eBook

# Cash is King—And So is Your Supply Chain:

## How Mid-Market Companies Can Optimize Supply Chain Operations for Strong Cash Flow and Focused Growth

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# Content



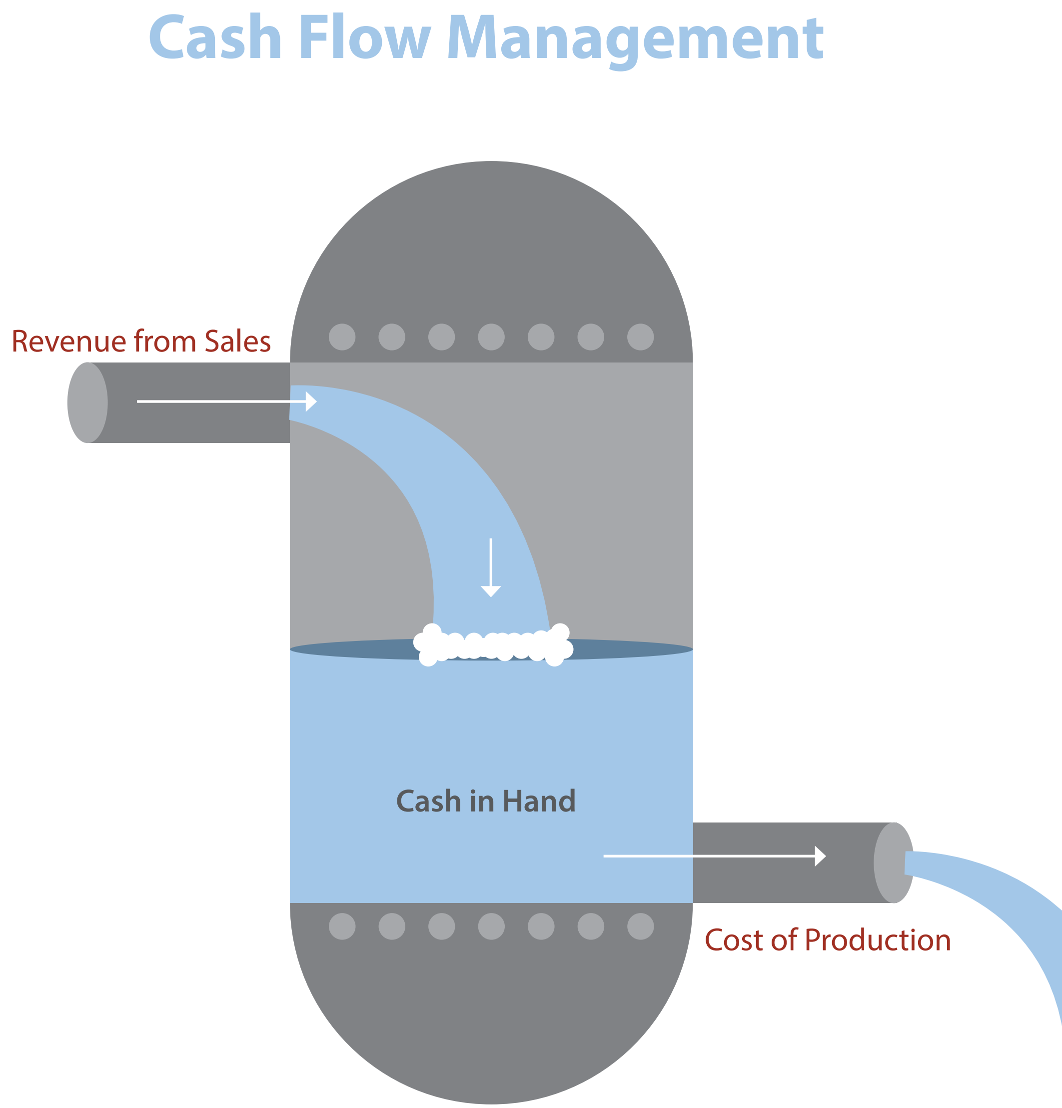
# Introduction

For companies of all sizes and across all industries, cash is not only crucial – it's king. Businesses must carefully manage the flow of their cash – making sure that payments aren't going out faster than resources are coming in – simply to survive. According to a recent study by Dun & Bradstreet on business failures, companies that do monthly cash flow planning have an 80 percent survival rate – more than double the 36 percent survival rate for those only planning once a year.[1] This discrepancy is partially because careful planning helps your company build up a solid cash reserve, and that reserve can serve as a life vest when there are weather disruptions, economic downturns or other unexpected obstacles.

