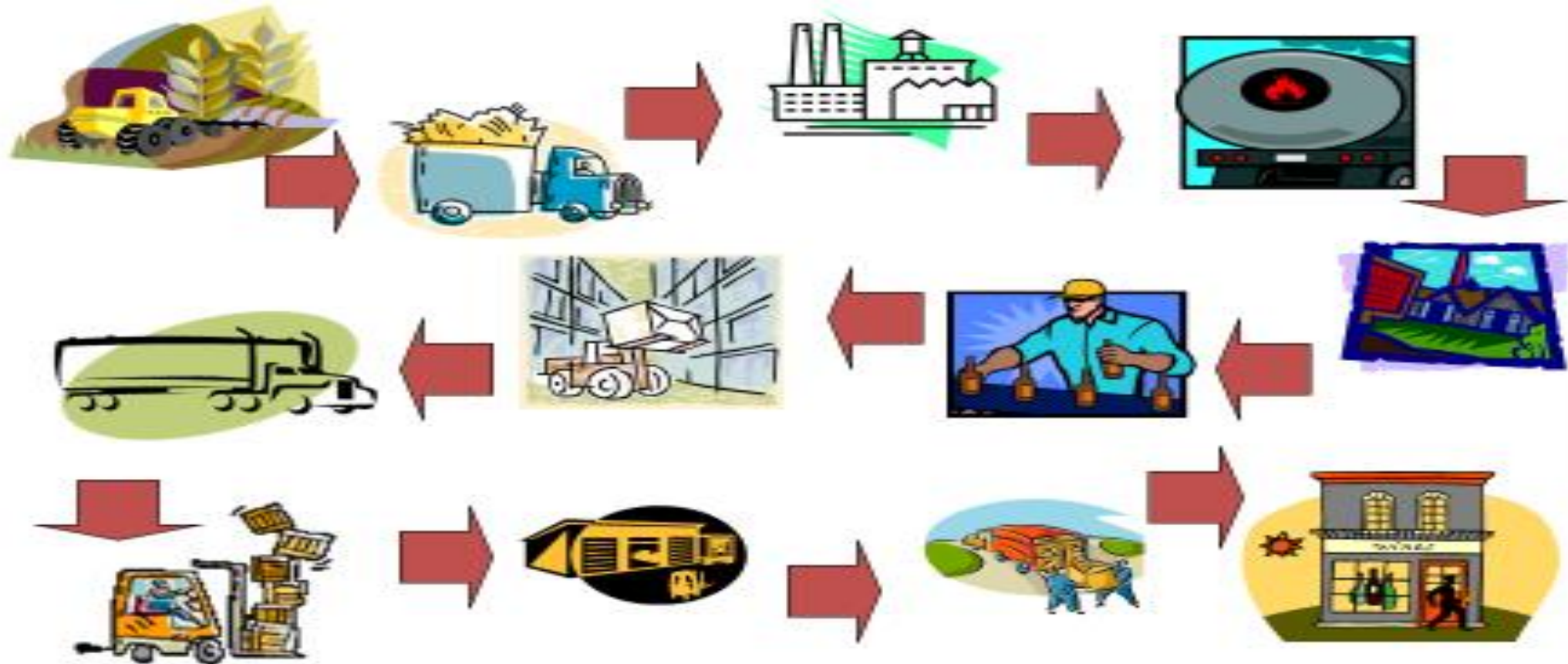
Supply Chain Structure



What is Supply Chain Management

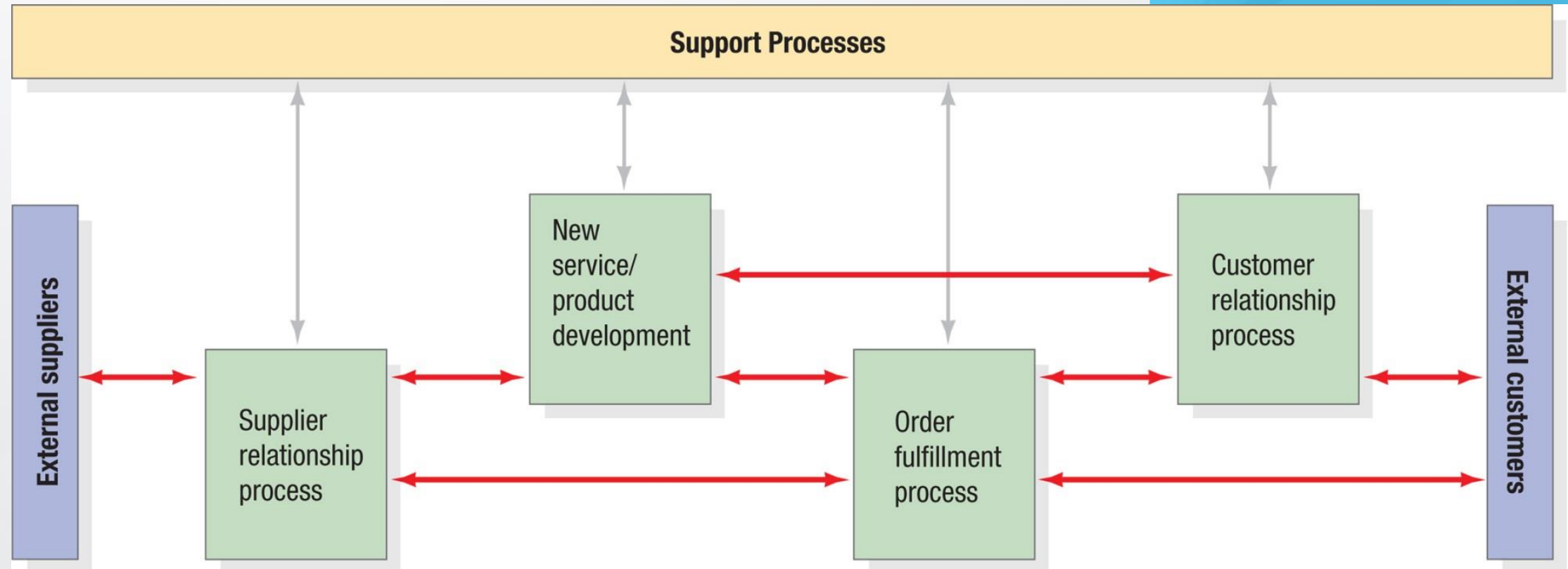


What is Supply Chain Management



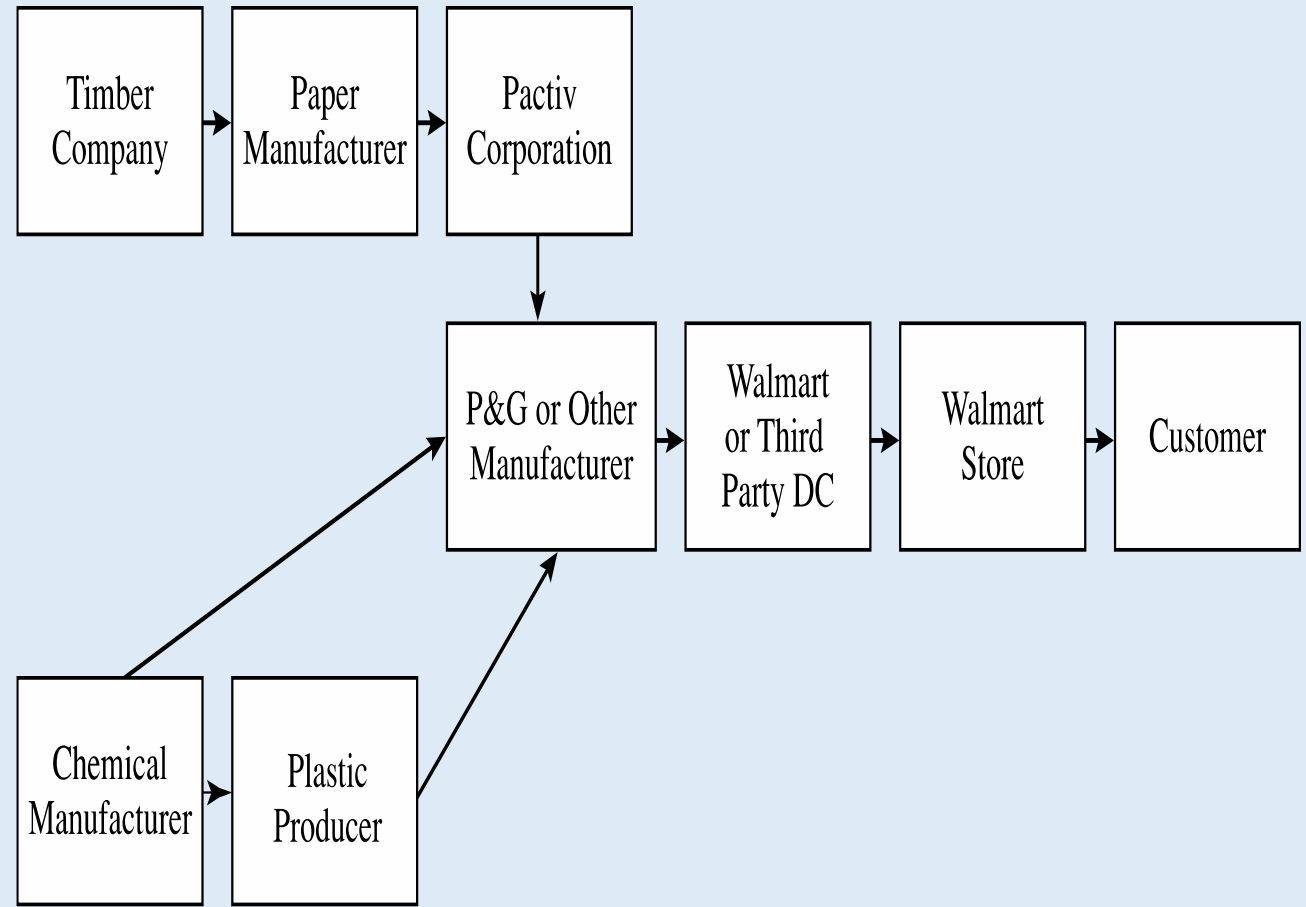
What is Supply Chain Management

Each activity in a process should add value to the previous activities; and eliminate the waste and unnecessary cost



What is Supply Chain Management

P&G manufacturing plant receives raw materials from a variety of suppliers. For example, the packaging material may come from Tenneco packaging, while Tenneco receives raw materials to manufacture the packaging from other suppliers.



Importance of Supply Chain Decisions

- ❑ Maximize overall value generated
- ❑ $\text{Supply Chain Surplus} = \text{Customer Value} - \text{Supply Chain Cost}$
- ❑ Example: a customer purchases a router from Amazon for \$100 (revenue)
- ❑ Supply chain costs include (information, storage, transportation, produce components, assembly, etc.)
- ❑ The difference between \$100 and the sum of all of these costs is the supply chain profit
- ❑ Supply chain profitability is the total profit to be shared across all stages of the supply chain

Importance of Supply Chain Decisions

- ❑ Dell, \$56 billion in 2006, by adopting new supply chain strategies to \$101.19 billion in 2022.
- ❑ Wal-Mart, \$1 billion sales in 1980 jumped to \$572 billion in 2022.
- ❑ Boeing's annual revenue, \$101 billion in 2018 to \$66.6 billion in 2022.
- ❑ Apple, \$65 billion in 2010 to \$394.33 billion in 2022.
- ❑ Amazon's annual revenue, \$ 34 billion in 2010 to \$538 billion in 2022.

