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Objective

• Explain the Importance of SCM in an Organization
• Define What is Supply Chain Management
• Explain Supply Chain Network Design (SCND)
• Explain What is Demand Planning
• Describe the Role of IT in SCM
• Describe the Role of Logistics in SCM
• Explain What is Global Supply Chain Management
• Explain What is Finished Goods Supply Chain
• Explain What is Reverse Logistics
• Explain What is Vendor Managed Inventory (VMI)
• Describe the Functions of Warehouse Management
• Explain Factors of Warehouse Operational Efficiency
• Explain Steps to Improve Throughput of Process Chain
• Explain Key Issues of Supply Chain Management
• List Tips for Effective Supply Chain Management
Introduction

Look at the various products shown below.
Introduction

Look at the various products shown below. Have you ever noticed the labels on these products?

Where are the majority of such goods manufactured?
You will find that many of the goods such as electronics, and white goods or even clothes have been manufactured in China, South America or Mexico.
So, many times the cocoa that you buy has come from Africa or the coffee pods you buy have come from Brazil.
Most of the computers have been shipped out of South American Factories and Soft furnishings on the shelves are from India and Hong Kong.
Thus, the expanding global markets are re-defining the way demand and supplies need to be managed. Global companies are driven by markets across continents.
Hence, to keep the cost of manufacturing low, they are forced to set up production centers where cost of raw materials and labor is cheap.
Also, a dynamic procurement strategy that may span across different countries has to be implemented for sourcing of raw materials and vendors to supply the right quality and quantity at right price.

Sourcing of Raw Materials of Right Quality and Quantity at Right Price.
Therefore, companies may procure materials globally from various vendors to supply raw materials to their factories situated in different continents.
Introduction

The finished goods out of these different factory locations then pass through different chains of distribution network involving warehouses, exports to different countries or local markets, distributors, retailers and finally to the end customer.
Introduction

Therefore, the managing all of the above activities in tandem to manage demand and supply on a global scale is known as ‘Supply Chain Management’. You can understand that ‘Supply Chain Management’ is a crucial and integral function of any business for its success.
Thus, ‘Supply Chain Management’ is the management of a network of all business processes and activities involving procurement of raw materials, manufacturing and distribution.
Introduction

‘Supply Chain Management’ is also called the art of management of providing the ‘Right Product, At the Right Time, Right Place and at the Right Cost to the Customer’.

Let us learn about ‘Supply Chain Management’ in detail.

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Supply Chain Strategies are the critical backbone of business organizations today. Effective market coverage, availability of products at locations which hold the key to revenue recognition depends upon the effectiveness of Supply Chain Strategy rolled out. Very simply stated, when a product is introduced in the market and advertised, the entire market in the country and all the sales counters need to have the product where the customer is able to buy and take delivery. Any glitch in the product not being available at the right time can result in drop in the customer interest and demand which can be disastrous. Thus, design of transportation network and management assume importance to support sales and marketing strategy.
Importance of SCM in an Organization

Inventory control and inventory visibility are two very critical elements in any operations as these are the cost drivers and directly impact the bottom line in the balance sheet. Inventory means value and is an asset for the company. Every business has a standard for inventory turnaround that is optimum for the business. Inventory turnaround refers to the number of times the inventory is sold and replaced in a period of twelve months. The health of the inventory turnaround relates to the health of business.
Importance of SCM in an Organization

In a global scenario, the finished goods inventory is held at many locations and distribution centers, managed by third parties. A lot of inventory would also be in the pipeline in transportation, besides the inventory with distributors and retail stocking points. Since any loss of inventory anywhere in the supply chain would result in loss of value, effective control of inventory and visibility of inventory gains importance as a key factor of Supply Chain Management function.
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A Supply Chain is a system of organizations, people, activities, information and resources which are involved in moving a product or service from Supplier to Customer.

As per definition, SCM is the management of a network of all business processes and activities involving procurement of raw materials, manufacturing and distribution management of Finished Goods. SCM is also called the art of management of providing the Right Product, At the Right Time, Right Place and at the Right Cost to the Customer.
Importance of Supply Chain Management

- To compete in the global market, the organizations need to rely on effective supply chains or networks.

- Recently the changes in the business culture have contributed to the development of supply chain networks.

- In the past, globalization, outsourcing and information technology have enabled many organizations, to successfully operate solid collaborative supply networks in which each specialized business partner focuses on only a few key strategic activities.
Many researchers have recognized these kinds of supply network structures as a new organization form, using terms such as "Keiretsu" (grouping of enterprises, order of succession), "Extended Enterprise", "Virtual Corporation", "Global Production Network", and "Next Generation Manufacturing System".

In general, such a structure can be defined as "a group of semi-independent organizations, each with their capabilities, which collaborate in ever-changing constellations to serve one or more markets in order to achieve some business goal specific to that collaboration".
Drivers of Supply Chain Dynamics

Since a supply chain is dynamic and chaotic, its structure must be very flexible to cope with capricious market demand and severe levels of competitions. A supply chain must be able to change its pattern easily to gain a competitive advantage.

