

The Challenges to and Opportunities for Growth in SMBs: A Supply Chain Perspective

Columbus CSCMP Roundtable

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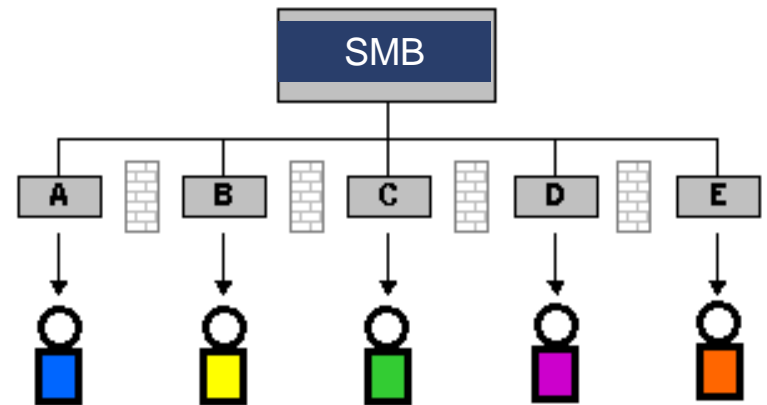
**Columbus, OH
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Agenda

- **Familiar Challenges for SMBs**
- **Unique Advantages and Opportunities of SMBs**
- **Solutions to Challenges and Examples**
- **Keys to Transforming from an Operational to a Supply Chain Focus**

Familiar Challenges for SMBs

1. Supply Chain Organizational Design
2. Supply Chain Network Design
3. Economic Leverage
4. Business Process Discipline
5. Integrated Technology Enablers
6. Global Expertise
7. Talent Management
8. Investment Capital



Familiar Challenges for SMBs

1. Supply Chain Organizational Design

- What is the appropriate senior supply chain executive (title) and organization in the supply chain area for a SMB as it grows?
- Might require an evolution over time as company and organization grows
 - **Manager to Director to Vice President**
 - **Perhaps Distribution to Logistics to Supply Chain**

2. Supply Chain Network Design

- **How many DCs are needed?; Where should they be located?; Which customers should be served by which facility?; What should be manufactured where?**
- **Once a company goes from a single facility to two or more, there may be some opportunities to optimize the network for current and future volumes**
 - **Focus is on local, single facility solution for materials and services purchasing**

Familiar Challenges for SMBs

3. Economic Leverage

- Without large coffers to fund supply chain initiatives, SMBs have to be more creative in the area of financing growth
- What are the ways to expand geographic reach both domestically and internationally with minimal investment?
- How can a SMB secure good transportation rates and ensure capacity?

4. Business Process Discipline

- Requires documentation of internal processes which doesn't exist at many companies—both large and small
- Efficiency gains are easier to achieve if business processes are made standard or uniform

Familiar Challenges for SMBs

5. Integrated Technology Enablers

- Traditionally, SMBs were limited as to their access to state-of-the-art supply chain software
- Often used cobbled together data management tools including Excel spreadsheets

6. Global Expertise

- Most SMBs don't have a great deal of international expertise in-house
- Typical start from one U.S. plant and related sales and then growth beyond original markets

Familiar Challenges for SMBs

7. Talent Management

- Traditionally hard to recruit top supply chain talent to SMBs due to lack of name recognition
 - SMBs are challenged in offering salaries comparable to Fortune 500 companies
 - Result can be less experienced personnel and less supply chain knowledge
- Hiring budgets made it more difficult to hire top talent either for experienced personnel or top grads from supply chain programs

8. Investment Capital

- SMBs often don't have significant internal cash resources to expand operations
- Smaller firms have more difficulty raising investment capital from outside the company as well
 - Therefore, growing corporate footprint with minimal investment is important

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Unique Advantages and Opportunities of SMBs

