



**GLOBAL  
ABILITY**

2009 APICS INTERNATIONAL  
CONFERENCE & EXPO

OCTOBER 4-6 | TORONTO, ONTARIO, CANADA

# World-Class Small and Mid-sized Business Supply Chains

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# Agenda

- SMB Supply Chain Challenges and Obstacles
- RSM McGladrey 2009 Manufacturing and Wholesale Distribution Survey
- SMBs in a Green World
- Supply Chain Risk
- Supply Chain Action Plan
- Supply Chain Case Study



# SMB Supply Chain Challenges

- Global supply chains have long lead times
- Risk (supplier & customer) is increasing
- Rising and shifting customer expectations
- Increases in logistics costs




# SMB Supply Chain Challenges (cont.)

- Increases in labor costs in developing countries (China – 20% per year)
- Unprecedented volatility in last 2 years
  - Demand
  - Commodities (2008 was the most volatile since 1990)
- Markets with negative growth



# SMB Supply Chain Challenges (cont.)

- Markets with negative growth require SMBs to:
  - Lower operating costs quickly
  - Improve cash flow
  - Respond to market changes faster
  - Look at new markets
  - Shorten the supply chain



# SMB Supply Chain Obstacles

- Focus on individual plants or distribution centers within the company (decentralization)
- Emphasis on local profitability
- Supply chain evolution is at the functional silo level
- Little leverage with large supply chain partners (Wal-Mart, Home Depot, etc.)





# SMB Supply Chain Obstacles

- Outsourcing to China is changing
  - China needs to create 300 million jobs
  - 20-30% increase in labor costs (inflation and minimum wage laws)
  - 1-child-per-family law equates to an aging population
  - Repeated quality problems
  - India, Malaysia and even Mexico are becoming low-cost outsourcing solutions



# SMB Supply Chain Obstacles

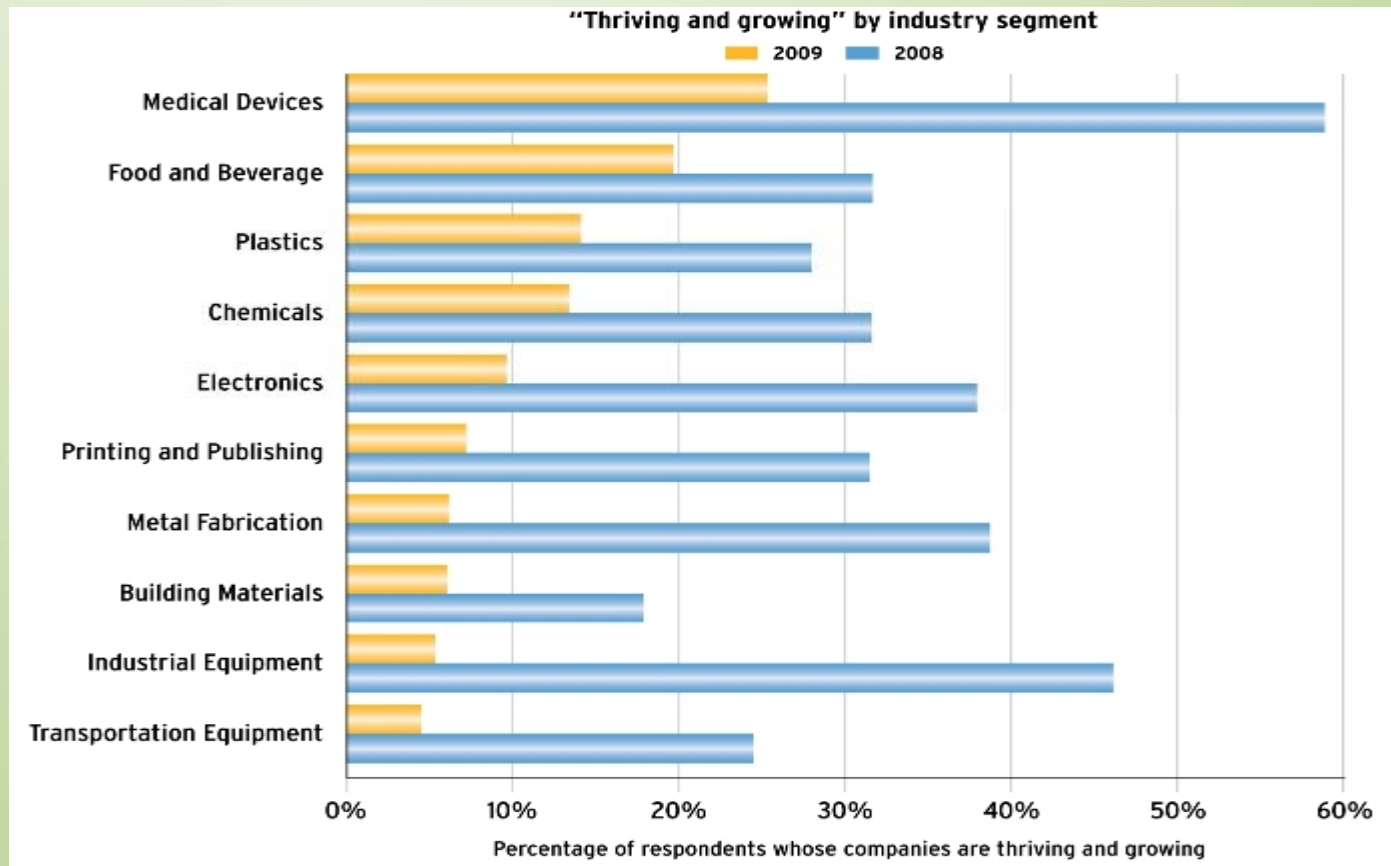
- Procurement
  - Adversarial relationship with suppliers
  - Measured by negotiating lowest prices and minimizing production shortages
  - Decisions are made on a tactical basis
  - Little feedback is given to suppliers regarding performance