Drivers
- Customer satisfaction
- Technology change
- Connections

Internal factors
- Multi-echelon decision making
- Scratched together partners

Supply Chain Dynamics

Competitiveness
- Flexible manufacturing
- Efficient operation
- Agility response

Negative effects
- Information-distortion/delay
- Bullwhip effect
- Boom and bust

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The Four Customer Value Drivers

**Value-for-time**
- Deliver Just-in-Time
- Provide time enrichment
- Minimize your share of my time

**Value-for-attention**
- Reduce my surplus and uncertainty
- Manage choice
- Overcome confusion

**Value-in-my-life**
- Provide complete solution and represent my interests
- Deliver experiences
- Help me outsource
- Optimize my currency
- Be trusted partner

**Value-of-access**
- Manage my privacy and security
- Act as my information filter
- Manage my context and permissions
- Value for my personal data
- Reward my loyalty

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Problems Addressed by SCM

Distribution Network Configuration:
Location, network of suppliers, distribution centers, production centers, warehouses, customers etc.

Distribution Strategy:
Control of operations, delivery scheme, mode of transportation, replenishment strategy and transportation control

Trade-offs in Logistics:
All the activities must be well coordinated to achieve the lowest total logistics cost. Trade-offs may increase the total cost if only one of the activities is optimized

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Problems Addressed by SCM

**Cash Flow:**
Arranging the payment terms and methodologies for exchanging funds across entities within the supply chain.

**Inventory Management:**
Quantity and location of inventory, including raw materials, work-in-process (WIP) and finished goods.

**Information:**
Integration of processes through the supply chain to share valuable information, including demand signals, forecasts, inventory, transportation, potential collaboration, etc.

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Overview of Supply Chain Landscape

Planning

Execution

Collaboration
Overview of Supply Chain Landscape

- Supply management
- Transportation
- Warehousing
- Reverse logistics

Planning

- Network planning
- Demand planning
- Supply planning
- Logistics capacity planning

Execution

Collaboration

- Planning processes
- Execution
- Processes
- Partner performance

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<table>
<thead>
<tr>
<th>Operations and supply chain activities</th>
<th>Purpose</th>
<th>Key interfunctional participants</th>
<th>Key interorganizational participants</th>
</tr>
</thead>
</table>
| Process selection                     | Design and implement the transformation processes that best meet the needs of the customer and the firm | • Engineering  
• Marketing  
• Finance  
• Human Resource  
• IT | • Customers |
| Forecasting                            | Develop and planning numbers needed for effective decision making | • Marketing  
• Finance Accounting | • Suppliers  
• Customers |
| Planning                              | Establish strategic capacity levels ('Bricks' and 'Mortar') and tactical capacity levels (workforce, inventory) | • Finance  
• Accounting  
• Marketing  
• HR | • Suppliers  
• Customers |
| Inventory Management                   | Manage the amount and placement of inventory within the company and the supply chain | • IT  
• Finance | • Suppliers  
• Customers |
## Major Operations and Supply Chain Activities

<table>
<thead>
<tr>
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<th>Purpose</th>
<th>Key interfunctional participants</th>
<th>Key interorganizational participants</th>
</tr>
</thead>
</table>
| Planning and control                  | Schedule and manage the flow of work through an organization and the supply chain; match customer demand to supply chain activities | • Marketing  
• IT | • Suppliers  
• Customers |
| Purchasing                            | Identify quality suppliers of goods and services; manage the ongoing buyer-supplier relationships | • Engineering  
• Finance  
• Marketing | • Suppliers |
| Logistics                             | Manage the movement of physical goods throughout the supply chain | • Marketing  
• Engineering | • Suppliers  
• Customers |
## Operation Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>When to choose</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Make to Stock</td>
<td>Standardized products, relatively predictable demand</td>
<td>Low manufacturing costs; meet customer demands quickly</td>
</tr>
<tr>
<td>Make to Order</td>
<td>Customized products, many variations</td>
<td>Customization; reduced inventory; improved service levels</td>
</tr>
<tr>
<td>Configure to Order</td>
<td>Many variations on finished product; infrequent demand</td>
<td>Low inventory levels; wide range of product offerings; simplified planning</td>
</tr>
<tr>
<td>Engineer to Order</td>
<td>Complex products, unique customer specifications</td>
<td>Enables response to specific customer requirements</td>
</tr>
</tbody>
</table>
Supply Chain Planning Function

Network Design
- Network design and analysis

Demand Planning
- Demand forecasting
- Allocation planning

Supply Planning
- Inventory planning
- Replenishment planning
- Production planning

Logistics Capacity Planning
- Transportation capacity planning
- Transportation procurement
- Warehouse capacity planning

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Supply Chain Execution Function

**Supply Management**
- Strategic sourcing
- Replenishment execution
- Production scheduling
- Supplier performance
- Global trade

**Transportation management**
- Transportation planning and execution
- Freight audit and payment
- Fleet management

**Warehouse Management**
- Inbound & outbound operations
- Inventory management
- Yard management
- Slot optimization
- Cost allocation & billing

**Return Logistics Management**
- Disposition
- Logistics
- Financial reconciliation

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Retail Supply Chain Planning and Execution Function

**BUY**
- Sourcing
  - Vendor Management
  - Replenishment planning

**DISTRIBUTE**
- Network Planning
- Inventory Planning
- Demand Management

**SELL**
- Demand Planning

**PLANING**
- Order Management
- Transportation
- Warehousing
- Demand Management

**EXECUTION**
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Supply chain network design is the process of establishing the network nodes and flow paths in a supply chain. These nodes can represent either manufacturing, stocking or distribution locations. This process helps plan the most desirable physical locations and their types. These desirable locations will constitute the supply chain for most efficient flow of materials and merchandise. Together, this network creates a complex set of flow paths along which the merchandise can flow. Supply chain network design is a critical process for distribution-intensive industries such as retail.

