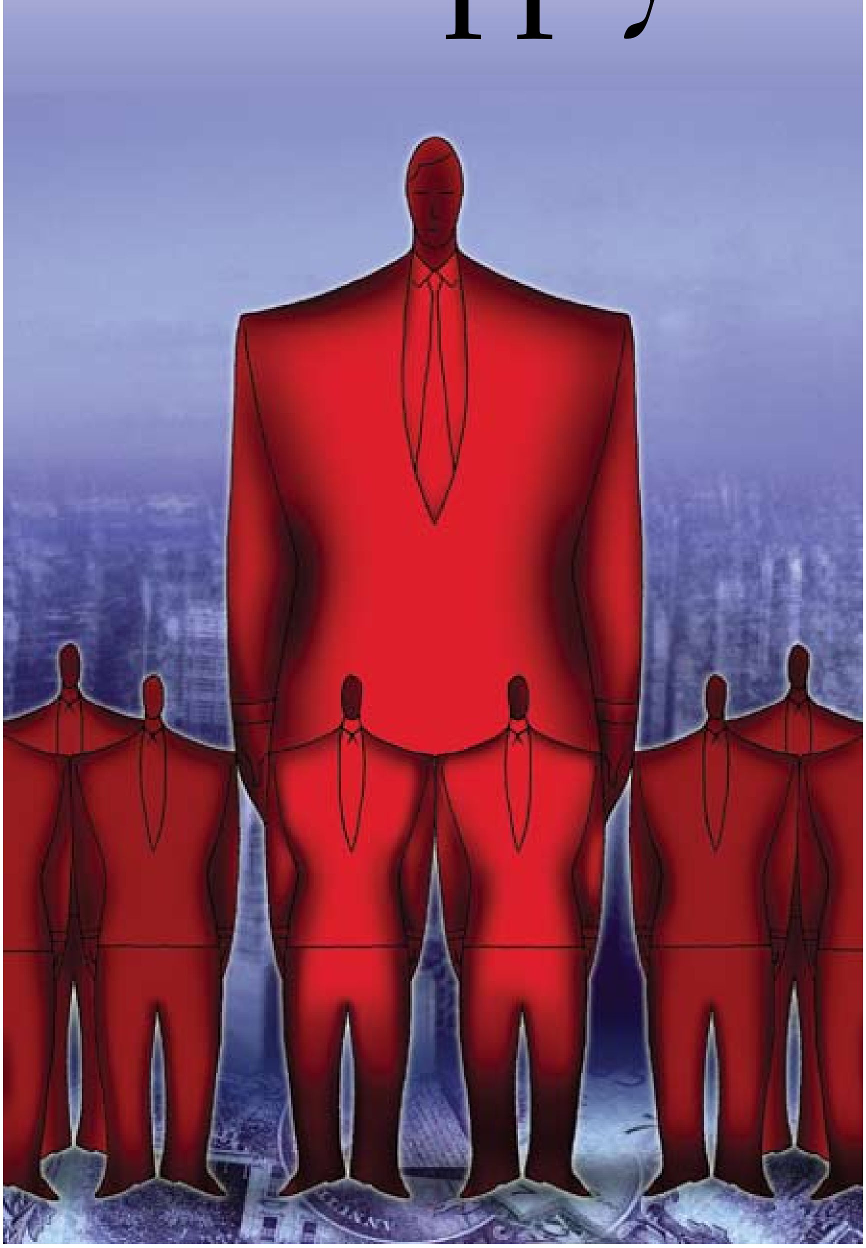
SMB? You Can Transform Your Supply Chain, Too



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We all know how many companies are in the *Fortune* 500, right? But, how many companies in the United States have revenues in the range of $50 to $500 million per year? Various estimates put the number of small to medium-sized businesses (SMBs) between 10,000 and 20,000.

Yet the majority of presentations and writings in supply chain management focus on the large, multi-billion dollar businesses. While these companies are often the leaders in supply chain innovation, not all of their concepts and ideas can be applied in the same manner—if at all—to smaller companies. SMBs face unique challenges and opportunities as they transform from a traditional, operational perspective that focuses on functional areas to a total supply chain view that looks at efficiencies and total costs across all functions.