# 2009 RSM McGladrey Manufacturing and Wholesale Distribution Survey

- National survey of approximately 1000 mid-sized manufacturers and wholesale distributors
- Two-thirds were manufacturers, one third were distributors
- Geography – more than 50% of the respondents are in the Midwest
- Company revenue – 95% had revenue between \$25 and \$500 million
- Employees – 75% had less than 500 employees
- Position – 82% were CEO, President, VP of Finance or CFO

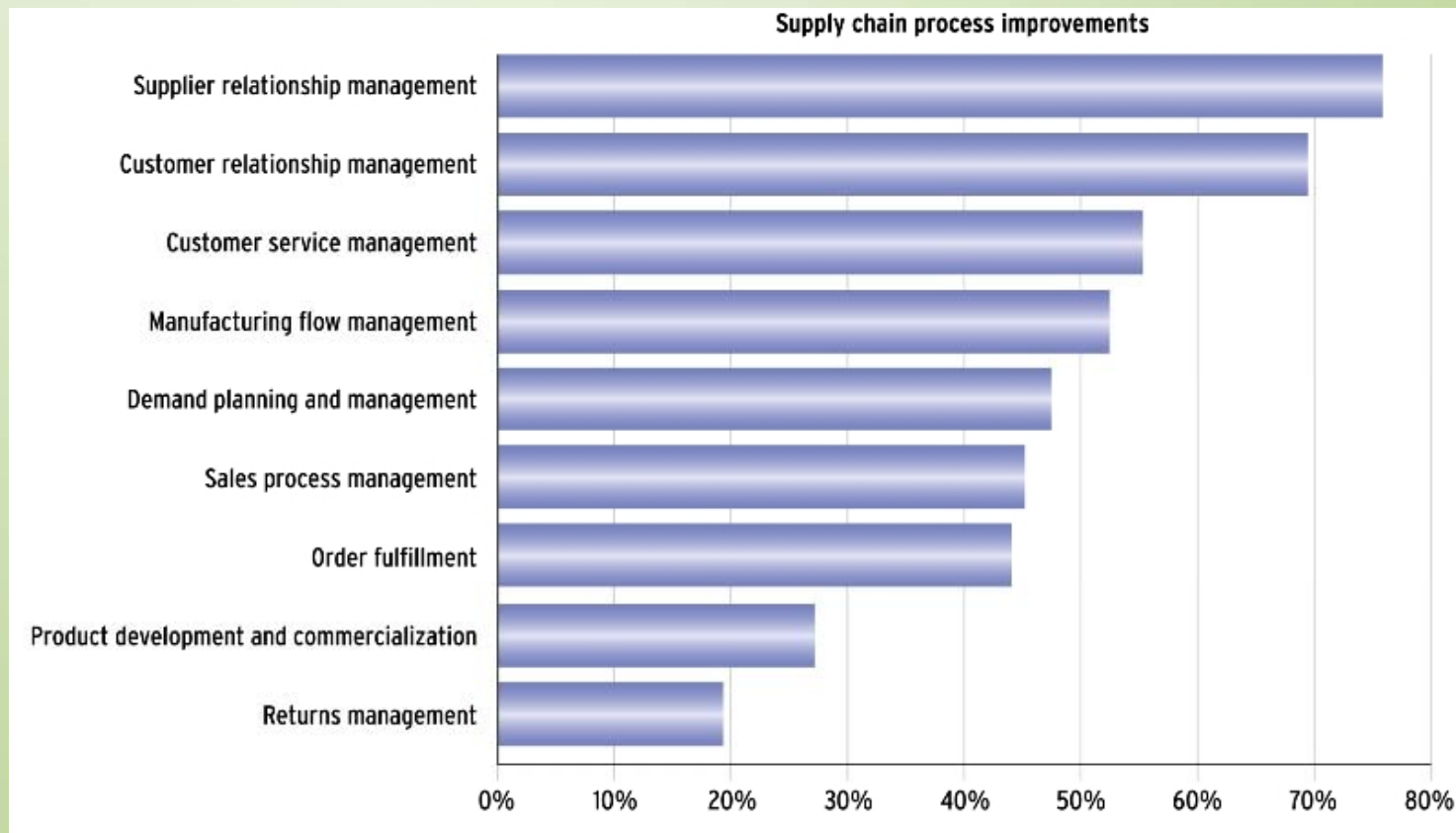
# 2009 RSM McGladrey Manufacturing and Wholesale Distribution Survey



