

27.16: Supply Chain Management and Logistics

Learning Objectives

- Summarize the components of supply chain management
- Differentiate between supply chain management and logistics
- Differentiate between inbound and outbound logistics

The following video provides an overview of the importance of supply chain management and logistics.



You can [view the transcript for “What is Supply Chain Management?”](#) (opens in new window).

Supply Chain Management

As you saw in the video, **supply chain management** is the process of managing the movement of the raw materials and parts from the beginning of production through delivery to the consumer. The supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources, raw materials, and components into a finished product that is delivered to the end customer.^[1]

It is important that every part of the supply chain is efficient, nimble, and seamless to allow retailers to deliver product to the customers in the most efficient and profitable way to achieve success and meet its overall goals. Some of the biggest issues in supply chain management are information systems, finance, effective supplier/partner relationships, qualified talent, and proper planning.

In many organizations, operational supply chain decisions are made hundreds of times each day affecting how products are developed, manufactured, moved, and sold. The complexity of the supply chain varies with the size of the business and the intricacy and quantity of items manufactured, but most supply chains have elements in common, such as the following:

- **Customers:** Customers start the chain of events when they decide to purchase a product that has been offered for sale by a company. If the product has to be manufactured, the sales order will include a requirement that needs to be fulfilled by the production facility.
- **Planning:** The planning department will create a production plan to produce the products to fulfill the customer's orders. To manufacture the products, the company will then have to purchase the raw materials needed.
- **Purchasing:** The purchasing department receives a list of raw materials and services required by the production department to complete the customers' orders.
- **Inventory:** The raw materials are received from the suppliers, checked for quality and accuracy, and moved into the warehouse.
- **Production:** Based on a production plan, the raw materials are moved to the production area. These raw materials are used to manufacture the finished products ordered by the customer and then sent to the warehouse where they await shipping.
- **Transportation:** When the finished product arrives in the warehouse, the shipping department determines the most efficient method to ship the products so they are delivered on or before the date specified by the customer.

Take a look at the following video about BYU ice-cream production. Can you identify each of the elements, above, in BYU's supply chain?



You can [view the transcript for “BYU Ice Cream’s Supply Chain Management”](#) (opens in new window).

? Practice Question

<https://assessments.lumenlearning.co...essments/14470>

Logistics



Logistics is an important subset of supply chain management. When used in a business sense, logistics is the management of the transportation and flow of things between the point of origin and the point of consumption in order to meet requirements of customers or corporations. The resources managed in logistics can include physical items such as food, materials, animals, equipment, and liquids, as well as abstract items, such as time and information. The logistics of physical items usually involves the integration of information flow, material handling, production, packaging, inventory, transportation, and warehousing.

Logistics may have either an internal focus (inbound logistics) or an external focus (outbound logistics).

A manager in charge of **inbound logistics** manages everything related to the incoming flow of resources that the company needs to produce its goods or services. These activities will include managing supplier relationships, accessing raw materials, negotiating materials pricing, and arranging quicker delivery.

A manager working in **outbound logistics** will be focused on two issues: storage and transportation. He or she will use warehousing techniques to keep the finished goods safe and accessible. Since the products may need to be moved out to a customer at any moment, proper organization is crucial. Having as little product stored as possible can be advantageous since stored products are not making money, so the outbound logistics manager often has to balance company cost savings with consumer demand. The transportation function is by far the most complex part of outbound logistics. Without transport, there simply is no logistics. For that reason it's critical to be able to move the product from one location to another in the fastest, most cost-effective, and efficient way possible. Since transportation involves fluctuations, factors such as delays and changes in fuel costs need to be taken into account in order to cover all possible scenarios that might jeopardize the efficient movement of goods.

? Practice Questions

<https://assessments.lumenlearning.co...essments/14471>

<https://assessments.lumenlearning.co...essments/14472>

1. "Supply Chains." Retail Management. Lumen Learning. <https://courses.lumenlearning.com/wm-retailmanagement/chapter/introduction-to-retail-entities-and-business-decisions/#footnote-1634-1>↵

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