Importance of Supply Chain Decisions

- ❑ There is a close connection between the design and management of supply chain flows (product, information, and funds) and the success of a supply chain.
- ❑ Wal-Mart, Dell Computer, and Seven-Eleven Japan are examples of companies that have built their success on superior design, planning, and operation of their supply chain.

Importance of Supply Chain Decisions

- ❑ Wal-Mart has been a leader in using supply chain design, planning, and operation to achieve success.
- ❑ From its beginning, the company invested heavily in transportation and information infrastructure to facilitate the effective flow of goods and information.
- ❑ Wal-Mart designed its supply chain with clusters of stores around distribution centers to facilitate frequent replenishment at its retail stores in a cost-effective manner. Frequent replenishment allows stores to match supply and demand more effectively than the competition.

Decision Phases in a Supply Chain

Successful supply chain management requires many decisions relating to the flow of information, products, and funds.

- Each decision should be made to raise the supply chain surplus.
- These decisions fall into three categories or phases, depending on the frequency of each decision and the time frame during which a decision phase has an impact.
- As a result, each category of decisions must consider uncertainty over the decision horizon.

Decision Phases in a Supply Chain

- ❑ **Supply chain strategy or design**
 - How to structure the supply chain over the next several years
- ❑ **Supply chain planning**
 - Decisions over the next quarter or year
- ❑ **Supply chain operation**
 - Daily or weekly operational decisions

Supply Chain Strategy or Design

- ❑ **Decisions about the configuration of the supply chain, allocation of resources, and what processes each stage will perform.**
- ❑ **Strategic supply chain decisions**
 - Outsource supply chain functions
 - Locations and capacities of facilities
 - Products to be made or stored at various locations
 - Modes of transportation
 - Information systems
- ❑ **Supply chain design must support strategic objectives**
 - Supply chain design decisions are long-term and expensive to reverse – must take into account market uncertainty

Supply Chain Planning

For decisions made during this phase,

- The time frame considered is a quarter to a year. Therefore,
- The supply chain's configuration determined in the strategic phase is fixed.
- The goal of planning is to maximize the supply chain surplus that can be generated over the planning horizon

Supply Chain Planning

- ☐ Definition of a set of policies that govern short-term operations
- ☐ Fixed by the supply configuration from the strategic phase
- ☐ The goal is to maximize supply chain surplus given established constraints
- ☐ Starts with a forecast of demand in the coming year

Supply Chain Planning

☐ Planning decisions:

- ☐ Which markets will be supplied from which locations
- ☐ Planned buildup of inventories
- ☐ Subcontracting
- ☐ Inventory policies
- ☐ Timing and size of market promotions
- ☐ Must consider demand uncertainty, exchange rates, and competition over the time horizon in planning decisions

Supply Chain Operation

- ☐ The time horizon is weekly or daily
- ☐ Decisions regarding individual customer orders
- ☐ Supply chain configuration is fixed and planning policies are defined
- ☐ The goal is to handle incoming customer orders as effectively as possible
- ☐ Allocate orders to inventory or production, set order due dates, generate pick lists at a warehouse, allocate an order to a particular shipment, set delivery schedules, place replenishment orders
- ☐ Much less uncertainty (short time horizon)

Process Views of a Supply Chain

- ❑ A supply chain is a sequence of processes and flows that take place within and between different stages and combine to fill a customer's need for a product.
- ❑ There are two different ways to view the processes performed in a supply chain.
- ❑ **Cycle View:**
- ❑ The processes in a supply chain are divided into a series of cycles, each performed at the interface between two successive stages of the supply chain.