# Thriving & Growing by Industry Segment

- “Thriving & Growing” category decreased by more than 50% in all segments. (except Food & Beverage)
- The highest industry segment is Medical Devices at 25% (down from 60% last year)
- **All industry segments are significantly affected by the global recession.**

# 2009 RSM McGladrey Manufacturing and Wholesale Distribution Survey



# Supply Chain Improvements

- Highest ranked areas for supply chain process improvement
  - Supplier Relationship Management
    - Increased from 57% in 2008 to 76% in 2009
  - Customer Relationship Management
    - Increased from 49% in 2008 to 70% in 2009
- Increasing supply chain information is even more critical in a down economy due to increased risk and volatility

# 2009 RSM McGladrey Manufacturing and Wholesale Distribution Survey

**IMPORT AND EXPORT ACTIVITY BY INDUSTRY SEGMENT IN 2008 AND 2009**

	Import			Export		
	2008	2009	Change	2008	2009	Change
Building Materials	72%	91%	19%	41%	49%	8%
Electronics	88%	87%	-1%	82%	83%	1%
Plastics	85%	81%	-4%	79%	78%	-1%
Chemicals	66%	80%	14%	83%	86%	3%
Transportation Equipment	68%	77%	9%	78%	86%	8%
Food and Beverage	70%	76%	6%	52%	67%	15%
Industrial Equipment	68%	74%	6%	78%	88%	10%
Metal Fabrication	64%	73%	9%	74%	76%	2%
Medical Devices	72%	71%	-1%	75%	79%	4%
Printing and Publishing	64%	68%	4%	54%	71%	17%

# Import / Export Activity by Industry Segment

- 7 out of 10 industry segments increased imports
- 9 out of 10 industry segments increased exports

**SMBs continue to increase global supply chain activities despite the recession**



# 2009 RSM McGladrey Manufacturing and Wholesale Distribution Survey

## IMPACT OF GLOBAL BUSINESS STRATEGY

	Agree	Disagree	Doesn't Apply
Working globally is part of our business strategy	68%	16%	16%
Experiencing revenue growth in foreign markets	38%	40%	22%
Globalization has lowered our costs	47%	40%	13%
Globalization has lowered our sales prices	47%	40%	13%
Globalization has improved our margins	35%	52%	13%