A strong cash position isn't just good for the bad times either; indeed, that same cushion can be used as investment capital – for starting new projects, upgrading equipment or bringing on new hires – when the economy is in an upswing and business is growing. Plus, well-managed cash can provide access to even more capital via financing, as higher free cash flow generally results in a lower rate of borrowing.[2]

But while cash is important for all businesses, cash flow management is especially vital for mid-market companies in today's economic landscape. Because of their size, mid-market companies have a smaller financial war chest than their larger competitors, which means they have a reduced margin of error for the timing of inflows and outflows, a thinner cushion for tough financial situations and a smaller investment pool (including less access to capital) for financing growth.

As a result, it can take more effort and precision for mid-market companies to remain in a strong cash position. The good news, though, is that every small improvement in cash flow has an even bigger impact on your business. And even more good news: Advances in technology and software can help your company automate supply chain processes, which has made managing cash flow easier than ever.



# Why Seek Out Supply Chain Efficiencies


Supply chain processes are the backbone of any company's cash flow. Unfortunately, your supply chain can fail for a laundry list of reasons. According to a recent National Center for the Middle Market report about resilient supply chains, most companies will face a supply chain crisis every four to five years.[3] A few common supply chain kinks include unavailable materials, changing government regulations, pricing pressures and natural disasters. These obstacles become increasingly more difficult to predict and prepare for as your supply chain gets more complex and global.

As discussed earlier, having a substantial cash reserve can help you stay afloat during supply chain crises, but optimizing and automating supply chain processes can also help prevent some failures, which can alleviate those cash crunches in the first place. And that's just one reason why properly managing supply chain and cash flow via technology investments should be a priority to maintain health and stability across any organization.

Investing in your supply chain can also be a growth avenue given the current economic landscape. Despite being a few years removed from depths of the Great Recession, businesses still face a relatively slow-growth economic environment. In Deloitte's most recent annual survey of mid-market executives, respondents acknowledged a "new realism" regarding economic growth, and the number of mid-market executives expecting moderate to robust economic growth has been steadily declining for several years. On top of that, the executives noted that the current environment is full of uncertainty because of factors such as deviating healthcare costs and tax rates.[4]

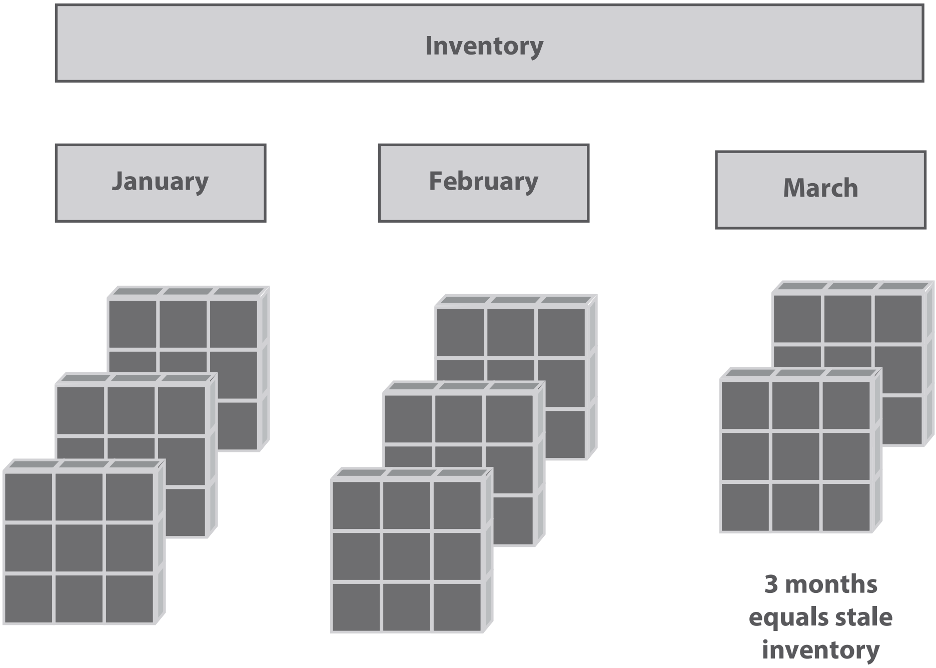
This reality – which many are calling "the new normal" – has changed the way many companies approach fundamental aspects of their business, such as cost structure, cash flow and growth plans. A mid-market report issued by Sutherland Global three years after the worst of the recession showed that 85 percent of respondents claimed to be more disciplined in keeping a "lean cost structure, strong balance sheet, and optimum levels of cash and liquidity."[5] Meanwhile, a more recent mid-market perspectives report by Deloitte noted that companies are strategically focusing their growth and emphasizing improvements in their core business.[6]

Optimizing your supply chain is one of the first steps towards achieving this leaner business structure and driving focused growth.

