

# CONTENTS

*Preface* 15

## **Part I Overview of Logistics 17**

### **Chapter 1 AN OVERVIEW OF LOGISTICS 18**

*Economic Impacts of Logistics* 18

*Logistics: What It Is* 20

*The Increased Importance of Logistics* 22

A Reduction in Economic Regulation 22

Changes in Consumer Behavior 22

Technological Advances 23

The Growing Power of Retailers 24

Globalization of Trade 25

*The Systems and Total Cost Approaches to Logistics* 25

*Logistical Relationships within the Firm* 27

Finance 27

Production 27

Marketing 28

*Marketing Channels* 30

*Activities in the Logistical Channel* 32

Customer Service 32

Demand Forecasting 33

Facility Location Decisions 33

International Logistics 33

Inventory Management 33

Materials Handling 33

Order Management 33

Packaging 33

Procurement 33

Reverse Logistics 34

Transportation Management 34

Warehousing Management 34

*Logistics Careers* 34

*Summary* 35 • *Questions for Discussion and Review* 35 • *Suggested Readings* 35

► **CASE 1.1** KiddieLand and the Super Gym 36

*Appendix 1 Logistics Professional Organizations* 37

## **Chapter 2 LOGISTICS AND INFORMATION TECHNOLOGY 39**

<i>General Types of Information Management Systems</i>	40
Office Automation Systems	41
Communication Systems	42
Transaction Processing Systems (TPS)	43
Management Information Systems (MIS) and Executive Information Systems (EIS)	45
Decision Support Systems (DSS)	46
Enterprise Systems	48
<i>The Internet's Influence on Logistics</i>	49
Online Retailing	49
Cloud Computing	51
<i>Information Technology Challenges</i>	52
Summary	53
• Questions for Discussion and Review	53
• Suggested Readings	54
▶ <b>CASE 2.1</b> Just-in-Time in Kalamazoo	54

## **Chapter 3 STRATEGIC AND FINANCIAL LOGISTICS 57**

<i>Connecting Strategy to Financial Performance</i>	58
<i>Basic Financial Terminology</i>	60
Income Statement	60
Balance Sheet	61
<i>Strategic Profit Model</i>	62
Logistics Connections to Net Profit Margin	63
Logistics Connections to Asset Turnover	64
<i>Balanced Scorecard</i>	64
<i>Logistics Activity Measures</i>	64
Transportation Measures	65
Warehousing Measures	65
Inventory Measures	66
Design and Implementation of Measures	66
Summary	66
• Questions for Discussion and Review	67
• Suggested Readings	67
▶ <b>CASE 3.1</b> Brant Freezer Company	68

## **Chapter 4 ORGANIZATIONAL AND MANAGERIAL ISSUES IN LOGISTICS 70**

<i>Organizing Logistics Within the Firm</i>	70
Organizational Structure for Logistics	71
Organizational Design for Logistics	73
<i>Managerial Issues in Logistics</i>	74
Productivity	74
Quality	76

Risk	77
Sustainability	83
Complexity	85
<i>Summary</i>	85 • <i>Questions for Discussion and Review</i>
<i>Review</i>	86 • <i>Suggested Readings</i>
▶ <b>CASE 4.1</b> Red Spot Markets Company	87

## Part II Supply Chain Management 91

### Chapter 5 THE SUPPLY CHAIN MANAGEMENT CONCEPT 92

<i>Evolution of Supply Chain Management</i>	93
<i>Supply Chain Management Process Frameworks</i>	94
<i>Enablers of SCM Implementation</i>	96
Understanding the Implications of Increased Customer Power	96
Establishing Appropriate Relationship Structures	98
Leveraging Technology for Enhanced Visibility and Communication	99
Use of Supply Chain Facilitators	100
<i>Barriers to SCM Implementation</i>	102
Regulatory and Political Considerations	102
Lack of Top Management Commitment	102
Reluctance to Share, or Use, Relevant Information	103
Incompatible Information Systems	103
Incompatible Corporate Cultures	104
Globalization Challenges	104
<i>Supply Chain Integration</i>	104
<i>Summary</i>	105 • <i>Questions for Discussion and Review</i>
<i>Review</i>	106 • <i>Suggested Readings</i>
▶ <b>CASE 5.1</b> Johnson Toy Company	107

