SMALL AND MID-SIZE COMPANIES ENHANCE FINANCIAL PERFORMANCE THROUGH SUPPLY CHAIN MANAGEMENT

Many small and mid-size companies may not have the resources in-house to effectively manage the challenges associated with logistics. Focused on their core business, they relegate supply chain management solutions to a back-room function, and fail to recognize the impact of their supply chain on revenue growth, operating expenses and capital utilization.

For the small or mid-size company, the understanding that improvements in the current supply chain will help reduce costs of goods sold, days in inventory and overall hidden operational expenses is one thing. However, there are many issues these companies face that keep them from embarking on improved supply chain management and discovering its benefits on financial performance. For some companies, the manual processes that slow down productivity also do not allow for time to focus on logistics functions. For others, growth is the top priority; the cost of logistics is not identified and the potential for improvement is unknown. Smaller companies may not have the technology to track information or the personnel to deal with all aspects of logistics.

Where to start

By their very nature, supply chains are complex. One approach is to consider the logistics functions required to support your supply chain and then identify those areas offering the greatest potential to affect revenue growth, operating expense, and capital utilization.

The Council of Supply Chain Management Professionals (CSCMP) defines logistics management activities as typically including inbound and outbound transportation management, fleet management, warehousing, materials handling, order fulfillment, logistics network design, inventory management, and supply/demand planning.

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According to *Company Logistics Cost and Service Database*, logistics costs end up being approximately 9% of sales, and transportation makes up 50% of those logistics costs[1]. Since transportation is considered the largest element of logistics cost[2], it stands to reason that efforts to better manage transportation activities have a high potential to deliver important top- and bottom-line financial improvements.

Transportation and its impact on revenue growth

Revenue growth typically is top of mind for most executives and is directly impacted by the supply chain. The importance of a reliable delivery system for getting products to market goes without saying. However, the importance of transportation's impact on revenue goes beyond just delivering the product to the customer.

A good example is the relationship between time and revenue as affected by transportation. Goods with short lifecycles, perishable goods and goods which are essential for production runs rely on transportation capacity and a reliable transportation network to maintain their value. The order of holiday sweaters sitting in a Port of Los Angeles warehouse during the crush of peak-season transportation demand does not produce revenue for either the retailer or the vendor.

Transportation impacts the top line in other ways as well. For example, vendors who must guarantee delivery of goods within their retail customer's tight time parameters will readily plan expedited transportation services rather than the penalty of chargebacks and dissatisfied customers. And manufacturers practicing just-in-time and lean operations are more likely to use vendors capable of offering the added value of visibility to transportation and delivery information.

Lead time, the ability to meet market demand, customer satisfaction and sales all have an impact on revenue growth. And all are affected by the shipper's ability to assure the customer that it will receive delivery of the right shipment, at the right time, at the right place and in good condition.

Transportation and its impact on profitability

Transportation has a significant impact on the company's operating expenses. Companies easily can identify the transportation in their cost of goods sold (COGS) calculations. In addition, if supply chain management truly is about process excellence, and we agree the less time it takes to get products to market the more profitable the operation, then it follows that improvements in transportation management will impact profitability. Since COGS typically accounts for a significant percent of revenue, any actions that reduce the cost of goods sold as a percentage of revenue will deliver a welcomed improvement in the financial performance of the company.

Technology and real-time access to information are important drivers for an efficient and reliable transportation management system. Access to improved information allows transportation to be viewed strategically and with an enterprise-wide perspective of needs. Processes typically covered by transportation management systems include:

- Purchase order coordination
- Shipment planning
- Shipment execution
- Financial settlement
- Reporting and analysis.

[1] *Davis HW. Logistics cost and service. Establish, Inc., Herbert W. Davis and Company. Available at http://establishinc.com/cs_supply_chain.asp. Accessed May 2, 2007.*
[2] *Bowersox DJ, Closs DJ, Cooper MB. Supply Chain Logistics Management. 2nd ed. new Yourk, NY:McGraw-Hill/Irwin; 2007:191*

Improved transportation management streamlines business processes and reduces cost of goods sold as a percentage of revenue. Companies can consolidate their transportation into larger shipment sizes for transportation savings. Carrier management programs, which give the company access to capacity from multiple carriers and allow them to choose the best mode and carrier for the most efficient routing, free up resources and improve operational costs.

