

11.6: The Supply Chain and Its Functions

Learning Objectives

By the end of this section, you will be able to:

- Define supply chain management (SCM).
- Explain the role of marketing in supply chain management.
- Describe the various functions of supply chain management.

Supply Chain Management (SCM) Defined

A supply chain is the entire distribution process from acquiring the raw materials needed to make products to delivering final goods to consumers. Companies with high-performing supply chains recognize that it starts with a customer-centered mindset. All activities must be managed with the end goal of creating and delivering value to the target consumer.

Supply chain management (SCM) is the process of managing all the members and activities from the procurement and transformation of raw materials into finished goods to their distribution to targeted consumers.

The Role of Marketing in Supply Chain Management

Marketing plays an integral role in the management of the supply chain. Marketing entails creating and delivering products that meet customers' needs, all while building relationships through customer engagement. Companies ensure that they deliver on their value proposition to consumers through the features and benefits of the product itself. Ensuring fulfillment of a company's value proposition starts with working with the right suppliers who provide the materials and ingredients to help companies fulfill their promise.

For example, Dave's Killer Bread (DKB) (2022) has positioned itself as the maker of "the best bread you've ever tasted, power-packed with organic whole grain nutrition." The promise to consumers starts with selecting suppliers who are certified organic and who can consistently deliver high-quality ingredients. DKB's promise to consumers starts as far back as the grains selected by DKB's suppliers.

Functions of Supply Chain Management

Supply chain management has five major functions. These include purchasing, operations, logistics, resource management, and information workflow (Figure 11.13). Good supply chains perform these functions in a way that efficiently meets the wants and needs of final consumers.

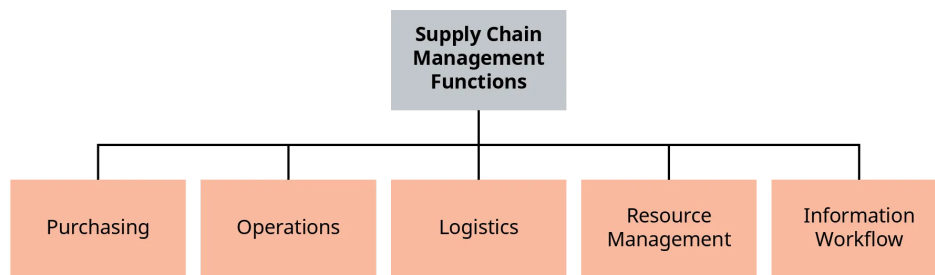


Figure 11.13 The Five Major Functions of Supply Chain Management (CC BY 4.0; Rice University & OpenStax)

Purchasing

Purchasing is the process of buying materials needed to manufacture products. These materials are purchased from suppliers, who must be able to deliver them in accordance with the manufacturer's timeline. Therefore, the manufacturer's companies and suppliers must communicate and coordinate to ensure timely delivery of materials.

For example, Ben & Jerry's ice cream flavor Mint Chocolate Chance has cream, skim milk, sugar, egg yolks, white flour, cocoa powder, soybean oil, and vanilla extract, among other ingredients. Ben and Jerry's must forecast the number of ingredients it needs to purchase so that these amounts match the demand for this particular flavor. The company, in turn, assesses factors such as total number of orders and inventory turnover for its Mint Chocolate Chance product to help forecast the quantity of ingredients it will need from suppliers.

Operations

Operations is everything a company does daily to run a company. Before a company purchases the needed materials and begins production, it must forecast demand for its products. Forecasting involves anticipating or projecting how many units of a product will be sold during a given period. Accurate forecasting must align with inventory management and production schedules to ensure that the company is operationally positioned to manufacture the right amount of product to meet the needs of consumers.

Logistics

Logistics is a function that involves the coordination of all supply chain activities, such as warehousing, inventory management, and transportation. Companies along the supply chain must communicate effectively to ensure that products reach consumers in a timely and efficient way in the precise form that the consumer expects. For example, when consumers eat McDonald's French fries, they expect them to taste a certain way. Suppliers and intermediaries along the channel work together to meet those expectations. Good logistical management helps ensure this.

Resource Management

Resource management is the planning, organizing, and controlling of resources. Resources include the labor, raw materials, and technology required to move products from their raw material phase to finished goods available for consumption. Effective supply chain management requires allocating these resources to the right supply chain activities to optimize the entire system.

Information Workflow

Information workflow is a supply chain management function that relates to what and how information moves between supply chain members. If information doesn't flow effectively or communication is poor, the entire process can suffer from disruptions, delays, and mistakes. A systematic approach to sharing information across the supply chain ensures that the right companies have the right data to make the right decisions at the right time.

Link to Learning: Supply Chain Management

To learn more about how supply chain management works, review the following article and video: [IBM and Supply Chain Management](#).

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

_____ entails managing all the members and activities from the procurement and transformation of raw materials into finished goods through their distribution to targeted consumers.

- a. Logistics
- b. Integrated logistics management
- c. Supply chain management
- d. Warehousing

2.

Which of the following best demonstrates the role that marketing plays in supply chain management?

- a. For companies to deliver on their value proposition to consumers, they must ensure that the activities and members in the supply chain share the common goal of delivering value to consumers.
- b. Companies need to raise the price of their products with the supply chain in mind to earn a profit.
- c. Companies must market their products to supply chain members to win partnerships with them.
- d. Companies should only work with supply chain members who can save time and money in the distribution of products. Savings are most important to customers.

3.

Companies that manufacture goods rely on raw materials to produce their products. This describes the function of _____.

- a. inventory management
- b. supply chain management
- c. transportation
- d. purchasing

4.

_____ include(s) the labor, the raw materials, and the technology that are required to move products from their raw material phase to finished goods available for consumption.

- a. Purchasing
- b. Logistics
- c. Forecasting
- d. Resources

5.

_____ is a supply chain management function that relates to what and how information moves between members of the supply chain.

- a. Information workflow
- b. Forecasting
- c. Logistics
- d. Resource management

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