### Chapter 6 PROCUREMENT 110

<i>Procurement Objectives</i>	111
<i>Supplier Selection and Evaluation</i>	112
Procurement Portfolio Approach	114
Supplier Development (Reverse Marketing)	115
<i>Global Procurement (Sourcing)</i>	115
<i>Sustainable Procurement</i>	117
Social Responsibility	117
Investment Recovery	118
<i>Summary</i>	119 • <i>Questions for Discussion and Review</i>
<i>Review</i>	119 • <i>Suggested Readings</i>
▶ <b>CASE 6.1</b> Tempo Ltd.	120

## **Part III Elements of Logistics Systems 125**

### **Chapter 7 DEMAND MANAGEMENT, ORDER MANAGEMENT, AND CUSTOMER SERVICE 126**

<i>Demand Management</i>	127
Demand Forecasting Models	127
Demand Forecasting Issues	128
<i>Order Management</i>	129
Order Transmittal	130
Order Processing	130
Order Picking and Assembly	132
Order Delivery	133
<i>Customer Service</i>	134
Time	135
Dependability	135
Communication	135
Convenience	136
<i>Managing Customer Service</i>	136
Establishing Customer Service Objectives	137
Measuring Customer Service	138
Customer Profitability Analysis	140
Service Failure and Service Recovery	141
Summary	142
Questions for Discussion and Review	142
Suggested Readings	142
► <b>CASE 7.1</b> Handy Andy, Inc.	143
<i>Appendix 7</i>	145

### **Chapter 8 INVENTORY MANAGEMENT 147**

<i>Inventory Classifications</i>	148
<i>Inventory Costs</i>	149
Inventory Carrying Costs	149
Ordering Costs	150
Trade-Off Between Carrying and Ordering Costs	151
Stockout Costs	151
Trade-Off Between Carrying and Stockout Costs	153
<i>When to Order</i>	153
<i>How Much to Order</i>	154
Economic Order Quantity	154
Conditions of Uncertainty	156
<i>Inventory Flows</i>	156
<i>Inventory Management: Special Concerns</i>	158
ABC Analysis of Inventory	158
Dead Inventory	158

Inventory Turnover	159
Complementary and Substitute Products	160
<i>Contemporary Issues with Managing Inventory</i>	161
Lean Manufacturing (Lean)	161
Service Parts Logistics	162
Vendor-Managed Inventory (VMI)	163
<i>Summary</i>	165
• <i>Questions for Discussion and Review</i>	165
• <i>Suggested Readings</i>	166
► <b>CASE 8.1</b> Low Nail Company	166

## **Chapter 9 FACILITY LOCATION 168**

<i>The Strategic Importance of Facility Location</i>	169
Cost Considerations	169
Customer Service Expectations	170
Location of Customer or Supply Markets	170
<i>Determining the Number of Facilities</i>	171
<i>General Factors Influencing Facility Location</i>	171
Natural Resources	173
Population Characteristics—Market for Goods	173
Population Characteristics—Labor	174
Taxes and Incentives	175
Transportation Considerations	176
Proximity to Industry Clusters	176
Trade Patterns	177
Quality-of-Life Considerations	178
Locating in Other Countries	178
<i>Specialized Location Characteristics</i>	179
Free Trade Zones	180
<i>Finding the Lowest-Cost Location</i>	180
<i>Grid Systems</i>	180
<i>Facility Relocation and Facility Closing</i>	183
<i>Summary</i>	184
• <i>Questions for Discussion and Review</i>	184
• <i>Suggested Readings</i>	185
► <b>CASE 9.1</b> All-Indian Logistics Services	185

## **Chapter 10 WAREHOUSING MANAGEMENT 188**

<i>The Role of Warehousing in a Logistics System</i>	189
<i>Public, Private, Contract, and Multiclient Warehousing</i>	191
Public Warehousing	191
Private Warehousing	192
Contract Warehousing	193
Multiclient Warehousing	194

