

Supply Chain Management: Our Future, Our Opportunity, Our Responsibility

“Extra, extra, read all about it! Supply Chain takes industry by storm!” While this harkens back to news alerts of yore, this rings true for the sentiment voiced by many business leaders, journalists and academics regarding the importance of supply chain management (SCM) in business practice today. And yes, we **do** read all about it – but what is at stake with SCM calls for far more than reading about it. Many have invested in SCM and many of those have benefited, yet there still remains a significant opportunity for impact from SCM. It is important to note that the benefits on the line go beyond profit improvement for corporations (that is indeed important) to include larger, more global impacts on the environment, potentially higher standards of living, and higher resource utilization. While these benefits are beyond the business environment, one must start at the business case for SCM to access the greater good at stake.

SCM is particularly important when one considers that there are approximately 7 million manufacturers in the US, of which 200,000 establishments are related to transportation and warehousing. Transportation services alone account for 5% of the total GDP – US\$ 560 billion dollars – and employ 4.5 million people.

“Let’s start at the very beginning...” Supply chain management (SCM) is an important area to business strategy since it allows management of multiple relationships across the chain, ensuring coordination and alignment of firms’ distribution, production and procurement needs. This alignment allows companies to make significant improvements in inventory, response time, customer service, and operational costs all of which contribute to greater profitability. Moreover, high efficiencies and high resource utilization achieved through the effective use of supply chain management translates into few redundant shipments and less waste. Over time, companies can also integrate design for supply chains to include recycling, reducing even further material waste.

While it appears that SCM has come a long way there is still a lot of work in front of us. For instance, phantom demand is an example of an important problem impacting supply chains. When supply is scarce, competing retailers place multiple speculative orders with suppliers to hedge against supply shortages. The result can be disastrous – in the case of an agricultural products company, retailers lost trust in the manufacturer’s ability to meet their demand and ordered nearly 29% above actual demand, resulting in an out-of-pocket expense of US\$18 million to the manufacturer in returned product and transportation costs (not to mention the cost

of lost sales and the environmental effect of returns). Retailers quickly withdraw their excess orders when supply normalizes. And since suppliers have little visibility of end customer demand, they easily mistake the speculative increase in retailer orders for a long-term increase in demand for their products. Demand bubbles have severe effects to suppliers and retailers, such as unnecessary capacity, excess inventory, penalties, lost trust, lost sales, and monetary losses that can reach billions of dollars. In addition to the financial losses borne by the companies involved, there are also environmental losses associated with the write-offs of excess inventories. A recent example of a company caught in a demand bubble is Cisco systems. In the second quarter of 2001 the company had to announce a US\$ 2.7 billion inventory write-off.

Considering the tremendous impact that efficiencies can have on the environment helps one more clearly define the high stakes that logistics practitioners must face. Practitioners in this field are charged with a big responsibility to make best use of the resources at hand. Higher asset utilization and the need for fewer resources contribute to the environment by reducing waste and the need for recycling. Less transportation needs leads to less consumption of fuel, less congestion, and less pollution. Finally, higher firm profitability promotes the growth of new businesses resulting in higher standards of living. By applying the principles of SCM logistics practitioners create benefits that generate the necessary profits for business to support SCM. But the legacy of the logistics practitioner will extend beyond having contributed to these necessary business impacts to having made a favorable impact on our living conditions and environment, benefiting not only to their companies but also to consumers and society overall.