Yet, with any company, one key point

Small and medium-sized businesses (SMBs) have much to gain from implementing advanced supply chain management practices. It would be a mistake, however, to force fit best practices from the Fortune 500 into these smaller companies. SMBs have their own unique supply chain challenges and opportunities. But if they can overcome the hurdles and grab the opportunities, the potential rewards are enormous.

holds true: Supply chain management is only a tool to help achieve the objectives set forth in the corporate strategy. A cohesive supply chain strategy can allow those corporate goals to be achieved more quickly and at a lower cost. SMBs that embrace this broader perspective of supply chain management have the potential to reap even greater improvements in efficiency and revenue growth than their larger counterparts.

Different Set of Challenges for SMBs

When small to medium-sized businesses consider implementing supply chain management initiatives, they often find themselves dealing with a unique set of challenges that larger companies typically do not face. The following are just some of those challenges. While these challenges should not deter companies from implementing supply chain management, SMBs should be aware of them and formulate tactics for responding to them.

1. Decentralized Supply Chain Organization

SMBs often are not large enough to justify centralized organizations for supply chain management. They simply cannot afford to create and support large corporate staffs in the various business functions. The result is a corporate personnel strategy that focuses on individual facilities and, therefore, on a decentralized supply chain organization (probably called operations or distribution at this stage).

Additionally, SMBs often don't have personnel who have knowledge of sophisticated supply chain strategy and operations. Most hire strong operational distribution and logistics folks rather than those with a broader supply chain perspective and experience. For instance, why hire a global supply chain executive that you probably can't afford and don't need early on?

With a decentralized structure, many SMBs focus on local efficiencies rather than on cross-enterprise opportunities. As a result, they can miss out on lower total corporate costs and higher overall efficiencies. Even as SMBs grow and expand their number of facilities, they often continue to focus on the individual plant/distribution center instead of the entire corporation. As a result, many SMB companies stay with the local vendors they have "grown up with" instead of working to leverage their buy into larger and more strategic procurement contracts and lower prices. In particular, indirect items like packaging and janitorial supplies tend to be procured locally. But some SMBs even use a localized approach to sourcing materials that are strategic to the manufacturing or selling process.

To create a more centralized view, SMBs should construct an appropriate "to be" organizational chart with current positions, proposed positions and the timing, and criteria used to install the new roles.

2. Lack of Economies of Scale

Because they often cannot offer large volumes of business to suppliers, SMBs often have to pay higher costs per unit. Additionally, while big suppliers clamor for the business of large enterprises, SMBs sometimes have to "sell" themselves to potential suppliers and be "better partners" just to get business.

Their smaller volumes also can hurt SMBs in terms of simply securing capacity or supply. For example, the recent shortage of supply in some transportation markets meant that SMBs were often the "odd man out" when it came to securing freight capacity. Over the last year or two, the carriers have often been able to choose who they'd like to serve. As a result, some SMBs have had to scramble to secure volume and reasonable rates because they do not wield the clout of significant freight volumes.

However, as an SMB grows, there are opportunities to leverage volumes to secure lower prices while maintaining service levels. The key is to recognize when the total volumes are significant enough across the firm to change the perspective. One way to do this is to continually speak with current and potential vendors about volume, price, and service needs and to periodically open up bids to additional vendors. This dialogue provides the SMB with a market snapshot to compare against current vendors while opening up the possibility for new service and pricing options.

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In transportation as with procurement, volumes across facilities can begin to be leveraged as growth occurs. Additionally, the transportation industry does have strong regional players (particularly in the truckload market) with whom the SMBs can contract to get superior service and reasonable rates in a more defined geographic area.

The lack of economies of scale can also make it more difficult for an SMB to take advantage of outsourcing opportunities. For example, initial volumes for SMBs foraying into outside manufacturing often aren't large enough to secure competitive pricing or, in some cases, even to get the attention of the large contract manufacturers. Therefore, SMB companies have to pay more for initial smaller volumes, continue to do the task in house, or identify smaller contract manufacturers that can help.

3. Lack of Consistent Business Processes

SMBs often lack sophisticated business processes. Processes are created "site by site" with an emphasis on internal local efficiency. This decentralized approach often leads to disparate processes among the company's operating sites. This, in turn, results in many SMBs having incomplete and inaccurate product data within their IT systems. These deficiencies can be accommodated when all the manufacturing and distribution activity is conducted in-house. But when a broader supply chain strategy is applied, the inconsistent product data and IT systems make it difficult to work with outsourced supply partners.