Cycle View of Supply Chain Processes

- ☐ Given the five stages of a supply chain, all supply chain processes can be broken down into the following four process cycles,
- ☐ **Customer order cycle**
- ☐ **Replenishment cycle**
- ☐ **Manufacturing cycle**
- ☐ **Procurement cycle**

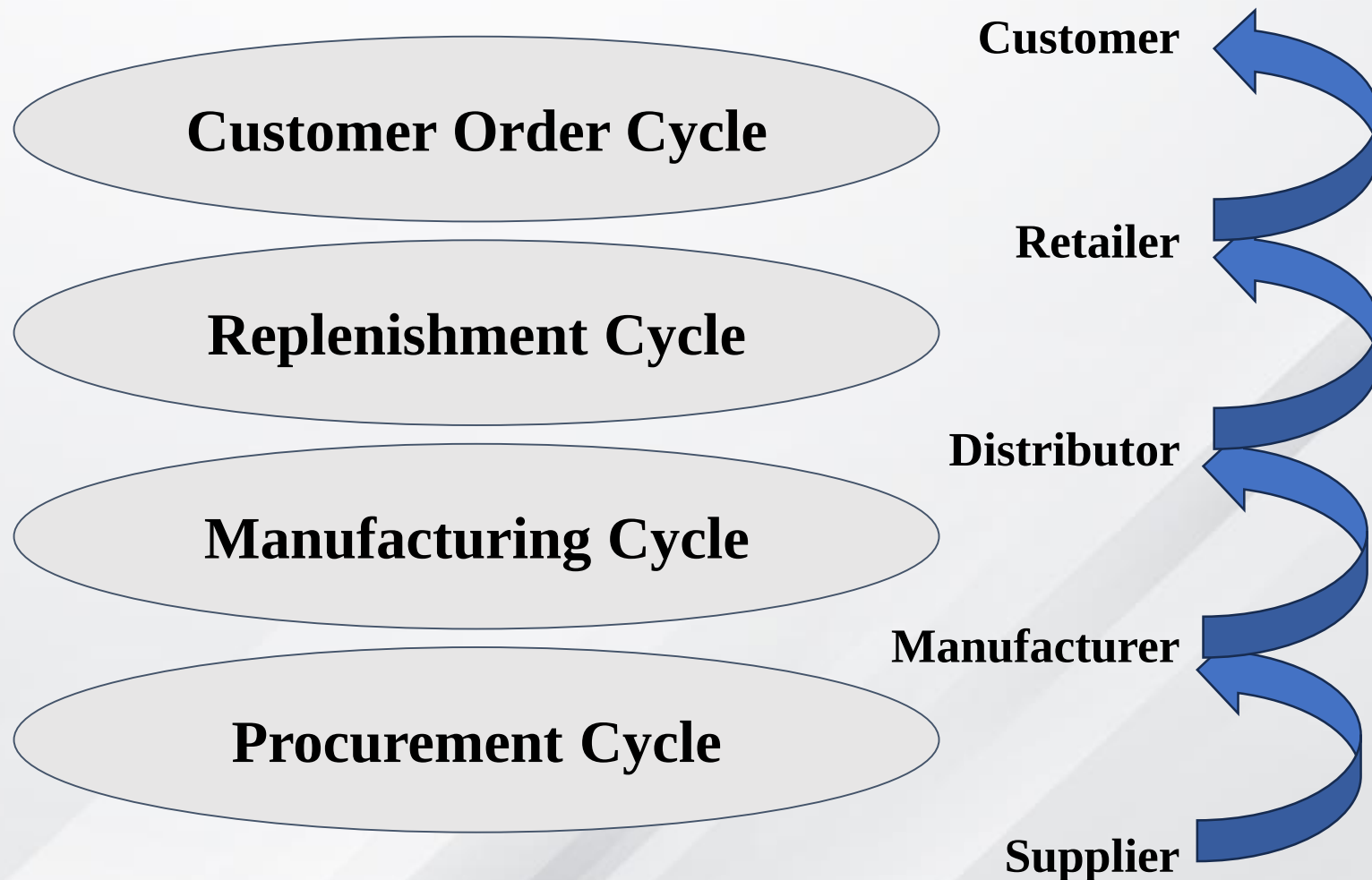
Cycle View of Supply Chain Processes

- ☐ **Customer order cycle**
- ☐ All the processes directly involved in receiving and filling a customer order
- ☐ **Replenishment cycle**
- ☐ All the processes involved in replenishing retailer inventory
- ☐ **Manufacturing cycle**
- ☐ All processes involved in generating the product that will fill the customer, retailer and distributor orders. It is driven by the actual orders placed with the manufacturer, forecasts for expected future demand, and the current product availability in the manufacturer's finished-product warehouse.
- ☐ **Procurement cycle**
- ☐ All the processes necessary to ensure that materials are available for manufacturing to occur according to schedule.

Cycle View of Supply Chain Processes

- ☐ Each cycle occurs at the interface between two successive stages of the supply chain.
- ☐ Not every supply chain will have all four cycles clearly separated. For example, a grocery supply chain in which a retailer stocks finished goods inventories and places replenishment orders with a distributor is likely to have all four cycles separated.
- ☐ Dell, in contrast, bypasses the retailer and distributor when it sells servers directly to customers (Direct Channel).