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Inputs and Outputs of the SCND

**Inputs**

- Existing locations of stores. For the new web-based businesses, without any physical stores, the equivalent inputs will be the number of individual orders fulfilled in specific region.
- Existing and/or proposed locations of warehouses or factories. This may also include the locations of the shipping warehouse for the major vendor.
- Products carried at each of the location.
- Fixed and variable cost models for each of the locations for stocking, handling, shipping and other warehousing activities.
- Cost mode for transportation lanes/routes between the above nodes and transportation mode.
- Multiple scenarios with different locations and cost of running the network in each scenario.
- Projected product volumes at nodes and flow paths.

**Outputs**

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The objective of the demand planning process is to forecast the demand for products so that this demand can be fulfilled through existing inventory, manufacturing and new purchases.

Demand planning is done for a product at a location for a given time bucket.

Demand planning is probably the most important supply chain process in that it drives almost all other processes directly or indirectly towards fulfilling the demand.
Inputs and Outputs of the Demand Forecasting

**Inputs**

- Master data such as items/product, location, planning horizon and valid item-location combination. The item-location combinations is also called assortment.

- Sales or consumption history along with the price history at each of the valid product-location combination.

- User and system configuration such as input for forecasting, algorithms, classifications of products as slow/fast movers, seasonality identifiers, casual factors that may have affected data cleansing parameter etc.

- The projected unconstrained forecast for all products-locations combinations for the selected planning horizon.

**Outputs**

- Forecasting process metric such as forecast errors, tracking signals and so on.

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One of the best ways to manage and meet your demand for supplies for your company is by outsourcing some part of your supply chain. Hence, you can outsource some part of your supply chain such as raw materials, component sourcing, manufacturing, assembly, packaging, customs clearance, freight consolidation, and transport across all modes, warehousing and returns and repairs.

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Allocation planning is another strategy for replenishments. This type of replenishment strategy is sometimes called as pull-based strategy. This is because the replenishment at any given node is based on the demand signals from the downstream node that pulls the merchandise from the target node. Consider a store that requests merchandise from the warehouse when needed. This is an example of pull-based replenishment, where the store pulls the merchandise from the warehouse as need arises.
Inputs and Outputs of Allocation Planning

**INPUTS**

- Master data such as items/products, locations, planning horizon, and valid item-location combinations. The item-location combination is also called assortment, especially when used in the context of a store.

- Historical analysis for the selected products and locations. If no history is available, the merchant may use the average history of product in the category to which the specific products belong.

- On-hand inventory and expected receipts and shipment of inventory.

- Inventory policies for e.g., the safety stock/cover required to be maintained, frequency of replenishment, replenishment quantities and levels.

- Inventory flow constraints between the nodes that must be met.

**OUTPUTS**

- Allocated replenishment quantities at the nodes for the allocated products for each time period defined for the plan horizon.

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The objective of supply planning processes in supply chain management is to create replenishment plans that adequately and optimally address demand at every node of the chain. To achieve this objective, these processes use inventory planning functions that determine the optimal inventory levels for a target service level, and replenishment planning functions that further refine the replenishment requirements so that they are complying with the sourcing constraints.
Push/Pull Strategies

- **High Demand, High Uncertainty**
  - Customization is High
  - Demand is uncertain
  - Scale economies are Low
  - E.g., Computer Peripherals

- **Low Demand, High Uncertainty**
  - Uncertainty is low
  - Low economies of scale
  - Push-pull supply chain
  - E.g., Stationeries

- **Low Demand, Low Uncertainty**
  - Standard processes are the norm
  - Demand is stable
  - Scale economies are High
  - E.g., Soft drinks

- **High Demand, Low Uncertainty**
  - Demand is uncertain
  - Scale economies are High
  - Low economies of scale
  - E.g., Furniture

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<table>
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<th>Characteristics</th>
<th>Push</th>
<th>Pull</th>
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<tr>
<td>Objective</td>
<td>Minimize cost</td>
<td>Maximize service level</td>
</tr>
<tr>
<td>Complexity</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Focus</td>
<td>Resource allocation</td>
<td>Responsiveness</td>
</tr>
<tr>
<td>Lead time</td>
<td>Long</td>
<td>Short</td>
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<tr>
<td>Processes</td>
<td>Supply chain planning</td>
<td>Order fulfillment</td>
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Supply Chain Management is a broad based function which encompasses all business and operational processes involved in but not limited to procurement, manufacturing, and finished goods transportation, warehousing and distribution and inventory management.

In a globalized business scenario characterized by geographically spread markets, raw material procurement sources are spread across the world and cheaper manufacturing and labor markets are available in developing world. Thus, the business of meeting demand with supply is constantly changing and evolving.
Role of Information Technology in SCM

Global business has been fuelled and enabled by the IT Technology which has redefined all aspects of business today. All businesses today are run on ERP - Enterprise Resource Planning which provides the organizations with tools to manage all the functions including procurement, production, sales and finance management in seamless and integrated manner.

These software systems like SAP, Oracle, People Soft etc., have taken over and enhanced the business processes which were traditionally being managed manually.
Role of Information Technology in SCM

Demand Planning, Forecasting, Global Procurement Management are some of the enabling tools on which the Global Procurement strategies are built and managed. The availability of these sophisticated systems has further enabled companies to implement good and cost effective manufacturing practices like JIT, Kanban, VMI etc.