It is also very common for SMBs to lack detailed process documentation. In SMB firms, personnel are often asked to wear many hats and to cover more areas of responsibility than their counterparts in large firms. Because employees have significant time pressures, they often neglect to document their processes. IT resources are also stretched very thin, with people from all over the company asking for their time. As a result, many legacy systems don't have detailed documentation. Therefore, when there is any employee attrition or new hires, a detective-like capability to read code is often required to determine the functional capabilities of the current systems. This causes particular difficulty with partner-connecting systems such as order management, inventory availability, and transportation and warehouse operations management.

SMBs can respond to this shortcoming by completing a business process inventory across the company. This requires personnel to identify and document all current business processes and then see if each process is currently automated via information technology—or could be in the future. No new systems should be launched or purchased until this task is completed.

4. Supply Chain Technology Concerns

There are all kinds of functionality available in the supply chain software arena from procurement to transportation. Historically, however, most of these packages were developed for large enterprise clients, both in terms of functionality and pricing.

How much functionality is really needed for SMBs? Many times these companies can benefit from some of the tools' capabilities, but all of the "bells and whistles" might be overkill. For example, basic software capabilities—such as order processing, inventory reconciliation, warehouse management, and transportation management—can be helpful. But a smaller company probably wouldn't need functionality like collaboration tools and multi-echelon inventory modeling. To identify which functionality would provide the greatest benefit, look at the amount of manual processing that is currently required to complete the tasks in each area.

Fortune 500 companies can afford to take chances on new technologies or applications. They have the money to invest and might be more willing to pay for "bleeding edge" technology that allows them to jump ahead of their competitors. However, a follow-the-leader approach makes more sense for SMBs. By waiting, they allow any glitches in the new technology to get worked out. Plus, pricing typically drops over time.

Indeed, pricing models used by the top supply chain software firms have often been prohibitive for SMB companies. Large license fees coupled with ongoing maintenance fees (between 15 and 20 percent of the license fees) have traditionally forced small and medium-sized firms either to build internally or to settle for limited functionality.

Software vendors do have to be cognizant of fair pricing practices. They obviously cannot offer lower prices for the same functionality to SMB companies compared to their larger clients. However, there are ways to help make offerings more affordable. Some software companies offer their licenses based on how many users a company will designate. In this case, although the price per user is the same, smaller companies will have fewer total users so the overall price will be lower.

Another option for SMBs is using one of the many application service providers (ASPs) that offer software on demand via the Internet. In this case, users can pay per use or by transaction (sometimes referred to as "by the drink") rather than buying a full license. This often makes sense for smaller companies that could benefit from the software but don't have the transaction volumes to justify purchasing a full license. Many ASPs allow a switch from paying per transaction to a full license purchase as a company grows.

5. Ability to Attract Top Talent

Can SMB companies attract top supply chain talent? Many SMBs that want to grow and compete with larger firms are becoming open to paying more for supply chain professionals. But this issue is related as much to prestige as it is to compensation. Historically, SMB companies haven't had the cache to be the desired destination for many top performers out of college or MBA programs. However, in the last ten to 15 years, supply chain professionals have begun to look for more of a balance in their lives and now put a greater value on quality of life. This bodes well for SMB companies. They can provide an alternative for those who might be "burned out" from a career in a *Fortune* 500 corporation.

Potential employees may also be attracted to the opportunity to have a more significant ownership in smaller companies versus the small stock-option grants typical of large companies. In addition, those who choose to work for a SMB will have broader responsibilities at earlier stages of their career rather than having responsibility for a narrow role. Another potentially attractive attribute of a SMB is a more familial or close-knit feel to the organization. Certain candidates would be more willing to go to a place that is smaller and less bureaucratic. As a result of these factors, SMBs now, more than ever, have the opportunity to upgrade their internal supply chain talent.

6. Lack of Significant Capital for Investment

SMB companies typically don't have the same breadth or depth of corporate finance options as large public companies do. This can limit their comparative ability to fund large investments. SMBs often have to go to a bank for a loan or draw upon a line of credit to get necessary funds to make improvements. It is here that a company can, with little direct investment, broaden its reach by using supply chain partners. Use of third party logistics companies or contract manufacturers allows for growth without significant internal investment.

Greater Opportunities for SMBs

Despite the challenges that face a SMB, the opportunities to capitalize on the potential of supply chain management are great. In terms of percentage improvements, the potential gains from a strategic supply chain perspective are much larger for SMBs than for the *Fortune* 500. As many large enterprises have been focusing on supply chain improvements for some time. they now are often able only to look for small percentage improvements. SMB companies, on the other hand, have the potential to make great strides in both cost reduction and operating efficiency.