# Impact of Global Business Strategy

- 68% - Have a global strategy
- 47% - Have seen costs lowered
- 47% - Have seen product price lowered
- 35% - Have seen margins increase
- 52% - Have seen margins decrease

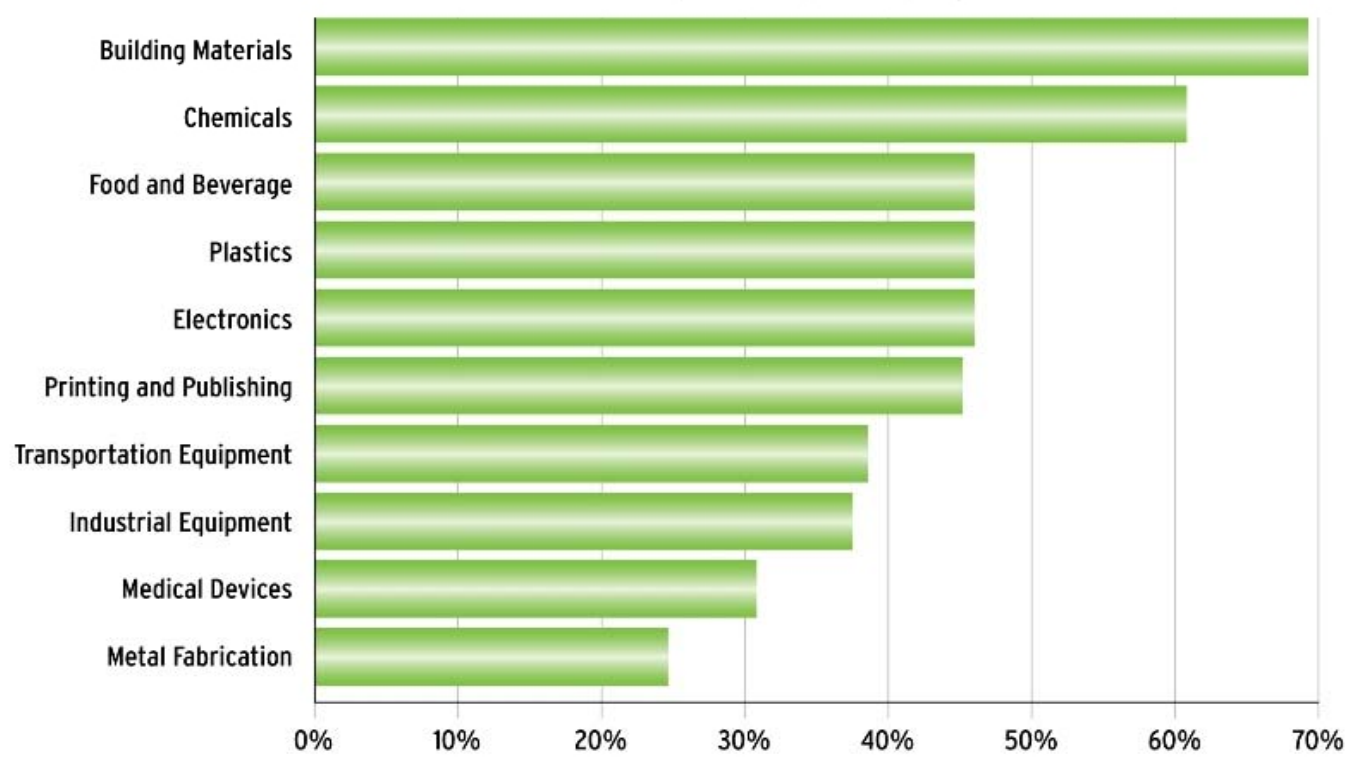
**A global strategy does not ensure increased profits**

# How Green are SMBs?

- SMBs are starting to see green as a strategy
- Purchasing is pressured to drive down costs, which is often at odds with green environmental issues
- SMB culture is often not aware of green opportunities

# 2009 RSM McGladrey Manufacturing and Wholesale Distribution Survey

Green products by industry segment



# How Do I Begin Green?

- Look within the organization for opportunities for “green” cost reductions
- Encourage ideas for doing business in new ways (change the culture)
  - Meet with suppliers to jointly determine “green” initiatives that can reduce cost
  - Use the CAD system to redesign packaging to increase unit density on a pallet
  - Logistics “intelligent routing” to reduce truck miles driven and fuel consumed