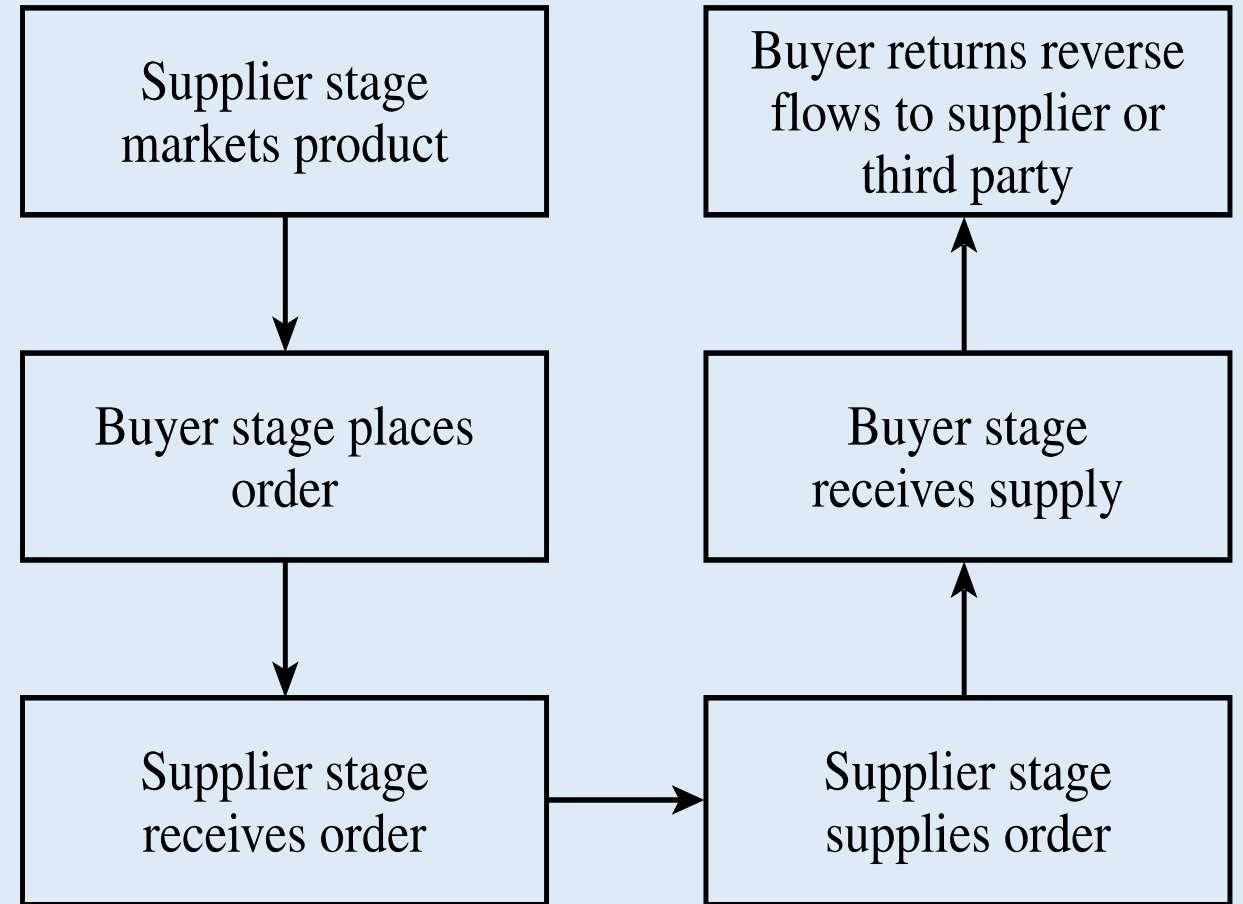
Cycle View of Supply Chain Processes



Cycle View of Supply Chain Processes

Each cycle consists of six sub processes as shown:

- ❑ Each cycle starts with the supplier marketing the product to customers.
- ❑ A buyer then places an order that is received by the supplier.
- ❑ The supplier supplies the order, which is received by the buyer.
- ❑ The buyer may return some of the product or other recycled material to the supplier or a third party. The cycle of activities then begins all over again.



Process Views of a Supply Chain

❑ **Push/Pull View:**

The processes in a supply chain are divided into two categories, depending on whether they are executed in response to a customer order or in anticipation of customer orders. Pull processes are initiated by a customer order, whereas push processes are initiated and performed in anticipation of customer orders.

Push/Pull View of Supply Chain Processes

- ❑ **Supply chain processes** fall into one of two categories depending on the timing of their execution relative to customer demand.
- ❑ **Pull**: execution is initiated in response to a customer order (reactive).
- ❑ **Push**: execution is initiated in anticipation of customer orders (speculative).
- ❑ **The Push/pull boundary** separates push processes from pull processes.

Push/Pull View of Supply Chain Processes

- ❑ **Pull:** execution is initiated in response to a customer order (reactive).
- **Dell** assembles its computers to order and therefore, all processes except for those involved in the procurement cycle are “pull ”

Push/Pull View of Supply Chain Processes

- ❑ **Push:** execution is initiated in anticipation of customer orders (speculative).