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Supply chain management can help SMBs significantly expand their business model and increase revenue. Many SMBs have customers that would like them to supply to markets where they currently don't operate. Others give up on significant growth and revenue opportunities because they cannot, or they choose not, to fund the supply-side investments required to make a needed expansion. By fully leveraging supply chain concepts as well as other corporate initiatives, SMB companies can make huge gains in revenue and, as a result, market share.

As an executive, would you rather reduce distribution costs by 10 percent, double or even triple revenue without capital investment, or both? Those SMBs that creatively use focused supply chain strategies can double or triple their revenue without incurring the normal significant capital outlays to fund a supply-side expansion. There are a few ways they can accomplish this.

1. SMBs can use the supply chain to keep acquiring companies at bay. If you are the founder or an executive of a SMB company, you might consider selling your company if you are unable to grow it successfully. It is precisely this situation where adopting a supply chain perspective can keep your company growing and discourage potential suitors. Leveraging partners and their capabilities within your supply chain can give you a much larger and longer reach than you can realize on your own. Using their facilities and transportation network allows you to grow without significant investment on your own part.

2. SMBs can use outsourcing to expand geographic coverage. Another way to expand your business without major investment is to outsource. If you are an SMB company and see an opportunity to either manufacture and/or sell in a global market, how do you get there? Do you leverage your cash balance and credit availability to invest yourself, or do you look for an alternative? Often the operations and financial risk associated with setting up your own operations overseas can be mitigated by implementing an effective outsourcing or contract manufacturing and logistics solution. Fortunately, there are literally thousands of third-party logistics companies and contract manufacturers who do business in geographies around the world. Additionally, there are sourcing services which can help SMBs find potential suppliers in unfamiliar geographies.

The company must realize that the traditional operational focus that has got them to this point won't work as the company continues to grow.

3. SMBs have greater flexibility to implement supply chain management. Because SMBs have smaller and/or flatter organizations, their operating environments provide easier and greater access to senior management. As a result, smaller companies are often able to get approval for strategic changes faster than their larger counterparts. In large companies, multiple layers of management have to approve business changes prior to implementation. These extra steps often reduce momentum and lead to missed windows of opportunity. SMBs just have to use this flexibility to their advantage. Additionally, many SMBs are privately held or employee-owned. Therefore, they aren't subject to the short-term demands of Wall Street. Instead they can select supply chain investments and changes that might take several months or even years to provide a payback. Once a smaller company recognizes supply chain management's potential to help it grow while keeping costs low, it can begin to make the needed changes almost immediately.

When and How to Change

A major decision for SMBs is to recognize when they should change from the traditional operational, localized perspective that has made them successful to a supply chain view that will allow them realize their full market potential. While there are no hard and fast rules in making this change, there are several questions that might help make the decision easier:

1) Are you planning on expanding operations to international locations—either on your own or with a third party?

2) Do you recognize significant differences in how each facility is run, is managed, or performs?

3) Are those customers that are served by different facilities in your network experiencing varying levels of service?

4) Do you have no other choice? Are your supply chain partners, major customers, or the rest of the market making you move forward?

5) Are you being asked to supply products or components that you don't make currently?

6) Do your product design and supply chain initiatives have to be more tightly integrated?

7) Are you facing a growth scenario that you cannot fund with traditional, company-financed capital outlays?

If the answer is yes to one or more of these questions, it might be time for your company to begin the transition to a full supply chain perspective. To see real-life examples of how two SMBs are currently making this journey, see the sidebars on Chatsworth Products and Malt-O-Meal.

Even after they have made the decision to begin the transformation, SMBs often can't afford to hire and staff a well-developed supply chain organization right out of the gate. Therefore, they need a plan for a series of timed hires rather than a wholesale creation of the entire organization. A good way to start the process is to create an organizational chart for the "to be" supply chain organization with a full range of titles headlined by a vice president of supply chain management or a chief logistics officer.

Another good first step is to complete a "task inventory" of what goes on to get product to customers. Included in this exercise are current tasks, those that aren't performed but should be, and those that are performed by other departments that either affect the supply chain or should be under the supply chain umbrella. Once the entire set of current and "to be" tasks are compiled, they should be assigned to the appropriate existing supply chain representative and if necessary, noted to be moved to a person not yet in the organization. For those tasks that best fall under a future position, there should be a temporary assignment with a note that the responsibility will shift when the position is filled.