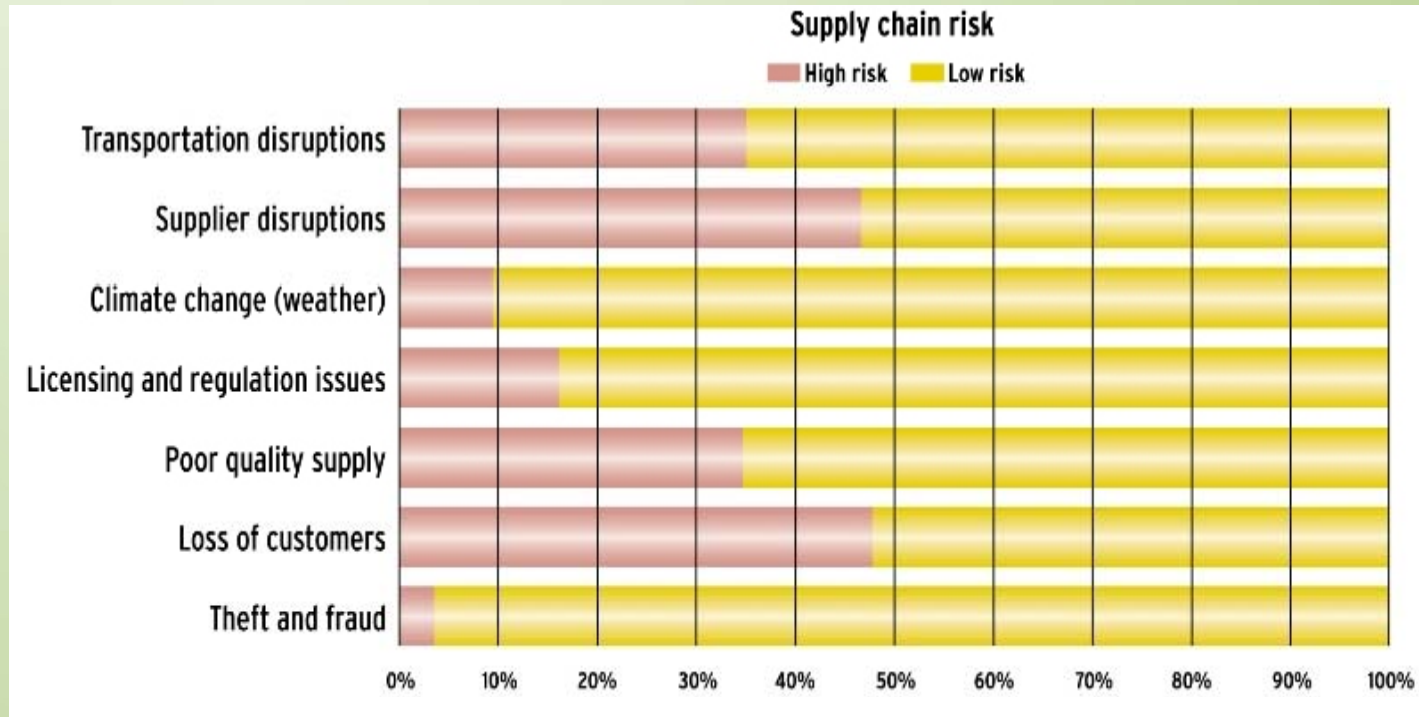
# How Do I Begin Green? (cont.)

- Communication campaign on green initiatives to make employees feel they are improving society's future
- Invite an expert to speak to your employees
  - Where we are heading
  - How each person can make a difference

# Use Lean to Go Green

- Lean means less waste
- Less waste means using fewer resources
- Review the value stream; eliminate waste
- Some examples:
  - Use technology to eliminate hard copy reports and documents
  - Develop new products with co-products or by-products of current processes
  - Design products with longer life cycles (less recycling needed)

# Supply Chain Risks



Risks in the supply chain are increasing – especially with customers and suppliers

