Small wonders

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Don't worry if your company isn't a corporate giant. Small to medium-sized businesses (SMBs) can use supply chain management to drive a corporate strategy that increases revenues and profits.

AT A TIME WHEN THE CORPORATE LANDSCAPE seems to be dominated by giants formed by mergers and buyouts among very large companies, you might think that small and medium-sized businesses (SMBs) don't stand a chance when it comes to growth. Yet although size does matter in the world of business, smaller companies can indeed compete in many markets. For them, supply chain management is a key that can open the door to higher revenues and profits.

In large companies, corporate strategy typically initiates and guides change throughout the organization. Areas like information technology and supply chain management are viewed as enablers of strategy and therefore are positioned in something of a support role. But in small to medium-sized businesses, supply chain management principles can actually be the driver of corporate strategies and of changes that can improve both the income statement and the balance sheet.

Granted, some might not view the idea of using supply chain management as a driver of corporate strategy as unusual. In our experience, however, it is a revolutionary concept for many companies, particularly for SMBs.

In fact, supply chain management strategies and practices can be the catalysts for transforming small and medium-sized businesses in several ways. SMBs can leverage supply chain management to boost revenues and net worth with minimal need—or in some cases no need—for additional working capital. They can use it to promote growth and expand their geographic coverage, product lines, and sales channels. Supply chain management can also help SMBs by enabling faster integration after a merger or by making them more attractive acquisition targets.

For small and medium-sized businesses to get the greatest strategic value from supply chain management, they must identify the areas where supply chain initiatives will boost revenue. In this article, we will outline some of those areas and show how they can lead to greater revenue and growth.

Flexible but underfunded?

For the purposes of this discussion, we have defined SMBs as companies with annual revenues ranging from US $30 million to US $500 million per year. Another way to define them is in terms of market share; for example, a larger company with US $500 to US $750 million in revenue could be considered an SMB if it had only a 5- to 10-percent market share.

It is difficult to quantify the economic impact of SMBs because many are privately held or employee-owned businesses that don't publicly disclose their revenues. Yet they represent a significant portion of a country's economic activity and can lead its economic growth.

The attributes of small and medium-sized companies affect how they operate their supply chains. On the plus side, SMBs have such positive attributes as adaptability and flexibility. Because they are smaller and have fewer fixed assets, they can quickly react to changes in strategy or the needs of their markets. By leveraging this flexibility, SMBs can pursue a new strategy more quickly than a large company could. In addition, they typically have flatter management structures that facilitate faster decision making.

SMBs have some drawbacks, too. They typically evolve from a single manufacturing or distribution location, adding facilities as

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they grow. As a result, many have not developed sophisticated distribution networks or supply chain information systems. Managers may not be well versed in recent supply chain management developments and current ideas. Moreover, they often lack the resources needed to carry out strategic initiatives for growth while concurrently addressing the challenges of running the day-to-day business.

When developing corporate strategy, SMBs often face limitations that their larger competitors may not encounter. These constraints (both real and perceived) include limited expertise in international business practices, relatively unsophisticated supply chain management, and limited capacities and competencies in product development, information technology, and business process management. They also include limited access to capital markets: Because bank loans can be expensive and SMBs often are unable to raise capital through stock offerings, they generally must self-finance growth through internal working capital.

Confronted with these constraints, executives may believe that they have no choice but to rule out revenue-generating strategies even before they begin formulating overall corporate strategy. These revenue-generating strategies can include expanding into international markets, making significant additions to product offerings, creating new sales channels, and offering value-added services. However, this is precisely where SMBs can leverage the power of supply chain management to open the door to new growth.

Pathways to growth

Before a small or medium-sized business can leverage supply chain management as a tool for growth, it's necessary to educate managers, especially those in sales, marketing, and finance, about how supply chain management can overcome the real and perceived constraints discussed above. Once the executive team understands how supply chain management does that, it can begin to rethink the strategic planning process and identify the incremental sales and marketing opportunities that could be achieved when supply chain management is added to the SMB's toolbox.

The next step on the pathway to growth is the development of a solid marketing plan that identifies supply chain-driven sales opportunities and priorities. This marketing plan should include clear value propositions for all products and services, sales forecasts by geographic market, and expectations for pricing that include logistics costs.

Once these two steps have been taken, there are many areas where SMBs can build revenue growth strategies based on supply chain management capabilities. Let's look at four that offer significant opportunities: geographic expansion, product-line expansion, continuity planning, and mergers and acquisitions.

Geographic expansion: Contract manufacturers and third-party logistics providers can help SMBs introduce their products to new geographic regions. On the domestic side, an SMB that lacks the resources to build its own distribution network in a region it doesn't currently serve can leverage the networks of its 3PLs. Of special interest to a smaller company is the fact that flexibility can be built into 3PL contracts, so that if a particular region is not a success, the SMB can withdraw without having made significant investments or incurring major penalties.