An Imperative, Not a Choice

To reap the benefits of the holistic supply chain view, SMBs have to address their current mindset, education of personnel, technology, and collaboration with internal and external partners. Initially, the company must realize that the corporate mindset has to change and realize that the traditional operational focus that got them to this point won't work as the company continues to grow. Also, the supply chain team has to educate senior management and the board of directors as to needs and rewards of supply chain management. The business case should take into account all portions of the supply chain including strategic sourcing/procurement, transportation,

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Chatsworth Products, Inc. (CPI):
A New Perspective

Chatsworth Products, Inc. (CPI) is a small to medium-sized manufacturer based in Westlake Village, Calif. An employee-owned company, Chatsworth provides structural support systems that organize, store, and secure valuable computer, data, and communications equipment.

Over the last year or so, CPI developed a revitalized corporate strategic plan. This plan recognizes that the company is facing heightened product complexity and increased requests from customers to produce and sell products globally. The company also plans to double its sales volume over the next five years.

Chatsworth executives realized they couldn't achieve these goals without transforming their existing processes and systems. The company had to evolve from an operational focus on manufacturing and distribution to a more holistic, end-to-end supply chain focus. To accomplish this, CPI, with the help of an expert supply chain consultant, developed and began implementing multiple supply chain tasks.

Supply Chain Organizational Development

The first task was to design an entire supply chain organization and to hire, in phases, multiple related positions. This design process included a gap analysis of current needs and capabilities along with future requirements. The gap analysis identified current unrealized opportunities in transportation and sourcing.

In response to these needs, CPI decided to hire a corporate transportation manager and a director of strategic sourcing. In both cases, CPI was able to hire someone with broad-based supply chain expertise. The new transportation manager had significant experience at a big transportation company. The new sourcing director had experience with a company that is a leader in strategic sourcing practices.

Transportation Program

At the same time, CPI implemented a new transportation program and selected and implemented a transportation management solution (TMS). The new transportation program was necessary because CPI's competitive market environment now demanded that the manufacturer (that is, CPI) provide the freight services, rather than the customer, as had been the past practice. The new program required identifying and selecting carriers for all shipping, both less-than-truckload and parcel.

While the carrier selection and negotiation was underway, CPI was also selecting a TMS provider. The elapsed time from project initiation to software implementation was only three months—the same amount of time it took to implement the new transportation program. Fortunately, these two initiatives could be conducted concurrently. In fact, the TMS helped to speed up implementation of the new freight program. It provided easily accessible data to better compare rates versus having to dig for key data. As a result, the TMS reduced manual labor hours in the freight booking, shipment, and analysis processes.

Strategic Sourcing Strategy

With the new director of sourcing in place, CPI also developed a comprehensive strategic sourcing program. CPI is now leveraging its purchasing power across plants to secure lower prices for raw materials and components. It also has begun to expand its global scope and has created a formal international business expansion plan. CPI further developed volume and scope with current suppliers and added new suppliers as well. As a part of this, CPI developed and disseminated a request for proposal for international contract manufacturing. The result will be the engagement of contract manufacturing partners around the world, thereby opening up new markets for the company.

Enablers

CPI is also in the process of reengineering its business processes to support collaboration with partners across the globe on both inbound and outbound processes. One of the major processes being reengineered is product lifecycle management. CPI is getting suppliers of key materials involved earlier in the design of new products to enable a smoother product launch.

Another key enabler is the education and involvement of the entire senior leadership team and employee-owners. The education has focused on the need for the supply chain program and how it will affect employees. In particular, issues like outsourcing can make employees uncomfortable. CPI allayed any fears by outlining how outsourcing will allow the company to grow domestically and internationally. The company was clear that outsourcing is a tool to support sales growth, not to reduce headcount. In fact, CPI remains committed to growing its domestic manufacturing capabilities.

Results from the Supply Chain Initiatives

By applying broader supply chain principles, CPI was able to realign product to plant assignments, which has dramatically reduced total delivered costs for the company and its customers. The new supply chain program also enabled CPI to sell globally by forming manufacturing partners around the world. In the past, having only domestic manufacturing limited the global sales opportunity. Outsourcing has increased flexibility in capacity as well, allowing an expanded product offering without significant investment in plant and equipment. The greater flexibility also means that CPI can offer more value-added features more quickly. In a nutshell, the supply chain initiatives have combined to give CPI the capability to dramatically increase revenue without a commensurate increase in headcount.

product/plant assignments, and facility locations.