Besides the sales process, finished goods distribution, transportation and inventory management is again driven by the various ERP modules combined with additional specific applications as required. ERP has enabled companies to manage their business processes in different markets and countries under one common business process thus providing standardization and control.
Role of Information Technology in SCM

The complex network of various processes, software platforms and applications and different software tools used by various vendors and agents in the entire chain drive the supply chain of the companies.

When in a global scenario, goods and services move through multiple chains involving many agents including transporters, forwarders, customs, distribution centers, distributors and lastly the retail outlets. Therefore, availability of data, documentation and information becomes the lifeline for the organization to be able to take decisions and ensure seamless processes and control the supply chain. Thus, IT is one of the most important enabler of the Supply chain in the modern complex world of Global Businesses.
ERP systems are simply the forerunners of the supply chain systems. ERP system started with a smaller footprint, addressing the automation of financial systems, but they have greatly expanded into all business function. The larger ERP systems today address almost the entire spectrum of business function required to run an enterprise, including most of the key supply chain functions. However, supply chain solutions have been emerging and are the latest addition to most of the ERP solutions. Therefore supply chain solutions are currently offered as part of the larger ERP solutions may not be as mature as some solution offered by specialized supply chain solution vendor.
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Logistics in Supply Chain Management

All the business processes activities related to procurement, manufacturing, distribution and sales order fulfilment functions of a business involve multiple networks of vendors and service providers which are integrated and co-coordinated by the Supply Chain experts of the organization to move raw materials and finished goods from and to all distant locations across the globe.

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Logistics is the backbone on which Supply Chains are driven. Logistics refers to management of flow of goods and supplies involving information, data and documentation between two entities or points. Logistics plays an important role in post procurement function of delivery of raw material from the supplier to the point of production and Finished Goods Supply Chain Management from the point of dispatch from factory to the point of delivery to the customer.
Logistics in Supply Chain Management

The flow of goods flows through a network of transportation by road, rail, air or ship and intermediary warehouses to hold inventories before moving to the forward locations. The entire activity involves multi tier suppliers, agents and agencies including freight forwarders, packers, customs department, distributors and Logistics service providers etc.
Logistics therefore is an integral component of Supply Chain Management.

In many cases, ‘Supply Chain’ is often referred to as ‘Logistics’ and vice versa. Though logistics and supply chain are intricately linked, both do not mean the same. Logistics is a sub component and an extension of Supply Chain.
Supply chain design in an organization would detail, plan and strategize the procurement strategy, selection of manufacturing location, design and develop distribution network and strategy for finished goods etc. While logistics planning would deal with the details of procurement logistics, finished goods distribution, sales order fulfilment and inventory management etc. Logistics planning derives the strategic direction and framework for its design planning from SCM Strategy.
Logistics Flow

The image given below shows the flows in logistics system within and between companies:

- Information Flow
- Material Flow
- Monetary Flow

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Four Important Dimensions of Logistics System

- Society
- Customer
- Goods Owner
- Goods Mover
Internal Perspective of Logistics System

Suppliers

Material supply

Production

Distribution

Company

Customers

Roll your mouse over the icon, to learn more.

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Today’s modern day supply chain management has given rise to the ‘4PL’ or 4th party logistics provider after the 3PL. The advent of 4PL was because of the multitude of things that have to be managed, especially with interdependencies between the various parts of your supply chain. Hence, these 4th party logistics providers (or 4PL) were found to help companies coordinate with their various 3PLs and hopefully realize the benefits that they aimed for.
Supply Chains ride on Logistics Networks and IT Applications / Internet. The foundation of logistics function is based mainly on transportation by road, rail, air and sea.

Global trade is 80% dependent on sea route than air route, simply for the fact that air route is far more expensive and is used only in case of light weight cargo, perishable cargo and priority shipments or in other conditions where shipping would not be possible.
Shipping trade is characterized by shipping companies who own vessels and specialize in transportation of certain types of cargo like General Cargo, Containerized cargo, bulk commodities carriers, oil tankers, gas tankers, OD cargo carriers etc.

Normally the so called mother vessels ply on the main shipping route across the continents travelling through pacific or Atlantic oceans and calling on countries from point to point. Mother vessels are bigger vessels with higher cargo carrying capacity.
Some of the main routes normally traversed by mother vessels are Far East to Europe and Mediterranean, Europe to American East Coast and Gulf of Mexico, Far East Australia to South Africa, Intra Asia, Asia to Middle East, and Europe to South Africa etc. The detailed schedules are announced in advance for each of the vessels. The feeder vessels carry cargo from individual ports in nearby countries which discharge the cargo at the port of calling to be transhipped on to the main vessel.
Thus for example, a cargo originating in India bound for South Africa may follow the route where cargo reaches one of the ports in Ceylon or Dubai or Singapore in some cases and travels right up to Europe where it is further transhipped on another vessel bound to South Africa. Likewise, the global shipping trade lanes have certain gateways and lanes which they operate and in turn are fed and supported by feeder lanes and vessels.
Shipping liner announces schedules of the vessels a few months in advance. Freight forwarding agents book space on the vessels either based on estimates or based on their pipeline orders. Depending upon the volume that the forwarder is able to give and patronize shipping lines, they get to bargain and negotiate for better rates. In general cargo, the shipments are made in FCL Containers. FCL stands for Full Container Load. FCLs come in two sizes called 20 feet and 40 feet containers which refer to the length of the container. Each container has fixed dimensions and weight carrying capacity. FCL Containers are provided by shipping lines to the freight forwarders who stuff the cargo and get the cargo sealed after customs inspection which is then picked up and loaded on the ship at the port.
Some of the major international shipping lines that dominate the world shipping trade are: P&A, Nedlloyd, Maersk, Hapag Lloyd, American President Lines, Evergreen, NYK, HanJin, Cosco, CSCL etc.
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Global Supply Chain Management