# Manage Cash By Managing Inventory

To start, let's focus on a specific process within the supply chain and, subsequently, discuss examples of potential improvements. One key area where many companies have room for improvement is inventory management. If your inventory arrives early, it can weigh heavily on your available cash flow. Extra shelved inventory can lead to wasted warehouse space, devaluation of the product, partially full shipping penalties and even higher taxes.[7]

For many years, American grocery giant Kraft Foods was plagued by inventory management problems. According to a Supply Chain Quarterly feature, around 20 to 30 percent of the costs associated with any Kraft product were tied up in inventory as of a few years ago. For some products, inventory costs could represent up to 50 percent of the total.[8] It should come as no surprise that better managing inventory was a large part of Kraft's recent strategic cash flow initiative – an initiative that resulted in a 20-percent year-over-year increase in cash flow.




A few fundamental improvements that led to Kraft's cash flow success can easily be imitated by mid-market companies. One of the most straightforward solutions was phasing out low-revenue products with high-demand volatility. Swings in demand can result in large fluctuations in pricing and delivery times, which in turn can cause cash flow issues. For products that don't significantly contribute to your company's top line, such variability and risks aren't worth your while.

Similarly, investing in software to determine the right quantities and locations for stock is another easy way to avoid inventory issues. For example, materials requirement planning software can help your company calculate an appropriate "safety stock number," which is the amount of inventory needed to stay above standard demand rates. This software also features field functions that factor in item usage, lead time and the safety stock number so that an order is actually triggered when needed.

Plus, the list of software and technology options available to help companies manage inventory goes far beyond solutions that simply determine proper quantities. Investing in the right technology can also help you plan ahead to reduce international shipping delays, as upgrading to a proper digital operating system – as opposed to manually re-keying data into several different systems – makes it easier to maintain compliance and regulation.[9] Other software provides insight into the best inventory routes, your best-selling (and problematic) products and alternative vendors in order to minimize variety in your supply chain.



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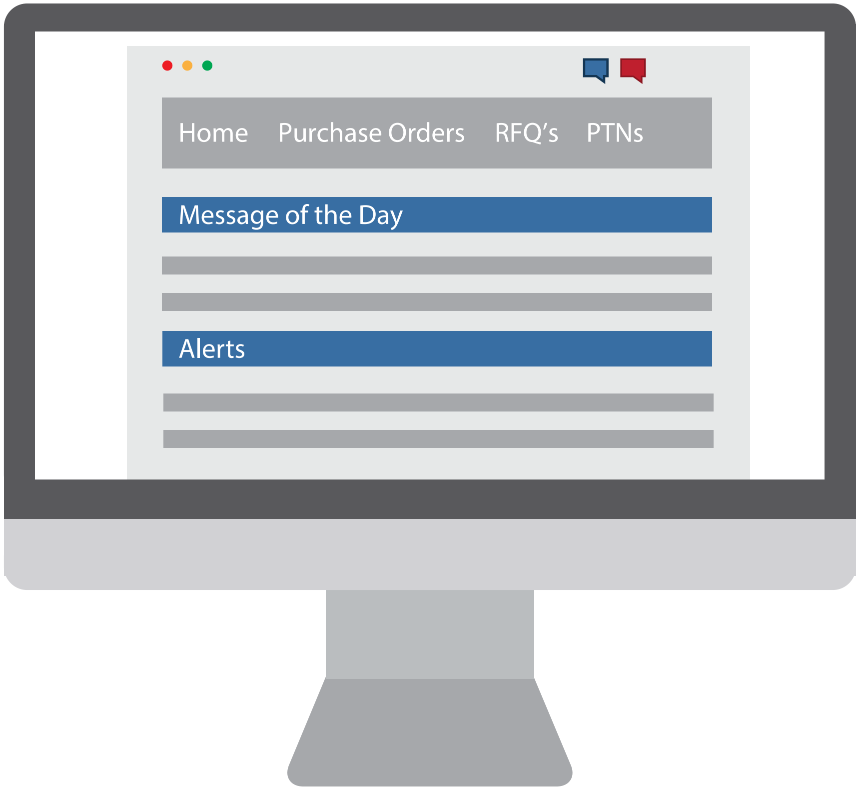
Of course, it's important to note that the situation and resources at a large company like Kraft Foods are a bit different than those at most mid-market companies, and that some inventory issues are unique to a company's size. For example, mid-market companies often suffer from a lack of influence: They don't purchase in large enough volumes to be a vendor's top priority, or they aren't critical enough for customers to allow flexibility. This can make it tougher for mid-market companies to negotiate deliverables and pricing. Plus, many mid-market organizations work with both larger and smaller companies, which can sandwich them between small suppliers who need quick payments and large customers that are slow to pay, a position that inevitably hurts cash flows.


