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The point of purchase decision in a supply chain with value-added reselling

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Abstract

We explore a stylised decision model in order to better understand the trade-offs inherent in locating the point of purchase on a supply chain. In simple terms, a supply chain can be visualised as a series of value-adding production stages where the end product becomes increasingly differentiated as it travels downstream. The manufacturer is responsible for all processing up to the point of purchase, whereas the buyer (a value-added reseller) is responsible for further processing up to the end of product completion. Product demand becomes more and more uncertain with each downstream stage resulting in ever larger errors in matching demand with supply. Our paper proposes an approach and a model for finding the best location for the interface between the manufacturer and buyer so that the buyer's expected total profit is maximised, and explores how product characteristics such as configurability and lead time sensitivity of demand might impact the results.

Keywords:

supply chain management | push–pull systems | value-added reselling | newsvendor model

Disclosure statement

No potential conflict of interest was reported by the authors.

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