Supply and value chain trends:

- **Globalization**

  Complex problems involve also midsized companies to an increasing degree

- **Collaboration for parts of value chain with low-cost providers**

  Shared service centers for logistical and administrative functions

- **Increasingly global operations, which require increasingly global coordination and planning to achieve global optimums**

  Increased cross border sourcing

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It is crucial that in order to build a global supply chain and to start in an international market, you should always hire someone with expertise in the international locations from the beginning for managing the supply chain. So, for this you can hire local, reputable producers who can consistently deliver. Such local experts are specialists in that location and can help you navigate everything from cost-saving transit options to taxes.
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- List Tips for Effective Supply Chain Management

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Finished Goods Supply Chain

• Finished Goods supply chains are very dynamic and are the backbone of a good sales organization.

• A number of departments are responsible to work in coordination and seamlessly to ensure Finished Goods reach the markets and the customers.

• Logistics and supply chain departments have to work in tandem with or aim to be ahead of Marketing and Sales and ensure that when a product is announced for sale by marketing, the products are made available at all nook and corner of the city, state and country.

• A situation where the customer goes to a sales counter to place an order and the product is not available cannot and should never happen as a rule.
Taking customer as the starting point, let us trace back the journey of finished goods and the functions.

The Marketing departments work on marketing and advertising the product and are focused on reaching out to the customer to sell a product to him.

Whenever a customer places an order, further coordination and deliveries are managed by order fulfilment teams which are responsible for sales order processing who place orders on the distribution centers on the backend to pull materials for forward stocking points or to affect deliveries to the customers.
Finished Goods Supply Chain

- Customer Fulfilment teams are the internal customers to the FG Logistics team.

- Logistics team is the department which is responsible for stocks and FG inventory held in the pipeline across multiple networks of distribution centers and the inventory in pipeline in various transit points.

- In other words, Logistics teams own the inventory from the point they leave the plant until delivery is made to the customer who may be a distributor, retailer or an end user, as the case may be.
Finished Goods Supply Chain

- Logistics teams comprise of multiple competency centers including inventory planners, freight managers responsible for transportation leg and warehousing operations experts who are responsible for the inventory and warehousing operations including documentation control and statutory process compliance.

- Logistics teams work in close co-ordination with finance teams, the procurement team, plants and manage operations through a chain of third party service providers who actually run the operations of inventory handling and distribution.
Finished Goods Supply Chain

- Logistics is never an event free operation.

- While multi tier third party service providers are handling the cargo across various borders or locations, each with its own unique local situations, there are many additional vagaries of nature and events that can keep disrupting the smooth flow of supplies and the situation is every dynamic.

- Managing multiple product lines and vast distribution networks coupled with managing third party partners calls for the Logistics Managers and Supply Chain Managers to always be on their feet and constantly innovate new processes and find new ways to keep running operations smoothly.
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Reverse Logistics

As Supply Chain Activities are evolving and partnering changes in business models, the focus and activities are not restricted to management of raw materials and finished goods from point of origin from the vendors to plants and further on to the end customers.

There is another extension to Supply Chain Process known as ‘Reverse Logistics’.
Reverse Logistics deals with the planning, process and flow of finished goods inventory, packaging materials and parts of finished product back from end customer to the product company as sales return or warranty return or unsold.

Reverse Logistics planning further recaptures value from these materials as much as possible by way of re-salvaging, repair, re-furbishing, recycling etc.
Reverse Logistics

Global awareness about hazardous waste generation and disposal is increasing and leading to legislations being passed by various countries.

Europe has been the leader to implement legislation with regard to ensuring that the product companies take responsibility for reverse logistics of all product wastage arising out of any supply chain activity.
While many developing countries are yet to pass legislation with regard to environmental safeguards, recycling, e-waste disposal processes, the Multi National Organizations have already adapted processes of reverse logistics and implemented them in all countries wherever they have operations.
Today taking responsibility to take back the packaging and products has been found not only to yield scrap and salvage value, but is increasingly being looked upon as corporate responsibility and part of corporate governance and good practice adopted by responsible companies.

No doubt this provides value to marketing strategy too, and improves the corporate image of the business.
Advantages of Reverse Logistics

The following are the advantages of Reverse Logistics:

1. Reverse Logistics offers several advantages to the company in terms of both tangible and intangible benefits. In the first instance, companies are able to retrieve defective equipments and parts which are either salvaged or refurbished and thus reclaim value out of the defective parts.

2. Distributors are more likely to be open to stocking all fast moving as well as slow moving stocks. Also, the packaging and defective materials are collected and recycled, thereby generating scrap value back for the company.

