

The Objective of a Supply Chain

The objective of every supply chain is to maximize the overall value generated. The value a supply chain generates is the difference between what the final product is worth to the customer and the effort the supply chain expends in filling the customer's request. For most commercial supply chains, value will be strongly correlated with supply chain profitability, the difference between the revenue generated from the customer and the overall cost across the supply chain. For example, a customer purchasing a computer from Dell pays \$2,000, which represents the revenue the supply chain receives. Dell and other stages of the supply chain incur costs to convey information, produce components, store them, transport them, transfer funds, and so on. The difference between the \$2,000 that the customer paid and the sum of all costs incurred by the supply chain to produce and distribute the computer represents the supply chain profitability. Supply chain profitability is the total profit to be shared across all supply chain stages. The higher the supply chain profitability, the more successful the supply chain. Supply chain success should be measured in terms of supply chain profitability and not in terms of the profits at an individual stage.

Having defined the success of a supply chain in terms of supply chain profitability, the next logical step is to look for sources of revenue and cost. For any supply chain, there is only one source of revenue: the customer. At Wal-Mart, a customer purchasing detergent is the only one providing positive cash flow for the supply chain. All other cash flows are simply fund exchanges that occur within the supply chain given that different stages have different owners. When Wal-Mart pays its supplier, it is taking a portion of the funds the customer provides and passing that money on to the supplier. All flows of information, product, or funds generate costs within the supply chain. Thus, the appropriate management of these flows is a key to supply chain success. Supply chain management involves the management of flows between and among stage in a supply chain to maximize total supply chain profitability.

Chopra, Sunil and Peter Meindl. Supply Chain Management. 2 ed. Upper Saddle River: Pearson Prentice Hall, 2004.