Additionally, IT strategy and day-to-day operations have to be integrated with the supply chain efforts. 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 for the IT systems. Corporate departments must be in close contact as the supply chain changes are being developed and implemented. Collaboration must be employed internally so that marketing/sales agree on a reasonable growth plan. One forecast number must be agreed to and shared internally as well as externally to avoid confusion. It is key to work with marketing/sales to avoid "low-balling" of marketing estimates that can put manufacturing and supply chain in a bind if forecasts were too low.

Bottom line, if SMBs don't focus on supply chain opportunities, they are sacrificing margins, market share, and possibly the company itself.

Malt-O-Meal Company: Going National

Malt-O-Meal Company (MOM) is a small to medium-sized, family-owned manufacturer (approximately $500 million per year) headquartered in Minneapolis, Minn. MOM has been an industry leader in providing quality, value-priced breakfast cereals to consumers in the United States since 1919. The company markets hot cereal and ready-to-eat cereal under its own brand as well as private label.

Over the last four years, Malt-O-Meal cereal sales have grown 40 percent in total pounds sold through traditional grocery store formats. This growth represents a market share change of approximately 2 points (on a total weight basis), from 3.2 percent to 5 percent of the $9 billion U.S. breakfast cereal market.

One driver of this growth has been the expanded distribution of the Malt-O-Meal brand. SKUs are increasing due to the addition of flavors, package types, and case configurations for new outlets like foodservice, mass merchants, and drug- and dollar-store formats. But this proliferation of SKUs and the unique requirements of nontraditional channels have added complexity to the existing business processes and have challenged supporting systems.

The company looked to their supply chain group to deliver results for these growth initiatives while maintaining or reducing delivered cost and meeting service-level targets.

The supply chain organization at Malt-O-Meal is centralized and covers multiple production sites and distribution centers. It includes customer service, customer logistics, inventory planning, production planning, materials planning, procurement, distribution, and transportation. With this broad functional coverage, prioritization of supply chain initiatives is essential to success. MOM established its supply chain priorities based on three categories; customer focus (service), operational efficiency (cost/return on invested capital), and company culture (values).

Supply Chain Organization and Development

The supply chain organization has evolved to enable MOM to increase distribution of its brand. MOM has expanded the breadth of its supply chain by adding procurement to its responsibilities for end-to-end accountability. Packaging, commodities, and ingredients, for example, all have a significant impact on the cost of goods sold and the delivered cost to the customer. For this reason, dollars conserved in these areas are available for investment in growth opportunities. In addition, MOM has created a customer logistics team to be points of contact to solve key customer supply chain issues. This has helped brand expansion by enabling effective customer collaboration and demonstrating service level improvement.

MOM also restructured both the supply chain planning and execution (SCPE) group and the procurement group to focus efforts on creating executable operating plans that deliver desired results. SCPE was restructured to interface with internal customers: demand planning with sales, inventory planning with distribution, and production scheduling and materials management with manufacturing. Procurement was restructured to put an emphasis on strategic sourcing as well as transactional processes. Finally, to help ensure they have future supply chain leaders, MOM recently began a leadership development initiative.

Supply Chain Technology

MOM is also implementing technology that will support its supply chain strategy. It is in the process of selecting, developing, and implementing/re-implementing a TMS, a WMS, a forecasting/demand planning package, and a custom order management solution. This integrated supply chain software solution will allow for continued growth while providing additional efficiencies.

Supply Chain Process Change

MOM is using other initiatives to improve overall company performance as well as support the supply chain strategy. The company is now using sales and operations planning, continuous improvement initiatives (lean and Six Sigma), outsourcing, plant expansion, acquisition of complementary companies, collaboration techniques with partners, and metrics to track performance. MOM chose these initiatives to improve flexibility and responsiveness, focus on competencies, understand cost drivers, and reduce operating expenses.

The MOM supply chain has experienced many small-scale successes and several large-scale ones in the areas of service, cost, and culture. For example: total warehouse space held flat while pound sales increased by 40 percent, case fill increased by 1.2 percentage points, and order cycle time decreased by 2.2 days. In addition, employee engagement in the supply chain processes increased markedly.