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Advantages of Reverse Logistics

The following are the advantages of Reverse Logistics:

• The unsold and obsolete equipments are collected back from point of sale which encourages the distributors and stockists to confidently buy stocks from the company knowing that he can always return unused inventory and not stand to lose in the bargain.

• In the eyes of the customer and society, the organization stands to gain a good standing and a reputation of being a ‘responsible company’ which takes care of the e-waste and hazardous waste and thus stands out for its corporate governance policies.
Advantages of Reverse Logistics

The following are the advantages of Reverse Logistics:

- Reverse logistics has been successfully adapted as marketing strategy. Refurbished computers are sold at cheaper prices by all leading brands and the demand for such goods seems to be growing.

- Many consumer durable manufacturing companies offer buy back or exchange offer for the old equipments in lieu of the customer purchasing a brand new product. Such exchange offers are a big hit during discount sale seasons.
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Vendor Managed Inventory (VMI)

Vendor Managed Inventory or VMI involves a collaborative and continuous inventory supply that is owned, managed and replenished by the Manufacturer right up to the last stocking point or point of sale to end customer.
Vendor Managed Inventory (VMI)

The VMI concept is widely being used by companies both as procurement business model and FG supply chain model. Industries like retail supermarkets, consumable supplier industry, electronic hardware industry and Automotive Components industries have adopted these strategies effectively to improve their supply chain efficiencies.
Vendor Managed Inventory (VMI)

VMI concept aims to reduce inventory in the pipeline, besides achieving the concept of ‘JIT - Just In Time’ where in the ownership of the inventory lies with the supplier until the time of usage or sale where it gets transferred to the buyer. This model also reduces operational costs of logistics and inventory management for the buyer.
Vendor Managed Inventory (VMI)

VMI’s success depends upon several factors. It greatly depends upon the existence of a strategic partnership and alliance between the supplier and the distributor as well as the logistics service partners. On the part of the supplier, a participative approach is required to grow the relationship by investing into enhancing the value for the customer and extending customer relationship management initiatives.
Vendor Managed Inventory (VMI)

The supplier should agree to own the inventory until the point of call off and continue to monitor and manage the inventory besides ensuring replenishments. The customer being the distributor or a manufacturing plant in this case appreciates the supplier initiative and takes an interest in coordinating and cooperating with supplier and supervises at times the 3PL who is situated at his premise or at a nearby location.
Vendor Managed Inventory (VMI)

In the case of Raw Material supplies and OE Supplies to Manufacturing plants, the VMI programs are driven by the procurement logistics team of the plants. The VMI warehouses are operated upon by a designated 3PL within the plant premises or at a nearby location. In such cases, though the inventory belongs to the supplier and the cost of operations are paid for by the supplier, the procurement logistics team of the plant continues to monitor, supervise and manage the 3PL service provider as the suppliers do not have the visibility or effective control over 3PL at such remote locations.
In any Supply Chain, Inventory Management and Warehousing form a part of operations intensive function and is one of the key building blocks in the entire chain. Most of the inventory is held at the warehouses as compared to the pipeline, and the efficiency of the warehouse operations will determine the supply chain efficiency.
Generally, now-a-days, it is a normal industry practice to outsource the warehousing operations to a 3PL Logistics service provide. However, the SCM managers who are the decision makers and network owners should know the intricacies of warehouse operations and get actively involved in choosing the right partner and the right facility.
A distribution center or a warehouse is the key to the entire model as it holds the inventories and also manages other operations like bundling, packing, labelling, co-packing, kitting etc. as per buyer requirement. Most of the marketing and buyers requirements are met with from the warehouses.
Many factors and elements contribute to successful operations of a distribution center. The time taken to detail the project and build a model taking into account all considerations will go a long way in ensuring operational efficiency of the supply chain.
Elements of a Warehouse Management System

The following are the crucial elements of a warehouse management system:

- Physical Infrastructure
- IT Systems

Let’s look at each in detail.
The building blocks or operational criteria of an ideal Warehouse Management System includes location, structure, roof height and flooring, design and external layout, utilities and facilities in the premise, internal layout design, storage infrastructure, material handling equipments, lighting and safety equipments and mechanisms, office infrastructure, IT and communications infrastructure, power and backup services and finally accessibility of the location and availability of labor. The list can be exhaustive and depends upon specific needs of each buyer’s business.
The efficiency of warehousing operations is highly dependent not only upon the physical infrastructure but the system and intelligence that controls, directs and manages the physical transactions. A robust WMS capable of managing inventory and locations which is RF driven or enabled, would be the backbone of a good efficient warehouse.
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Functions of a Warehouse Management System

The Warehouse Management System carries out the following functions:

- **Reporting Function**
- **Cycle Count Process**
- **Operations Front Functions**
- **Inventory Front Functions**

Let us look at each in detail.
Functions of a Warehouse Management System

The Warehouse Management System carries out the following functions:

Let us look at each in detail.

On the inventory front, the system maintains inventory in the warehouse at Zone and individual location level, SKU level, pallet wise, carton wise and unit level for multiple customers. It also allows specific inventory attributes and parameters to be built-in to manage, allocate or block the inventory. The system also provides options to adapt FIFO, LIFO or other methods of inventory flow.
The Warehouse Management System carries out the following functions:

On the Operations front, the system manages, controls and directs all operations including receiving processes, put away processes, order processing, inventory allocation, picking process, packing process and finally shipment along with inventory updating. The intelligent system guides and helps operations manager to schedule and manage all operations for various groups and teams depending upon the work load and pattern and thereby manage resource allocation too.

