



Preface

The Handbook of Supply Chain Costing was developed to assist supply chain executives in expanding their visibility and management of cost information. Supply chain management offers tremendous potential to increase performance and decrease costs while substantially improving the value proposition experienced by the end user and other key stakeholders. Despite major strides forward in integrating their supply chains, executives have achieved only the “tip of the iceberg” in terms of the potential savings available through supply chain management.

To achieve the full potential of supply chain management, executives require a much broader view of costs than is currently available through their firms’ cost management systems. They need to improve their internal cost information and extend their “line of sight” to include their trading partners’ costs—both upstream and downstream. Without a broader perspective of cost, supply chains and their associated costs cannot be effectively managed since many costs incurred within a firm are driven by the business practices of external trading partners. Extending cost visibility across the supply chain coupled with inter-firm cost management can reveal new and potentially greater opportunities for cost reduction than can be achieved by a single firm.

Numerous challenges confront executives attempting to extend their visibility and control over costs beyond the boundaries of their firms. Existing cost systems largely have an internal focus and do not possess the capability to portray cost information as required to support supply chain decision making: by product, supply chain process, customer, and distribution channel or supply chain. Trading partners often refuse to share their costs due to the possibility of opportunistic action within the supply chain, reduced leverage during price negotiations, release of sensitive competitive information, or simply the inability of their costs systems to produce the necessary information. An effective mechanism for fairly allocating the benefits and burdens resulting from collaborative action is missing in many supply chain relationships. Although collaborative action frequently creates value for the participating firms, executives lack the cost and financial tools to measure and demonstrate the value created.

The purpose of this *Handbook* is to assist executives in their pursuit of supply chain costing. The implementation process is described as a journey. Although the firms participating in the supporting case study research had a clear vision of what they sought to achieve, none had fully completed the process. The journey these firms have followed serves as a roadmap for others to follow. The journey taken by a firm may differ



depending on the cost information required, position in the firm, strategies employed, and position in the supply chains in which it participates. In many instances, firms will need to iterate through the process after having developed a foundation internally that would support the development of supply chain costing.

More than 20 firms participated in the supporting research and provided extensive insight and examples related to implementing supply chain costing. The companies participating in the research represented a wide range of industries where supply chain executives place a high priority on cost management and control. The industries represented by these firms included consumer goods, food products, pharmaceuticals, automotive, and aviation. The firms selected for the research included those recognized as leaders in supply chain management, cost management and control, and collaboration with their trading partners. Suppliers and customers of these firms were also included to better understand the exchange of cost information within these supply chains. Due to the confidential nature and sensitivity of cost information, these firms have asked to remain anonymous. In addition, the research performed an exhaustive analysis and review of previous logistics and supply chain costing studies, and relevant information from this review is incorporated throughout the *Handbook*.

Implementation of supply chain costing can provide the next major breakthrough in supply chain management, propelling firms to the next higher plateau in value creation. The authors wish you the greatest success as you explore and move forward in your journey to implement supply chain costing. We believe this *Handbook* can assist you in your journey as an invaluable reference during your efforts.

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