The technology associated with transportation management systems provides multiple financial benefits. By automating manual processes, businesses improve productivity. Access to information increases the accuracy of forecasting and planning. Better scheduling of staff also is possible. Improving visibility of purchase order information, shipment in transit and delivery times allows for more efficient scheduling and reduces the cost of labor at the distribution center. Audit and pay capabilities reduce manual processes in accounts payable departments, enable automated ledger coding and provide easier identification and resolution of billing discrepancies. And reporting features provide easy access to data to help companies with their forecasting and planning processes.

Transportation and its impact on capital utilization

Transportation also has an impact on capital utilization, the amount of revenue generated from each dollar invested in capital. Within supply chains, capital investments typically include such things as inventories, warehouses, fleets, manufacturing plants and equipment, as well as accounts receivables.

It is not essential that a company invest in fleet equipment to feel the impact of transportation on capital utilization. As noted earlier, supply chains are interrelated processes, with transportation woven throughout, and therefore a critical influence on the supply chain's overall efficiency. "As operational expectations become more precise, order-to-delivery performance cycles more compact and margins for error reduced near zero, successful firms have come to realize that there is no such thing as cheap transportation. Unless transportation is managed in an effective and efficient manner, procurement, manufacturing and customer accommodation performance will not meet expectations."[3] Inventory, manufacturing, warehousing, distribution and accounts receivable metrics, the areas typically associated with capital investment, all are dependent on effective transportation management.

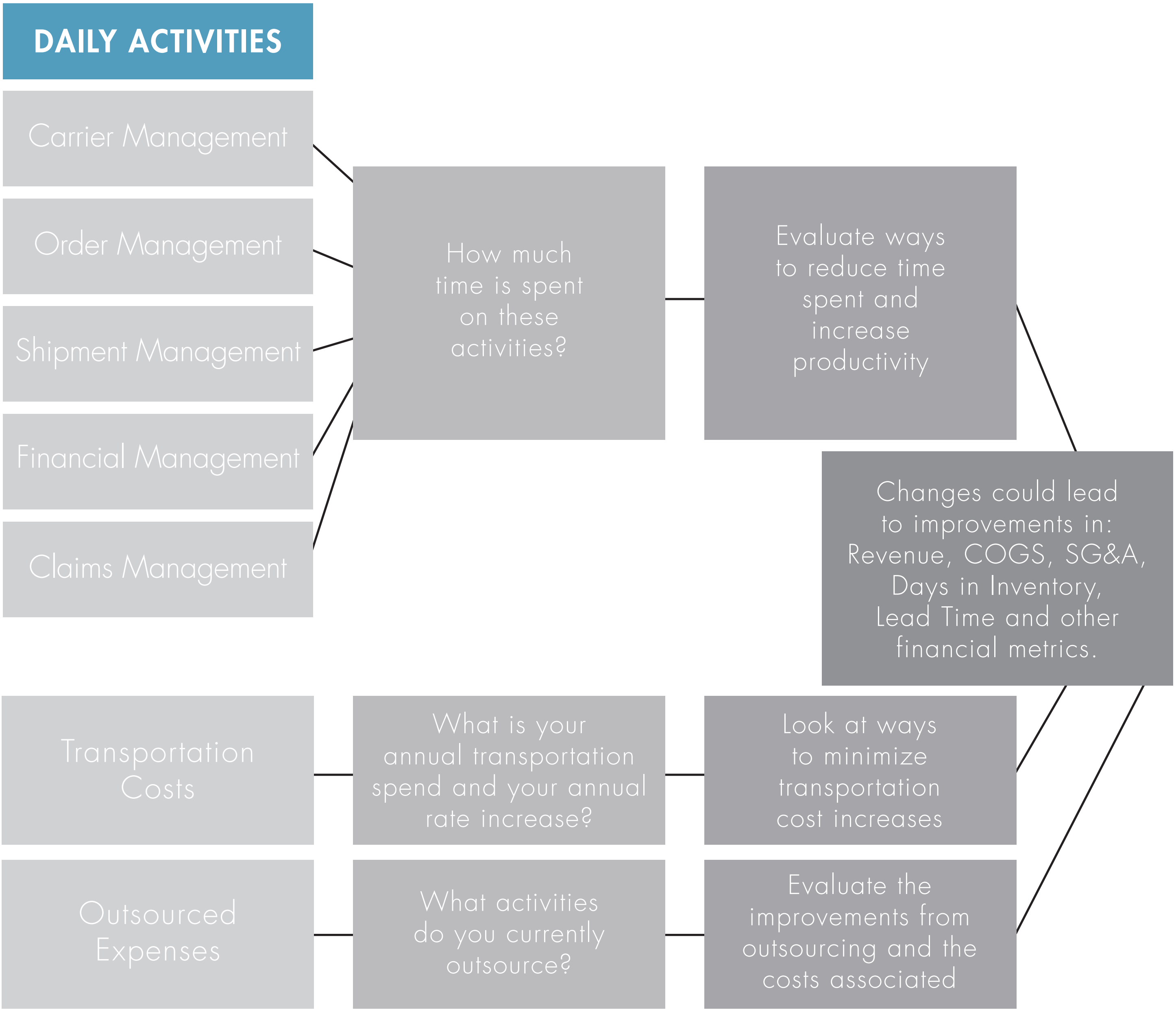
Making your supply chain work harder for your business