Let us look at each in detail...
Functions of a Warehouse Management System

The Warehouse Management System carries out the following functions:

Let us look at each in detail.

Another critical function of WMS is the cycle count process which is required to maintain the health of the inventory. WMS initiates daily cycle count and wall to wall counts as per user specification and attributes.

Let us look at each in detail.
Functions of a Warehouse Management System

The Warehouse Management System carries out the following functions:

- **Reporting Function**
- **Cycle Count Process**
- **Operations Front Functions**
- **Inventory Front Functions**

Also, the WMS is able to provide various types and categories of reports and information related to inventory, shipments, transactions, timings of transactions and many more parameters.

Let us look at each in detail.
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Managing Warehouse Operations is to maintain harmony between people, systems and processes. As long as these elements are balanced and in harmony the operations go on smoothly and efficiently. The various factors that affect the efficiency of warehouse operations are as follows:

- People
- Workforce – Quantity & Job Structure
- Right Skill Sets
- Attitude and Outlook

Let us look at each in detail.
Factors affecting Warehouse Operational Efficiency

People:

People are very important assets of warehouse operations. Human resources can be the strongest and the weakest link in warehouse performance. Even in a highly automated and system controlled design, warehouse operations are heavily dependent upon people to run and manage operations.
People: People are very important assets of warehouse operations. Human resources can be the strongest and the weakest link in warehouse performance. Even in a highly automated and system controlled design, warehouse operations are heavily dependent upon people to run and manage operations.

Factors affecting Warehouse Operational Efficiency

- Workforce – Quantity & Job Structure
- People – Right Skill Sets
- Attitude and Outlook

Typically in warehouse operations, the various resource categories are MHE Operators, Operations staff who manage shipments, put away, material picking tasks and other operations including labelling, packing, kitting, inventory counting, documentation and systems operators. These resources are mainly categorized into team leaders and operators.

Normally in warehouse operations, the manpower resource structure is employed in a mix of, on the company role jobs, on contract and temporary or daily wages and outsourced contract labor. The categorization is based on the nature and skill set requirement of each job coupled with criticality of the position and the local supply and availability of resources.

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Factors affecting Warehouse Operational Efficiency

People

Workforce – Quantity & Job Structure

Right Skill Sets

Attitude and Outlook

Workforce – Quantity & Job Structure:

Many times in third party managed warehouses, workforce strength is often an issue which affects the operational efficiency. It has been noticed that few local managements try to cut corners by under staffing at various levels and extending the working hours or job responsibilities and trying to save costs. There can be several instances of shortage of manpower from the strength that has been planned and budgeted for.
Factors affecting Warehouse Operational Efficiency

Any warehouse operation needs to have an optimum workforce budgeted based on clear cut tasks and volumes of transactions. As all operations are time bound activities having inter-related tasks and dependencies, estimation of work and work division clarity is essential to avoid over staffing or under staffing. Over staffing can result in slackness in individual performance levels besides increasing the costs.

Warehouse activities are often found to be seasonal and cyclical. The business type and seasons result in peak seasons and low seasons that place similar demands on the warehouse to step up operational through puts or cut down on operations. Moreover, internal requirement also creates temporary demand for workforce. Extra teams are called for during year end operations, annual wall to wall stock takes or any internal inventory exercises etc.

Warehouses source temporary labor and resources from local nearby areas to manage these sudden surges in demands. Therefore warehouse operations are never in a stable state or status quo for a long time. Managing people dynamics holds key to managing operations effectively.
Factors affecting Warehouse Operational Efficiency

Right Skill Sets:
In warehousing operations, process and system compliance demands keen focus and discipline at all levels. The skill sets and attitude requirements are different for different jobs. The skill set requirement is more linked to attitude and functional capability of the persons and less dependent upon knowledge or educational qualification.
At operating level, people are required to understand what is expected of them, be able to follow the process and comply with the process and instructions. The operations require manual dexterity and ability to be on feet for long durations besides being able to bend down and reach up constantly to pick up items. Ability to lift small weights and walk distances in the warehouse are a must have traits. These practical points have to be kept in mind and evaluated while hiring people.
Factors affecting Warehouse Operational Efficiency

People

Workforce – Quantity & Job Structure

Right Skill Sets

Attitude and Outlook

Attitude and Outlook:
It has been seen in warehouse operations that the workforce attitude towards the company, job and customer plays an important role in the operations. Studies done in various cases have shown a direct link between people’s attitude and commitment to day to day operations.
It has been seen in warehouse operations that the workforce attitude towards the company, job and customer plays an important role in the operations. Studies done in various cases have shown a direct link between people's attitude and commitment to day to day operations. Wrong shipments, short shipments and defective deliveries coupled with warehouse equipment damage, misuse and accidents are few of the results of the problems that show up and need correction of attitudes at individual levels. Inventory management functions are highly vulnerable to individual performance and attention to detail.

A good warehousing operations management team who is sensitive to the above factors and is equipped to manage a team and the dynamics would be successful in ensuring efficient operations.
Supply chain processes help the corporate finances in 2 ways:

They can reduce the direct cost of operations affecting their cost of goods sold. This means higher margins, reflected in the bottom line.