- **Compaq:** All processes except for those involved in the customer order cycle are of “push” type.

Supply Chain Macro Processes

Supply chain processes discussed in the two views can be classified into

- 1. Customer Relationship Management (CRM):**

all processes at the interface between the firm and its customers

- 2. Internal Supply Chain Management (ISCM):**

all processes that are internal to the firm

- 3. Supplier Relationship Management (SRM):**

all processes at the interface between the firm and its suppliers

Push/Pull View of Supply Chain Processes

The three macro processes manage the flow of information, products, and funds required to generate, receive, and fulfill a customer request.

- **The CRM macro process** aims to generate customer demand and facilitate the placement and tracking of orders.
- **The ISCM macro process** aims to fulfill the demand generated by the CRM process in a timely manner and at the lowest possible cost.
- **The SRM macro process** aims to arrange for and manage supply sources for various goods and services.

Supply Chain Macro Processes

Supplier

Firm

Customer

SRM	ISCM	CRM
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- Source
- Negotiate
- Buy
- Design Collaboration
- Supply Collaboration

- Strategic Planning
- Demand Planning
- Supply Planning
- Fulfillment
- Field Service

- Market
- Price
- Sell
- Call Center
- Order Management

Essential Reference

- **Chopra, S., & Meindl, P. (2016). Global Edition. Pearson Education Limited**
Chapter One.
- **Supply Chain Council**

Chapter 01 Summary of Learning Objectives

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