Implementing improvements in a supply chain does not need to be a major investment in time and money. However, it does require an understanding that the supply chain has significant impact on the financial performance of the company and the commitment to:

- Look at the logistics and supply chain functions that impact the financial measurements
- Identify the internal business processes that affect the logistics and supply chain functions
- Determine what can be done to improve those business processes that will improve both the supply chain and bottom line.

MIQ Logistics can conduct an analysis of a company's business that will help determine business processes and costs associated with supply chain management. Armed with this information, clients are better able to consider their supply chains in terms of the overall financial performance of their company. The following visual illustrates the information collected through the business analysis and areas that can be improved.

[3] *Bowersox DJ, Closs DJ, Cooper MB. Supply Chain Logistics Management. 2nd ed. New York, NY:McGraw-Hill/Irwin; 2007:191*



As an example of the financial impact from improved supply chain management activities, consider a company with $100 million in revenue in the manufacturing industry. Its financial performance is in the median compared to other companies in its industry. However, with just one percent improvement in total operating expenses (including COGS) and days in inventory, the company would be expected to increase its long-term after-tax cash flow by 8.5%.[4] Both of these financial metrics can be positively impacted by improvements in a company's supply chain.

In addition, companies that have not reviewed their distribution networks in the last five years typically see a reduction in logistics costs between 10 and 20 percent, while improving the service to customers.[5] These are just a few examples of how improving supply chain management activities can impact a company's overall financial performance.

[4] *Value Manager Express. Finlistics Solutions. www.finlistics-vm.com. Accessed May 31, 2007*

[5] *Davis HW. Case studies in logistics strategy improvement, Memorandum 708. Establish Inc., Herbert W. Davis and Company. Available at: http://www.establishinc.com/cs_supply_chain.asp. Accessed May 2, 2007.*

Conclusion

Many companies initially focus on supply chain management as a way to improve customer satisfaction and reduce operational inefficiencies. While doing this, the company improves visibility and control over its supply chain, which also leads to better financial performance.

Improving supply chain management will improve your company's operational efficiencies and increase productivity. Access to information will allow you to plan more effectively and be prepared for the unexpected. And increased customer satisfaction will help you achieve your revenue and growth projections. Quite simply, better supply chain management can have a direct impact on revenue growth, profitability and capital utilization and ultimately help your company create a competitive advantage in the marketplace.

About MIQ Logistics

To learn how MIQ Logistics can create intelligent solutions and powerful results for your business, contact us at:

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MIQ Logistics is a global logistics company headquartered in Overland Park, Kan., and with offices in North America, Asia, Europe and Latin America. MIQ Logistics enables companies to improve their transportation network and overall supply chain efficiency by offering flexible logistics solutions supported by Web-native technology and global logistics management capabilities.

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