Advantages

- 1. Smaller, flat organization with access to senior management**
- 2. Adaptability, flexibility, speed, responsiveness**
- 3. Private Ownership**
 - Long term focus vs. Wall Street earnings expectations
- 4. Results Orientation**
 - All levels more in tune with bottom line impacts
- 5. Entrepreneurial**
 - Failures from taking risks more accepted
- 6. Virtual Organization**
 - Extending capabilities with third party expertise



Unique Advantages and Opportunities of SMBs

Opportunities

- 1. Use supply chain principles to drive corporate strategy**
 - No longer is supply chain only an enabler
- 2. Expand markets**
 - New geographies
 - New trade channels
- 3. Know the capital investment strategy**
- 4. In a smaller company, more likely to know the priority of investment spend**
- 5. Manage risk**
 - Create and implement continuity plans for disruptions
- 6. Lead expansion plans**
 - Where/when facility recommendations
- 7. Improve planning efficiency**
 - Understand bottlenecks and gaps



Unique Advantages and Opportunities of SMBs

Opportunities to Increase Corporate Revenue

1. Source New Products and Services

- Partner with suppliers to bring new ingredients, products and delivery methods to market

2. Improve Service

- Own the metrics, take action and secure the service relationship with customers

3. Boost Cash Flow

- Manage inventory and open receivables
 - Determine and apply inventory carrying cost

4. Finance Growth

- Manage the cost structure—supply chain costs are significant portion of total corporate costs (cost of goods, etc.)

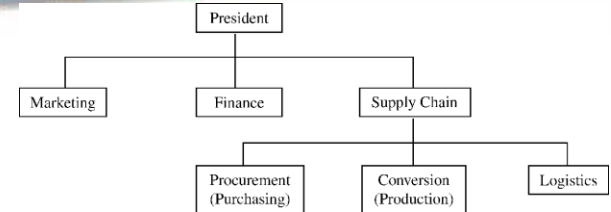
5. Use Lean Principles

- Become the expert in business planning processes to improve physical flow
 - Demand planning, inventory planning, production planning, distribution planning

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Solutions to Challenges and Examples



1. Supply Chain Organizational Design

- **A SMB manufacturer of industrial products revised their organization to include a holistic supply chain view**
 - **Hired a Director of Sourcing and Procurement**
 - **Hired a Manager of Transportation**
 - **Both report to Vice President of Operations and Supply Chain**
 - **Goal is to eventually have two directors reporting to VP—one for inbound and procurement and one for outbound**
 - **Trying to give incumbents the chance to grow into more responsible positions**

Solutions to Challenges and Examples



2. Supply Chain Network Design

- **Once a SMB grows from one to two or more facilities, there are typically benefits from modeling**
 - **Supply chain operations of multiple, autonomous divisions can be integrated for better service and lower cost**
- **Network modeling software pricing options now allow SMBs to use state-of-the-art modeling tools to determine optimal distribution network**
 - **Distribution network strategy software companies offer a lease rate which makes modeling affordable for a SMB**
- **Worked with multi-divisional company with duplication in region to streamline network**
- **Not just for facility location—customer service issues as well**

Solutions to Challenges and Examples

3. Economic Leverage



- **SMB Manufacturer used international contract manufacturers and logistics service providers to increase their global reach without direct investment**
 - **Created a phased approach to international expansion**
 - **First Asia and then Eastern Europe**
 - **Goal is to make and sell in-region rather than manufacture in cheaper location to distribute in U.S.**
 - **Product characteristics prohibit long distance transits**
 - **Big, bulky**
 - **Light and somewhat fragile**

Solutions to Challenges and Examples

4. Transportation Specific Issues

Secure Transportation Capacity for Goods and Mitigate Rate Increases

- **Reduce reliance on spot market purchases (single move purchase with no contract) and lock in contract rates**
 - Many companies went to the spot market as rates declined to get lower rates
 - They could take advantage of dropping rates during the recession
 - Didn't want to lock in rates with carriers if rates were decreasing
- **Currently, those using the spot market are paying higher rates than contracted rates IF they can even get a carrier to move the product**
- **Negotiate contracts that guarantee vehicle capacity when your company needs it**
- **Have backup sources of transportation like freight brokers to supplement your contracted carriers**