They can make the operation more efficient, therefore reducing the working capital required to support these operations. By reducing the working capital required to support the operations, these supply chain function increases the efficiency of deployed asset.
Supply Chain Processes Reducing Various Costs

How supply chain initiative can help reduce these costs?
Supply Chain Processes Reducing Various Costs

- Distribution costs primarily consist of warehousing and transportation supply chain processes that can help reduce these costs are network, planning, warehouse management and transportation management.

- These costs can be reduced through the strategic sourcing, bid optimization and supplier contracts-based optimization. Good demand forecasting and supply management practices also help in reducing cost of merchandise.

- Labor costs for retailers are in the warehouse and the stores. Warehouses management processes can help directly reduce the labor costs in the warehouse by better labor planning, scheduling and task tracking.
An approach to visualizing and managing capacity that recognizes that nearly all products and services are created through a series of linked processes, and in every case, there is at least one process step that limits throughput for the entire chain.
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Steps to Improve Throughput of Process Chain

1. Identify the constraint
2. Exploit the constraint
3. Sub-ordinate everything to constraint
4. Evaluate the constraint
5. Find the new constraint and repeat the steps
Steps to Improve Throughput of Process Chain

1. **Identify the constraint**
   - The constraint can be anywhere in the chain – including the customer.

2. **Exploit the constraint**
   - Sub-ordinate everything to constraint.
   - Evaluate the constraint. Effective utilization of the constraint is the most important issue. Everything else is secondary.
   - Find the new constraint and repeat the steps.

An hour of throughput lost at the constraint is an hour of throughput lost for the entire chain. It is therefore imperative that organizations carefully manage the constraint to ensure an uninterrupted flow of product.

Essentially this means to find ways to increase the capacity of the constraint.

As the effective capacity of the constraint is increased, it may still be a constraint. In that case, the emphasis should shift to finding and exploiting the new constraint.

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Sources of Risk in Supply Chains

- Environmental risk
- Supply risk
- Process risk
- Demand risk
- Control risk
SCM is difficult because ‘uncertainty is inherent to every supply chain’ due to the following:

- Travel times
- Breakdowns of machines and vehicles
- Weather, natural catastrophe, war
- Local politics, labor conditions, border issues
SCM is difficult because 'the complexity of the problem to globally optimize a supply chain is significant' due to the following:

- Minimize internal costs
- Minimize uncertainty
- Deal with remaining uncertainty
- Local and international competitors
You as a company have to comply with the standards and norms for driver management and safe loading aspects. Hence, the workplace safety compliance umbrella now covers your own supply chain too. So, this means that you are responsible for load safety. So, everyone in the chain, from consignor through to consignee and everyone in between, is now also responsible for how goods are packed and loaded onto vehicles.
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Key Issues of Forecasting in SCM

Forecasts are important management tools when some methods are applied to reduce uncertainty. However, forecasts are faced with the following issues:

**Forecasts are never right:** Forecasts are very unlikely to predict the actual demand which will not be exactly equal to the forecast demand.

**The longer the forecast horizon, the worst the forecast:** A forecast for a year from now will never be as accurate as a forecast for 3 months from now.

**Aggregate forecasts are more accurate:** A demand forecast for all CV therapeutics will be more accurate than a forecast for a specific CV-related product.
Emerging Best Practices in SCM Strategy

Let us look at each in detail.

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Emerging Best Practices in SCM Strategy

- Expand planning to include customers and suppliers with joint objectives for customer service, flexibility, cycle times and inventory
- Setting up an end-customer pull-based planning approach – e.g., make to order
Emerging Best Practices in SCM Strategy

- Joint development and sharing the risks/benefits
- Development of strategic supplier relationships
- Automated/vendor-managed rapid replenishment of inventory to point of use and time of use

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Emerging Best Practices in SCM Strategy

- Centralized safety stock with rapid response to market demand/inventory deployment
- Ship direct to end-user/single point of handling
Emerging Best Practices in SCM Strategy

- Postponement manufacturing (Pull vs. Push approach)
- Design for supply chain/manufacturing
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Tips for Effective Supply Chain Management

The following are some of the tips for effective Supply Chain Management:

- View your supply chain as a strategic asset
- Develop an end-to-end process architecture
- Design your organization for performance
- Build the right collaborative model
- Use metrics to drive business successes

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Globus Inc. is a new entrant in the market of Computers and Laptops. It has newly launched its L Series of Desktops and H Series of Laptops.

1. What role will reverse logistics play in the Supply Chain of Globus?
2. How can an effective and efficient reverse logistics system benefit Globus?
Introduction to Supply Chain Management

Let's look at each in detail.

Functions of a Warehouse Management System

Steps to Improve Throughput of Process Chain

Supply Chain Planning Function

Supply Chain Execution Function

Tips for Effective Supply Chain Management

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Summary

Introduction to Supply Chain Management

Functions of a Warehouse Management System
- Operations Front Functions
- Inventory Front Functions
- Cycle Count Process
- Reporting Function

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Summary

Network Design ➔ Demand Planning ➔ Supply Planning ➔ Supply Chain Planning Function ➔ Logistics Capacity Planning

Introduction to Supply Chain Management

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Tips for Effective Supply Chain Management

- View supply chain as a strategic asset
- Develop end-to-end process architecture
- Design organization for performance
- Use metrics to drive business successes
- Build right collaborative model

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Introduction to Supply Chain Management

Supply Chain Execution Function

Supply Management

Transportation Management

Return Logistics Management

Warehouse Management

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