What Is Supply Chain Management (SCM)?

Supply chain management is the management of the [flow of goods and services](https://www.investopedia.com/terms/h/hifo.asp) and includes all processes that transform raw materials into final products. It involves the active streamlining of a business's supply-side activities to maximize customer value and gain a competitive advantage in the marketplace.

SCM represents an effort by suppliers to develop and implement supply chains that are as efficient and economical as possible. [Supply chains](https://www.investopedia.com/terms/s/supplychain.asp) cover everything from production to product development to the information systems needed to direct these undertakings.

How Supply Chain Management Works

Typically, SCM attempts to centrally control or link the production, shipment, and [distribution of a product](https://www.investopedia.com/terms/d/distribution-management.asp). By managing the supply chain, companies are able to cut excess costs and deliver products to the consumer faster. This is done by keeping tighter control of internal inventories, internal production, [distribution](https://www.investopedia.com/terms/d/distribution.asp), sales, and the [inventories](https://www.investopedia.com/terms/i/inventory.asp) of company vendors.

SCM is based on the idea that nearly every product that comes to market results from the efforts of various organizations that make up a supply chain. Although supply chains have existed for ages, most companies have only recently paid attention to them as a value-add to their operations.

In SCM, the [supply chain manager](https://www.investopedia.com/articles/personal-finance/021015/job-description-and-salary-supply-chain-management.asp) coordinates the [logistics](https://www.investopedia.com/terms/l/logistics.asp) of all aspects of the supply chain which consists of five parts:

* The plan or strategy
* The source (of raw materials or services)
* Manufacturing (focused on productivity and efficiency)
* Delivery and logistics
* The return system (for defective or unwanted products)

The supply chain manager tries to minimize shortages and keep costs down. The job is not only about logistics and purchasing inventory. According to [Salary.com](http://swz.salary.com/SalaryWizard/Supply-Chain-Manager-Salary-Details.aspx?&hdcbxbonuse=on), supply chain managers, “make recommendations to improve productivity, quality, and efficiency of operations.”

Improvements in productivity and efficiency go straight to the bottom line of a company and have a real and lasting impact. Good supply chain management keeps companies out of the headlines and away from expensive recalls and lawsuits.

Supply Chains

A [supply chain](https://www.investopedia.com/terms/s/supplychain.asp) is the connected network of individuals, organizations, resources, activities, and technologies involved in the manufacture and sale of a product or service. A supply chain starts with the delivery of raw materials from a supplier to a manufacturer and ends with the delivery of the finished product or service to the end consumer.

SCM oversees each touchpoint of a company's product or service, from initial creation to the final sale. With so many places along the supply chain that can add value through efficiencies or lose value through increased expenses, proper SCM can increase revenues, decrease costs, and impact a company's [bottom line](https://www.investopedia.com/terms/b/bottomline.asp).

KEY TAKEAWAYS

* Supply chain management (SCM) is the centralized management of the flow of goods and services and includes all processes that transform raw materials into final products.
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Example of SCM

Understanding the importance of SCM to its business, Walgreens Boots Alliance Inc. placed focused effort on transforming its supply chain in 2016. The company operates one of the largest pharmacy chains in the United States and needs to efficiently manage and revise its supply chain so it stays ahead of the changing trends and continues to add value to its bottom line.

As of July 5, 2016, Walgreens has invested in the technology portion of its supply chain. It implemented a forward-looking SCM that synthesizes relevant data and uses analytics to forecast customer purchase behavior, and then it works its way back up the supply chain to meet that expected demand.

For example, the company can anticipate flu patterns, which allow it to accurately forecast needed inventory for over-the-counter flu remedies, creating an efficient supply chain with little waste. Using this SCM, the company can reduce excess inventory and all of the inventories' associated costs, such as the cost of warehousing and transportation.

What is supply chain management?

Supply chain management is the practice of coordinating the various activities necessary to produce and deliver goods and services to a business’s customers. Depending on the business in question, this could involve activities such as monitoring the manufacturing of a product, shipping the product by air, sea, or land; ensuring that it meets quality standards, and delivering the product to customers.

Why is supply chain management important?

Supply chain management is important because it can help achieve several business objectives. For instance, controlling manufacturing processes can improve product quality, reducing the risk of recalls and lawsuits while helping to build a strong consumer brand. At the same time, controls over shipping procedures can improve customer service by avoiding costly shortages or periods of inventory oversupply. Overall, supply chain management provides several opportunities for companies to improve their profit margins, and is especially important for companies with large and international operations.

What are the five elements of supply chain management?

Supply chain management is often described as having five key elements: planning, sourcing of raw materials, manufacturing, delivery, and returns. The planning phase refers to developing an overall strategy for the supply chain, while the other four elements specialize in the key requirements for executing on that plan. Companies must develop expertise in all five elements in order to have an efficient supply chain and avoid expensive bottlenecks.