

Animation 5.6

There are a variety of ways that a supplier and buyer may configure their supply chain with regards to where inventory is stored and how it is delivered.

The most common and obvious arrangement is batch delivery to stock. This is relatively straightforward. The customer orders goods from the supplier and these are delivered to the buyer in batches, to be stored by the buyer in their own storage facility on their premises.

A simple example of this would be a petrol filling station that orders new supplies of fuel from an oil company. The petrol is delivered in a tanker and piped into storage tanks underneath the filling station.

A second approach is direct delivery to production. In this instance, it is the supplier that stores the inventory and delivery to buyer takes place in response to what is needed for the buyer's production line at that time. This means frequent deliveries.

It is typically part of the just-in-time approach adopted by manufacturers, often as part of their lean manufacturing strategy.

A third alternative is to hold stock in a warehouse that is located between the supplier and the buyer. This is often the case when the supplier is supplying goods to a buyer who has many geographical locations, such as in the retail industry. Hence delivery to the warehouse might be in bulk, whereas delivery from the warehouse to shops might be in small batches.

Fourthly, there is supplier managed delivery to store. This is similar to the first example, but instead of the buyer ordering goods from the supplier (the so-called 'pull' system), it is the supplier that determines what stock to send to the buyer (the so-called 'push' system).

Another approach is to have supplier managed store facilities. In this instance, the stores are physically located on the buyer's premises, but are totally managed by the supplier (reverse triangle). Another name for this approach is 'vendor managed inventory'. It has been widely adopted by motor manufacturers.

Finally there may be no storage facility or warehouse at all, with direct delivery from supplier to the buyer's customers. For instance, the buyer might be a web-based retailer who sells products online to customers. When these are ordered, the buyer passes the order on to the supplier who delivers the product directly to the customer.