# Supply Chain Risks

SUPPLY CHAIN RISKS BY INDUSTRY SEGMENT				
	High risk		Low risk	
<b>Transportation disruptions</b>	Food and Beverage	52%	Industrial Equipment Transportation Equipment	25% 25%
<b>Supplier disruptions</b>	Food and Beverage Transportation Equipment	57% 56%	Printing and Publishing Electronics	39% 37%
<b>Climate change (weather)</b>	Food and Beverage	33%	Industrial Equipment	2%
<b>Licensing and regulation</b>	Food and Beverage	38%	Industrial Equipment Printing and Publishing	7% 6%
<b>Poor quality supply</b>	Food and Beverage	47%	Chemicals	20%
<b>Loss of customers</b>	Transportation Equipment	60%	Medical Devices	33%

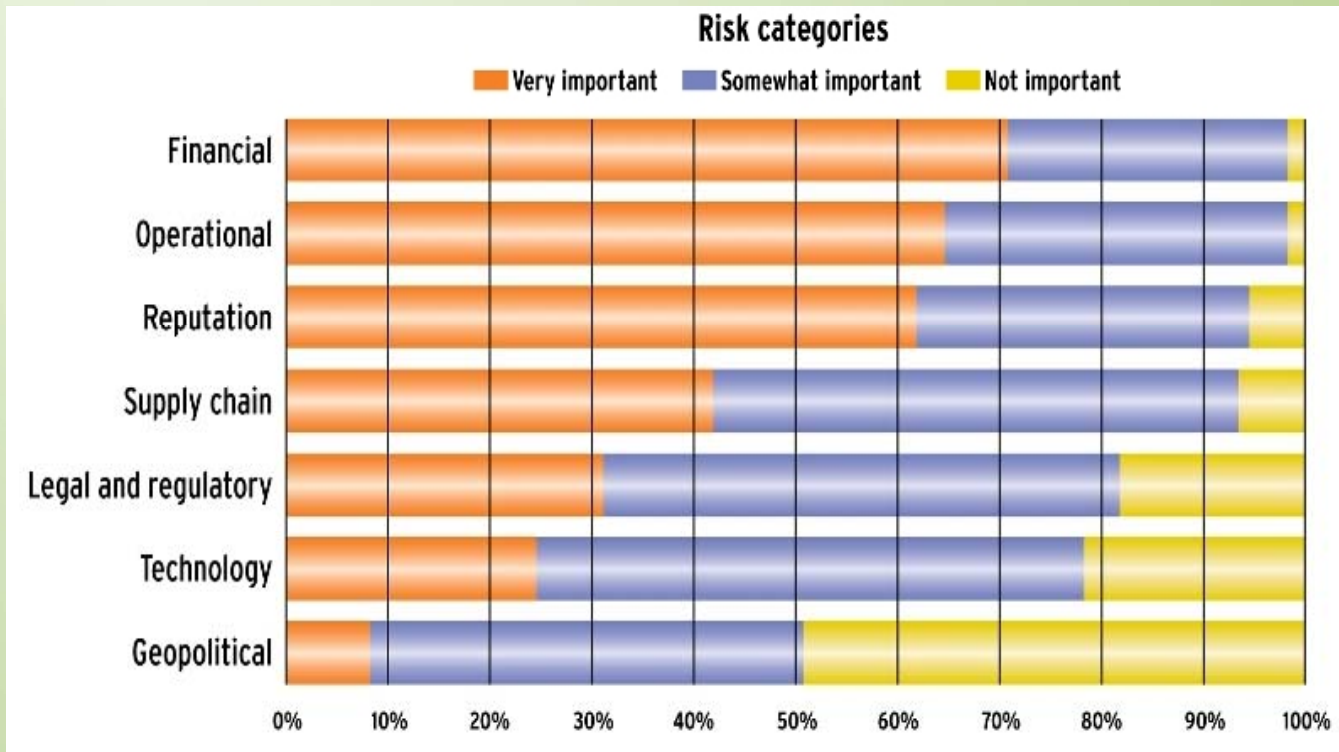
**Transportation equipment & food and beverage segments  
had the highest supply chain risk**