Solutions to Challenges and Examples

4. Transportation Specific Issues

Validate Your Rates

- **Check in periodically (every three to six months) to see overall market rates compared to your negotiated rates**
 - It doesn't cost you anything to get competitive rate quotes
 - Benchmark with non-competitors on rates
 - Find companies with similar shipping needs (TL, LTL, geographic coverage, etc.) but ship different types of products
- **Inbound shipments**
 - Have supplier show you what you are paying for freight **SEPARATE** from product cost (on prepaid and add terms)
 - Do your best to find what your inbound freight costs even if it is part of the product purchase price

Solutions to Challenges and Examples

4. Transportation Specific Issues

Collaborate with Carriers and Lock in Better Rates as a Result

- **Share your sales forecasts converted to shipment volumes with carriers to help them plan their operations**
 - Volumes—trucks per week
 - Days on which you want to ship
 - Lanes
 - Seasonality/changes in volume across the year
- **Be a good shipper**
 - Schedule a pickup time and be ready when carrier arrives
 - **Understand hours of service constraints on drivers**
 - Have product unitized to aid in loading (e.g. shrink wrapped)
 - Pay carriers quickly

Solutions to Challenges and Examples

4. Transportation Specific Issues

How To Avoid Expediting/Rush Shipment Costs

- **Need to address both inbound and outbound**
 - **Inbound**—work to manage or keep watch over inbound carriers
 - **This is often harder for smaller companies whose suppliers manage their inbound freight, but YOU are the customer**
 - Hold suppliers to their service level agreements (SLAs)
 - If your delivery requirements aren't spelled out, do so
 - **Outbound**—Get SLAs to your carriers or third parties for your delivery needs
- **Have negotiated contracts in place that guarantee rates and your desired level of service**

Keep up with and get involved on issues around regulation

- **Hours of Service and CSA**

Solutions to Challenges and Examples

4. Transportation Specific Issues

Challenges for Smaller Firms

- **Not enough freight to secure significant volume discounts**
- **Small transportation department often without specific training or schooling in transportation**

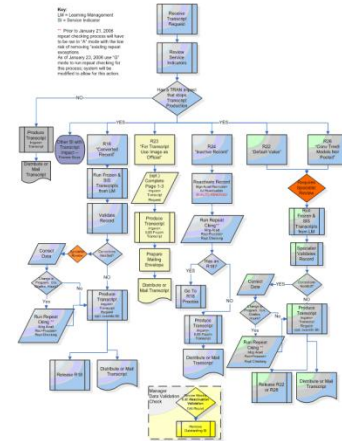
Options to Help Mitigate Lack of Volume

- **Domestic shipments**
 - **Work with third party providers (e.g. brokers and forwarders) on whose rates you can piggyback to get discounts you couldn't achieve on your own**
- **International shipments**
 - **Work with brokers/forwarders who can secure containers for you**
- **Combine transportation volumes across all plants and distribution facilities**
 - **Don't purchase locally per each facility**
- **Work with regional carriers if you can't get leverage with national carriers**
 - **Your volumes might mean more to a regional player**
- **Send your people to transportation conferences and courses**

Solutions to Challenges and Examples

5. Business Process Discipline

- **Document key business processes**
 - Purchase-to-Pay
 - Order-to-Cash
 - Plan-to-Produce
 - Produce-to-Ship
 - Sales & Operations Planning
- **Time – reduce cycle times**
- **Money – eliminate stranded inventory, free-up working capital**
- **Convert to supply chain driven sales opportunities**



