CHAPTER ONE

Discussion Questions

1. What is supply chain management? Will a supply chain always look like a ‘chain’?

Supply chain management is the management of supply chain activities from raw material procurement to final product delivery to customers. The supply chain includes a number of different participants, including but not limited to suppliers (and manufacturers), transporters, warehouses, retailers, and customers. A supply chain will look like a chain if a single agent is involved at each stage. However, in most cases, there are multiple participants at each stage and the supply chain becomes a network and may even look like a supply web instead of a ‘chain’.

1. Should the members of a supply chain maximize individual profits in order to increase the overall supply chain surplus? Explain.

Supply chain surplus = Customer Value – Supply Chain Cost.

A supply chain surplus will be shared across all supply chain members; however, focusing on individual profitability may lead to a reduction in the overall supply chain surplus. Hence, members should work together to maximize the overall supply chain surplus.

1. What are some strategic, planning, and operational decisions that must be made by H&M, a Swedish apparel retailer?

In planning its supply chain strategy, H&M should take into account the demographics of their consumers, their spending power, competition, and other factors to structure a supply chain that makes them a world leader in apparel retail. Strategic considerations such as customer demand, supplier location, logistics, and lead time should be part of the design. For example, H&M can carry out their design work in Stockholm, Sweden, but manufacture all their garments outside Sweden using more than 600 independent suppliers located in Europe and Asia. The final products should be sent to its central warehouse in Hamburg, Germany, and then distributed to the single distribution centers located in each country where H&M operates.

Supply chain planning is based on strategic decisions made previously and it aims to optimize efficiencies in a chain. In order for H&M to do so, the company should have a well-integrated supply chain that uses forecasting and production planning to optimize the global supply chain. For example, H&M can identify garments in high demand and then plan the manufacture of such items in Europe. Garments with longer lead times should be sourced directly from its suppliers, like H&M already does with its Asian suppliers.

The operational decisions should involve making a plan and ensuring that it is executed on a weekly/daily basis. At this point, there should be a focus on actual customer orders and ensuring that inventory and production capacity is allocated to deliver it on time. The entire supply chain needs to be coordinated to address all the production and shipping requirements. The goal is to exploit the reduction in uncertainty and optimize the performance of the supply chain.

1. Consider the supply chain involved when a customer purchases a cup of coffee at a local café. Identify the cycles in this supply chain, and the location of the push/pull boundary.

The supply chain process can be broken down into four process cycles that link the five stages of the supply chain, namely; the customer order cycle, the replenishment cycle, the manufacturing cycle, and the procurement cycle.

The customer order cycle links the customer with the retailer. When the customer orders a coffee, the café’s staff members makes it using coffee beans,[[1]](#footnote-1) and the customer pays for it. The replenishment cycle links the retailer and the distributor, and is triggered by the retailer’s need to replace the containers of coffee beans. The manufacturing cycle connects the distributor and the manufacturer. As the distributor supplies replacement coffee to the retailer, they empty their warehouses and in turn signal the manufacturer to produce more containers of coffee to fill their empty warehouses. Finally, the procurement cycle links the manufacturer to the supplier. The coffee manufacturer requires raw coffee beans to process into coffee grains suitable for making cups of coffee.

The push/pull boundary exists where demand switches from reactive (pull) to speculative (push) production. In the case of a café supply chain, the push/pull boundary is between the customer order cycle and the replenishment cycle. The customer order pulls the coffee grains needed to make a cup of coffee but the initial production of the coffee was triggered by a make order that moved materials along the supply chain to the retail outlet (the café).

1. Consider the supply chain involved when a customer buys a garment from the apparel retailer Benetton, which is similar to the L.L. Bean example discussed in the chapter. Identify the push/pull boundary and two processes each in the push and pull phases.

Benetton is a European apparel retailer that specializes in the design, production, and sale of casual wear and sportswear. They have a presence in 120 countries worldwide and have over 5,000 retail outlets that operate using a franchising model. As part of their supply chain strategy, garments are ordered by the franchisee prior to the season starting, using push demand. In this scenario, the first push/pull boundary exists between the customer and the retailer. Customer orders are a part of the pull processes in a supply chain. Examples of push processes are replenishment and production. A second push/pull boundary exists between the manufacturer and the supplier as part of the procurement cycle. Using information supplied by the retailer, Benetton delays their dyeing process until they have a clear understanding of market requirements. Here the dyeing process is a part of the pull processes. Other raw materials are supplied as part of the push processes.

1. In what way do supply chain flows affect the success or failure of a firm such as Benetton? List two supply chain decisions that have a significant impact on supply chain profitability.

Students could refer to the L.L. Bean example discussed in the chapter. The success or failure of a company like Benetton is decided by the overall effective function of its supply chain. This requires a coordinated effort in overseeing the flow of products, information, and money across the supply chain. The flow of products—from raw material suppliers to manufacturers, distributors, and finally to customers—must be rapid and reliable in order to satisfy customers. The flow of information to the supply chain allows all members to coordinate efforts. This is demonstrated through Benetton’s decision to postpone dyeing the garments until after they get clear demand information from the customer/retailer. The flow of money allows all supply chain members to maintain operations. These factors work together to maximize Benetton’s supply chain profits. This is further discussed in Chapter 13.

1. For the purpose of simplicity and in order to retain the focus on the supply chain process the answer to this question only lists the coffee beans as the raw material needed to make a cup of coffee. While coffee beans are the main ingredient/raw material, other ingredients/raw materials are needed including hot water and milk. [↑](#footnote-ref-1)