# Risk Management



**With increased risk, more firms have added risk management components**

# Risks by Category

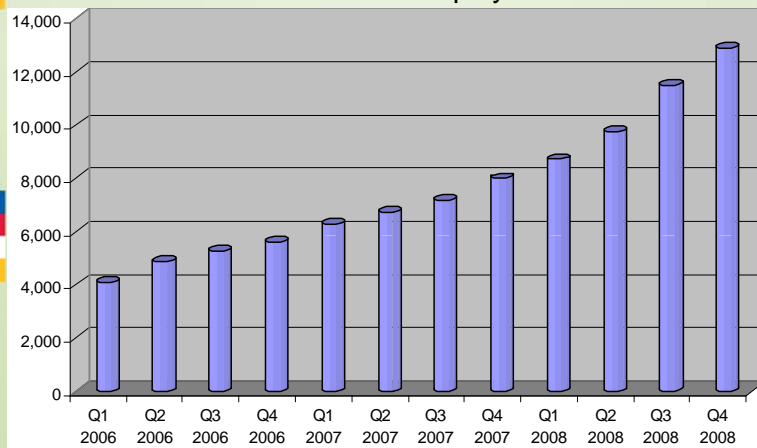


Less than 50% of the companies see supply chain risk as “very important”

# Supply Chain at Risk

Quarterly Business Bankruptcy Filings

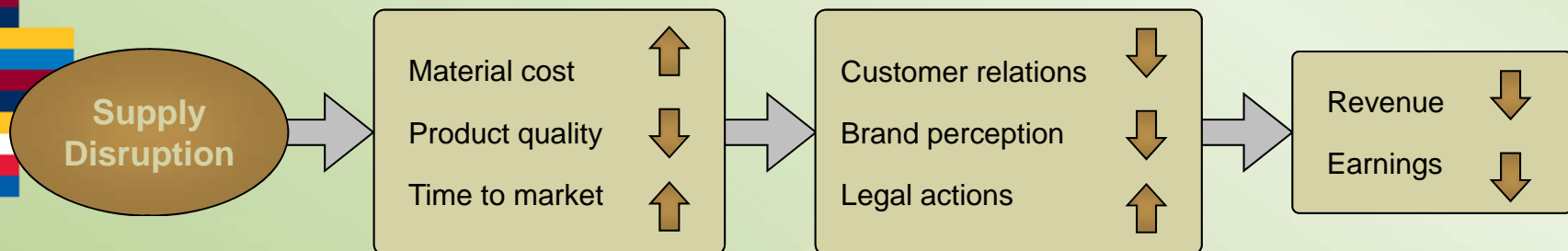
Source: American Bankruptcy Institute



In 2008, business bankruptcies *increased 54%* from 2007.

What would be the impact **to your business** if one of your top 5-suppliers or customers failed?

Supply chain risks impact more than just your supply chain...



# Adopt a Balanced Approach to Monitoring Supply Chain Risk

		Financial Risk	Operational Risk	Industry Risk	External Environment Risk	Dependency Risk
Goal		Is this supplier/customer financially viable?	Can this supplier continue to support my operations?	Are industry-wide factors impacting this supplier/customer?	Are other external factors impacting this supplier/customer?	How dependent are we on this supplier/customer?
Sample Indicators		<ul style="list-style-type: none"> <li>• Current ratio</li> <li>• Credit rating</li> <li>• Financial stress score</li> <li>• Payment history</li> </ul>	<ul style="list-style-type: none"> <li>• Acquisitions</li> <li>• Divestitures</li> <li>• Leadership change</li> <li>• System implementations</li> </ul>	<ul style="list-style-type: none"> <li>• SWOT analysis</li> <li>• Market share</li> <li>• Competitive landscape</li> <li>• Industry forecast</li> </ul>	<ul style="list-style-type: none"> <li>• Legal actions</li> <li>• Policy changes</li> <li>• Climate / weather issues</li> <li>• Related-industry issues</li> </ul>	<ul style="list-style-type: none"> <li>• Category spend share</li> <li>• Supplier/customer revenue share</li> <li>• Customer as supplier</li> </ul>
Data Sources	Internal	X				X
	External	X	X	X	X	X
	Supplier/Customer	X	X	X	X	X



# Top 10 Best Practices for Managing Supply Chain Risk

1. Utilize a balanced scorecard and dashboard approach
2. Focus only on measures valuable to your organization
3. Include leading and lagging, subjective and objective indicators
4. Implement holistic program for top 5% - 10% of suppliers
5. Target select components for next tier of suppliers