Solutions to Challenges and Examples

6. Integrated Technology Enablers

- **Great news for SMBs!! Technology solutions are now affordable.**
 - **Software as a Service (SaaS) opportunities allow pricing according to use--“buy by the drink.” Typical pricing is on a monthly basis based on total usage**
- **More and more affordable supply chain technology opportunities exist**
 - **Software as a Service (SaaS) options allow SMBs to pay based on usage rather than large license fees**
 - **Procurement Solutions: Warehouse Management Systems (WMS); Transportation Management Systems (TMS); Business Intelligence (Reporting and Analysis) Solutions**
- **Selected and implemented a TMS for industrial manufacturer in three months.**
 - **No contract up front for flexibility with monthly subscription fees based on transaction volume**
 - **Volume with software provider (total transactions) has increased as company has grown.**

Solutions to Challenges and Examples

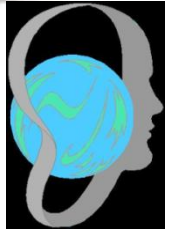


7. Global Expertise

- It is a lot to ask for a **SMB** to have strong international supply chain expertise in-house
 - Helped **SMB** manufacturer to identify global partners for both manufacturing and logistics
 - Some initial difficulties became key learnings for future opportunities
 - Major OEM and logistics service provider players might act interested initially but then back off when volumes don't match their expectations or needs
- Key learning is that large OEMs might not want to do business with **SMBs**
 - Use companies that can qualify international sources and match with your needs
 - For example, a company named **mfg.com** specializes in enabling bidding on parts/supplies from all over the world (www.mfg.com)
- Used the learnings and training to embark on their own to find additional suppliers in **Asia and Eastern Europe**

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Solutions to Challenges and Examples



8. Talent Management

- **Helped manufacturer find new, very experienced individuals without recruiter**
 - **CSCMP and ISM resume databases/clearinghouses**
 - **Saved thousands of dollars in recruiter fees**
 - **Both individuals had significant Fortune 500 experience**
- **Quality of life is now a factor in favor of the SMBs that should be emphasized when contacting potential employees**

Solutions to Challenges and Examples

9. Investment Capital



- **Grow with minimal investment**
- **Strategic global geographic positioning with 3PL's**
 - **Distribution Centers**
 - **Transportation Providers**
- **Contract manufacturers**
 - **Product portfolio**
 - **Specialty packaging**
- **Integrated technology enablers**

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Keys to Transforming from an Operational to Supply Chain Focus

- **Considering the environment within your company, are you ready to implement the following keys?**
- **If yes, you might be ready to adopt a holistic supply chain perspective**

Keys to Transforming from an Operational to Supply Chain Focus

- **Key #1--Mindset**

- **Recognize that the traditional operational focus that got you here won't work as the company continues to grow**

- **Focus on manufacturing is important but a holistic view of the company and supply chain allows “quantum leaps” in service and cost management**

Keys to Transforming from an Operational to Supply Chain Focus

- **Key #2--Education**

- **A new type of thinking is required to make the case to senior management AND board of directors as to needs and rewards of supply chain management**

- **The case made has to take into account all portions of the supply chain**
 - **Strategic Sourcing/Procurement**
 - **Transportation**
 - **Product-Plant assignments**
 - **Facility locations**

Keys to Transforming from an Operational to Supply Chain Focus

- **Key #3--Technology**

- **Tie in efforts of supply chain to IT strategy and operations**

- **The strain that growth puts on logistics/supply chain functions also affects IT**
 - **“Band-Aids” are often put on systems as a company grows but at some point the growth will cause significant problems with IT systems**

Keys to Transforming from Operational to Supply Chain Focus

- **Key #4--Collaboration**

- **Work closely with marketing/sales to agree on a reasonable growth plan**

- **Agree on one number to share internally as well as externally**
 - **Avoid “low-balling” of marketing estimates that can put manufacturing and supply chain in a bind if forecasts were too low**

Keys to Transforming from Operational to Supply Chain Focus

Question of the Day?

- **Would you rather reduce distribution costs 10% or double or even triple revenue without capital investment or BOTH?**

Questions?

Thank You!

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