<i>Design Considerations in Warehousing</i>	194
General Considerations	194
Trade-offs	195
Fixed versus Variable Slot Locations for Merchandise	195
Build Out (Horizontal) versus Build Up (Vertical)	195
Order-Picking versus Stock-Replenishing Functions	196
Two-Dock versus Single-Dock Layout	196
Conventional, Narrow, or Very Narrow Aisles	196
Degree of Warehouse Automation	196
Other Space Needs	197
<i>Warehousing Operations</i>	197
Warehousing Productivity Analysis	198
Safety Considerations	198
Hazardous Materials	200
Warehousing Security	201
Cleanliness and Sanitation Issues	202
<i>Summary</i>	203
• <i>Questions for Discussion and Review</i>	203
• <i>Suggested Readings</i>	203
► <b>CASE 10.1 Minnetonka Warehouse</b>	204

## **Chapter 11 PACKAGING AND MATERIALS HANDLING 206**

<i>Product Characteristics</i>	207
<i>Packaging Fundamentals</i>	208
Functional Trade-offs	209
Package Testing and Monitoring	209
Labeling	210
<i>Issues in Packaging</i>	212
Environmental Protection	212
Metric System	213
Identifying Packaging Inefficiencies	214
Packaging's Influence on Transportation Considerations	215
<i>Unit Loads in Materials Handling</i>	216
The Unit Load Platform	217
Beyond the Unit Load	219
<i>Materials Handling</i>	220
Materials Handling Principles	221
Materials Handling Equipment	222
<i>Summary</i>	223
• <i>Questions for Discussion and Review</i>	223
• <i>Suggested Readings</i>	224
► <b>CASE 11.1 Let There Be Light Lamp Shade Company</b>	224

**Chapter 12 TRANSPORTATION 226***Comparing and Contrasting Transportation Infrastructure 227**Transportation Modes 228*

Airfreight 229

Motor Carriers 230

Pipelines 231

Railroads 232

Water 233

*Intermodal Transportation 234**Transportation Specialists 236**Transportation Regulation 238*

Environmental Regulation 238

Safety Regulation 238

Economic Regulation 239

*Legal Classification of Carriers 240**Summary 242 • Questions for Discussion and Review 242 • Suggested Readings 243*► **CASE 12.1** Truck Company 243**Chapter 13 TRANSPORTATION MANAGEMENT 247***Contemporary Transportation Management 247**Rate (Pricing) Considerations 248*

Rate Determination 248

Rate and Service Negotiations 254

*Modal and Carrier Selection 255**Documentation 256*

Bill of Lading 256

Freight Bill 257

Freight Claims 258

*Making and Receiving Shipments 260*

Consolidating Small Shipments 260

Demurrage and Detention 261

Routing 263

Tracking and Expediting 263

*Transportation Service Quality 264**Summary 265 • Questions for Discussion and Review 265 • Suggested Readings 265*► **CASE 13.1** Chippy Potato Chip Company 266**Chapter 14 INTERNATIONAL LOGISTICS 267***Macroenvironmental Influences on International Logistics 268*

Political Factors 268

Economic Factors 270

Cultural Factors 271

<i>International Documentation</i>	273
<i>Terms of Sale</i>	274
<i>Group 1: Terms that Apply to Any Mode of Transport</i>	275
EXW (ExWorks)	275
FCA (Free Carrier)	275
CPT (Carriage Paid To)	275
CIP (Carriage and Insurance Paid To)	275
DAT (Delivered at Terminal)	275
DAP (Delivered at Place)	275
DDP (Delivered Duty Paid)	276
<i>Group 2: Terms that Apply to Sea and Inland Waterway Transport Only</i>	276
FAS (Free Alongside Ship)	276
FOB (Free on Board)	276
CFR (Cost and Freight)	276
CIF (Cost, Insurance, and Freight)	276
<i>Methods of Payment</i>	276
<i>International Trade Specialists</i>	277
International Freight Forwarders	277
Nonvessel-Operating Common Carriers	279
Export Management Companies	281
Export Packers	282
<i>Transportation Considerations in International Logistics</i>	282
Ocean Shipping	282
Shipping Conferences and Alliances	284
International Airfreight	285
Surface Transport Considerations	286
<i>International Trade Inventories</i>	287
<i>Logistics Performance Index</i>	288
Summary	289
• Questions for Discussion and Review	289
• Suggested Readings	289
► <b>CASE 14.1</b> Nürnberg Augsburg Maschinenwerke (N.A.M.)	290
<i>Glossary</i>	294
<i>Name Index</i>	303
<i>Subject Index</i>	307