Similarly, supply chain management makes international expansion feasible with few (if any) permanent investments. This is true not only for manufacturing in low-cost countries for export to the United States but also for manufacturing in support of new, local sales activities. Manufacturing "in region" is one way an SMB can be more cost-competitive with larger rivals, because it reduces delivery costs and order-to-delivery lead times.

SMBs, though, may not have the resources to do all the legwork required to find the right partners overseas. For help, they may want to turn to sourcing firms that specialize in identifying manufacturing and logistics companies that possess the desired capabilities and strengths in a particular country or region. These sourcing firms can qualify potential partners based on the specific needs outlined in SMBs' marketing plans.

Product-line expansion: Supply chain management enables smaller companies to boost revenues because it provides an operational platform for expanding existing product portfolios or launching wholly new product lines. Once again, the marketing plan will act as a guide, articulating the necessary product and service attributes, pricing requirements, and geographic forecasts and priorities. With this in hand, the sourcing team can identify potential supply chain partners that fit this profile.

Where product expansion is concerned, it's important to be sure that potential supply chain partners (whether suppliers, contract manufacturers, or 3PLs) mesh well with the SMB's sales and marketing, product development, operations, quality assurance, and information technology organizations. It's also helpful to review the potential supply chain partner's business processes to identify any integration issues that could arise. SMBs now have greater access to technology tools that can help them streamline this process than they have had in the past. For example, product lifecycle management (PLM) systems enable real-time linkage of product data to assist at the development stage and support ongoing supply management. PLM systems can be internally hosted or are available via application service providers (ASPs). ASPs offer their applications online on a per-transaction basis and no lengthy in-house implementations are required. As a result, they can be a far easier and more cost-effective solution for SMBs than traditional license-fee software.

Continuity planning: Risk management plans that address how a company will manage potential supply chain disruptions can be a powerful marketing tool for SMBs. A formal supply chain continuity plan that will keep products flowing in times of crisis can help even the smallest company secure more business from current customers and attract new ones. Customers feel more confidence in suppliers that have documented and tested supply chain continuity plans. Such a plan, in fact, is an effective competitive weapon because it will help to dispel the mistaken perception that a small company is always less sophisticated than a big one. This is one place where a large company does not necessarily have an advantage; contrary to what most might think, many large firms have not invested the time and effort necessary to create formal supply chain continuity plans.

Mergers and acquisitions: A time-honored path to growth for small and medium-sized companies is through merging with others like themselves, or by being acquired by a larger business. Excellent supply chain management can make a company more efficient and profitable, and therefore a more desirable acquisition target. It can also enhance the likelihood that a merger or acquisition will be a success. It can do this by either facilitating quick integration of the acquired company's supply chain, or conversely, by making itself easier for the suitor to acquire. How well either scenario progresses depends on both the efficiency of the SMB's distribution network and how easily the supply chain information systems it has in place can be integrated with those of its new partner.

Four ways to boost cash flow

It may now be clear how supply chain management can spur growth. But finding the funds to implement those strategies may be difficult for cash-strapped SMBs. Supply chain management can help: It offers four clear ways for smaller companies to finance growth.

First, supply chain management allows small and medium-sized businesses to boost revenue with minimal investment. For example, engaging external partners like contract manufacturers and third-party logistics companies lets SMBs grow their extended supply chains so they can expand their businesses without a large capital outlay. In essence, their supply chain partners help them create larger, virtual organizations with greater capacity and capabilities. These organizations can serve as platforms for launching new revenue-generating initiatives.

Second, SMBs can also use supply chain management to free up assets. One way to accomplish this is by selling buildings and rolling stock, and then leasing them back. Third-party logistics companies are good partners for SMBs that pursue this strategy.

Third, supply chain process improvements that reduce inventory will increase working capital and increase return on assets (ROA). The same is true for receivables: Shortening the order-to-cash cycle time reduces days sales outstanding (DSO), and even for a small company, reducing accounts receivables represents big money. Together, lower inventory and lower accounts receivables free up cash, enabling SMBs to self-finance and operate at a sustainable growth rate.

The fourth supply chain route to financing growth is to increase cash flow through increased efficiency. The efficiency of an SMB's supply chain has a direct bearing on its ability to reduce operating costs, which in turn increases cash flow and profitability.

Seize the opportunity

The opportunity for SMBs to use supply chain management strategies to open up new pathways to growth is truly exciting. No longer is supply chain management simply an enabler of corporate strategy for small and medium-sized companies. Now is the time for SMBs to benefit by taking an "out of the box" view of how supply chain management can actually *lead* revenue growth and drive corporate strategy.

For SMBs that want to grow, the concepts discussed here should provide some ideas for getting started. Even if they never reach the ranks of the corporate giants, they can still take advantage of supply chain management strategies to achieve their revenue growth targets. △

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