# Top 10 Best Practices for Managing Supply Chain Risk

6. Establish regular review rhythm
7. Use a reporting tool with proactive notifications
8. Embed reporting and data into procurement and supply chain processes
9. Consider external partners for data and technology
10. Continuously improve based on supply chain *and supplier's* feedback



# SMB Supply Chain Action Plan

- Review changes in business strategy due to the recession
- A common strategy revision is moving from a growth strategy to a survival strategy

# Supply Chain Strategy

- Two major keys for surviving a recession
  - Improve working capital
    - Inventory
    - A/P
    - A/R
  - React rapidly reaction to market changes

# Supply Chain Action Plan

- Revise the supply chain strategy to support the revised business strategy
- Moving from a growth strategy to a survival strategy will change the focus areas of supply chain efforts

# Supply Chain Action Plan

- Supply chain growth strategy
  - Rapid introduction of new products
  - Leveraging transportation & logistics to cover new markets / geography
  - Suppliers selected based upon speed, flexibility, and quality
  - Add IT systems to support growth objectives

# Supply Chain Action Plan

- Supply chain survival strategy
  - Minimal inventory with high turns
  - Parts standardization
  - Model/product line reduction
  - Suppliers selection based on cost and speed
  - Planning systems that respond rapidly to market changes
  - Optimization IT system



# Supply Chain Action Plan

- Strengthen/implement a strong CPFR program
  - Encourages customers to discuss their plans with you
  - Collaborate on risk taking
  - Stimulates partnering activities with customers (rather than adversarial)

# Supply Chain Action Plan

- Optimize Inventory - Finished Goods
  - Offer discounts to move inventory (discounting increases throughout the recession)
  - Improve forecasting processes-changes occur rapidly and early warning / quick response is critical
  - Reduce production (outsource non-core competencies)
  - Review triggers and rules



# Supply Chain Action Plan

- Optimize inventory-raw material
  - Reduce the number of raw material parts (industry standardization)
  - Obtain customer commitments that cover raw material purchase order quantities
  - SO&P process directs Sales to sell products that consume excess raw material
  - Vendor-managed inventory program
  - Review triggers and rules

# Results Inventory Optimization

## Carrying Cost effects on Working Capital

- Cost of Goods Sold (annual)	\$75,000,000		
- Total Inventory Value (average)	\$15,000,000		
- Days in Inventory	73		
- Inventory Turns equals	5		
- Annual Cost of Carrying Inventory (expense)	\$4,050,000	to	\$6,900,000
- Cash tied up in inventory	\$15,000,000		

## If inventory turns increased by 1:

- Inventory Turns would equal	6		
- Days in Inventory	60.8		
- Annual Cost of Carrying Inventory	\$3,375,000	to	\$5,750,000
- Improve turns by 1 - annual savings	\$675,000	to	\$1,150,000
- Cash tied up in inventory would be	\$12,500,000		
- Improve turns by 1 - one time cash savings	\$2,500,000		

# Manufacturer Case Study

- Boat manufacturer
- Very expensive boats = very small target market
- Sells exclusively through dealers (no direct retail sales)
- Economy tanked
- The focus had previously been on moving product to the dealer
- Changed strategy to collaborate with retail customer

# Manufacturer Case Study

- Developed a CRM system to track:
  - Prospects and customer contacts (retail)
  - Product inquiries (web and phone)
  - Attendance at boat shows
  - Customer demographics



# Manufacturer Case Study

Once the purchase is made, the customer relationship retail focus turns to:

- Providing information on new models
- Monitoring satisfaction
- Warranty/Service level needs and responsiveness
- Up-selling the retail customer to a newer/larger model





# Manufacturer Case Study

- Initiated dealer inventory tracking, on-line warranty claims / service parts
- Involved the dealer in prospect tracking and follow-up
- Moved to web entry of a configured sales order and order status information
- Improved the prospect close rate by 20%

# Final Thoughts

**Although SMBs may have fewer resources in this challenging economy, competition between supply chains will continue to become increasingly important.**

**Increased collaboration between supply chain partners is needed to reduce costs, reduce risk, and increase responsiveness to react to market changes to remain competitive.**



# Questions

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