Fortunately, these supply chain issues specific to mid-market companies can be easily solved with proper planning. The best tactic, according to a recent report by the National Center for the Middle Market, is to build stronger relationships with select upstream and downstream supply members, as those relationships can lead to more flexible terms and thus help you avoid supply chain and capital constraints. The report also suggested that mid-market organizations form strategic horizontal alliances, which will further strengthen their leverage in negotiations.[10]

Besides, mid-market companies do enjoy some strategic advantages. Because of its sheer size, Kraft faced some obstacles that made its cash flow initiative more complicated. With 23 divisions, the company was unable to roll out a one-size-fits-all solution; instead, it was forced to create an entire cash flow team and run numerous workshops to ensure the initiative went smoothly. This is where mid-market companies actually have a hidden strength; because they have fewer management levels and departments, implementing these cash flow and supply chain solutions is a much simpler process.[11]

# New Technology Puts Efficiencies At Your Fingertips




Technology can help your company with more than just inventory management; many organizations are installing solutions to automate their accounts payable and to facilitate purchase order collaboration. Automating the accounts payable process enables business users to prioritize payments to suppliers that offer early payment bonuses – a practice called dynamic discounting.[12] Similarly, software and systems upgrades can help reduce the processing time of purchase orders. In some cases, purchase orders are actually generated by the enterprise resource planning software and then shared collaboratively to ensure accurate information. This provides both sides with real-time visibility, creating fewer delays, minimizing over-ordering, enabling businesses to catch problems before they ship, and helping them more quickly track change orders. Taking advantage of these efficiency opportunities is an easy step towards better managing a supply chain and improving cash flow.

Finally, although it's not part of the direct supply chain, indirect spend can also have a very real effect on cash flow. Recent studies have found that indirect spend can account for up to 50 percent of a company's purchases, and manufacturers in particular can spend 20 percent or more of their total revenue on indirect expenditures.[13] As a result, tools to control indirect spend should not be overlooked in the optimization process. Indirect spend software lets organizations focus on key performance indicators, provides metrics on indirect spend, and allows closed loop procure-to-pay procedures.

All in all, these technologies make supply chain processes cheaper and simpler, while also improving forecasts and accuracy … and many companies have already taken note. Technologies like business automation were the most popular anticipated investments for mid-market companies, according to recent Deloitte research – and it's easy to see why.[14]

# Conclusion

From building strong relationships to implementing new technology, there are a number of ways mid-market companies can optimize and automate their supply chains to improve cash flow. Of course, it is important to note that making the decision to invest in automation technology or update a supply chain process is a cash flow decision in itself, and should thus be weighed carefully.

While it would be ideal to implement all available functionality – automating as many processes as possible, for example – there are times when a simpler solution is actually the smartest. Software that is very complicated to integrate, for example, can require custom functionality and advanced training, which in turn means higher upfront costs and steeper support and upgrade costs. It is also smart to spread out the technology costs when possible. Some software-as-a-service options are priced using a subscription model, as is the case with many cloud-computing solutions. You should research alternatives and carefully weigh all options before making an investment.

Still, the most important takeaway for mid-market companies is that the cost of a supply chain or cash flow failure is, in most cases, significantly higher than even the heftiest price tags for these investments. With that in mind, supply chain solutions and automation technologies are more often than not worth the investment for growing mid-market companies.

# Endnotes

[1]http://corp.bankofamerica.com/documents/16307/240915/Cash_Flow_Management-part1.pdf
[2]http://www.supplychainquarterly.com/print/scq201001kraft/
[3]http://www.middlemarketcenter.org/stuff/contentmgr/files/0/bc3eb72a262c9b38738bb6d6e84737f1/download/ncmm_whitepaper_supply_chain.pdf
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