



EXECUTIVE VIEW

July 21, 2005

By SCDigest Contributing Editor,
Gene Tyndall

SUPPLY CHAIN MANAGEMENT IN THE MIDDLE MARKET

In my previous column – “Selling Supply Chain Solutions, not Just Products or Services” – I discussed how the Sell process is critical to a well-run and profitable supply chain. It has occurred to me repeatedly in recent months that this point, along with other insights we have developed with successful Supply Chain strategies and transformations, are not finding their way into the executive offices of middle market companies.

Despite the expanded publicity and media attention around Supply Chain values and benefits achieved by leading corporations, middle market executives, for the most part, are not adapting the right technologies, methods, and best practices that can provide their companies similar benefits. In our advisory work with middle market business leaders, they are often surprised to learn that large company supply chain results can indeed be achieved by adapting leading processes and technologies to their smaller volumes, fewer markets, and leaner organizations.

For many such executives, it takes a major external threat such as global competitors entering their markets; or, cheaper off-shore production capacity; or, new entries such as the Internet co-opting their marketing channels., in order for them to wonder about their supply chains. Then, they often do not know where to turn for help.

For others, it may take a more positive compelling event. For example, when the Austrian-owned company that produces Red Bull decided to enter the US market, they obtained supply chain help from consultants and selection of the right logistics service provider for food and beverage distribution knowledge and services. When Inoveris, a mid-market manufacturer of CDs/DVDs, lost production volumes to offshore companies, they turned to supply chain management for both improved solution selling as well as to provide supply chain services to other companies in their industry segment.

Fortunately in the Inoveris situation, the new CEO was aware of the power of supply chain management for both cost management and growth. While more and more mid-market companies are hiring good middle managers for logistics, the C-level gaps in supply chain awareness continue to be prevalent, which limits the adoption of initiatives other than those for cost savings.

Middle market executives rarely read supply chain management periodicals or similar media; they do not participate in supply chain organizations or networks; nor do they have time to investigate topics that they may not be aware of or have cared about. Very often they assume that software companies, professional service firms, and Logistics Service Providers – if they even know any – are too expensive, are uninterested in serving companies that are not on FORTUNE lists, or do not have middle market experiences to share or build upon.

We are also seeing another phenomenon occurring. Some middle market firms have invested in supply chain technologies, yet have not achieved the promised benefits, because they do not have the resources, knowledge, or processes to leverage the new capabilities. While this problem is often documented with the larger companies, its prevalence among middle and smaller companies seems to be even more serious.

Valuable business technologies exist for the middle market. Microsoft has been especially prevalent here, as their MBS – Great Plains and CRM -- software provides companies integrated capabilities for distribution, manufacturing, financials, human resource management, business analytics, etc....and the CRM supports sales processes. Other ERP-type technologies also exist for the middle market. Yet, these technologies do not have the deep functionality that the well-known SCM software provides, especially for supply chain optimization.

Moreover, the well-known providers have been reluctant to create "lite versions" that are more affordable for this market.

As I stated earlier, however, the real problem is not the lack of strong SC technologies; rather, it is that most of the companies do not have the knowledge or resources to use the software to its full advantage; and, the executive(s) are often either unaware that they are under-performing, or they are unaware of the potential value that strong supply chains would yield to their business. As has happened over the past ten years with the large companies, this gap may, in time, be closed somewhat by executive education, or by more FORTUNE company executives who know about SCM migrating to middle market companies. Time, however, is not on our side....global competition is happening too fast, and America's economic power is being threatened every day by external forces.

Middle market companies have supply chains that are often not as complex as large companies have, especially on the outbound side, where markets are normally direct. They do, however, increasingly source internationally, and are penalized even more for capacity delays and higher freight costs. Further, these companies have unmet needs for all the normal supply chain benefits, such as the physical transportation, inventory, warehousing, and other logistics improvements in cost, time, and quality; the financial cash-flow benefits of shortening cash-to-cash cycles and reducing working capital; and the work flow benefits of process streamlining. They also have unmet potentials in executing collaboration strategies, both with suppliers and with customers.

Supply chain consultants who focus on the middle market are helping to close the gaps. But until the executives understand the untapped value of SC improvements in their companies, consultants cannot be effective enough. Technology providers to the middle markets are starting to improve implementations, so this will help those companies that invest in the right software and new processes accordingly. Middle market logistics companies are having some success in certain outsourcing arrangements, but most of these are for straightforward transportation or warehousing services. All of these solutions have a time lag associated with them that, again, threatens many companies survival.

Those of us that care about our profession should care about the adoption rate of supply chain improvements in the middle market, across all industries and segments. After all, thousands of companies exist in this tier, and our US economy and employment is tied more to these companies than to those on the FORTUNE list. It is not by chance that small and medium-sized companies now account for almost 70% of new jobs in North America.

We need to find more channels to help middle market executives help themselves and their companies. The time is now and the unmet needs and opportunities are clear.

About The Author

Gene Tyndall is currently founding partner with Supply Chain Executive Advisors, LLC, a global partnership firm providing advice and counsel to senior-level executives interested in improving their companies' supply chains. Previously, he was exclusive vice president and leader of The Ryder Global Supply Chain Solutions Businesses, and a leader of the global SCM consulting practice of Ernst & Young. He is a globally recognized expert in SCM and a leader in its definition and evolution.

About SupplyChainDigest

SupplyChainDigest™ is the industry's premier interactive knowledge source, providing timely, relevant, in-context information. Reaching tens of thousands of supply chain and logistics decision-makers each week, our flagship publications - SupplyChainDigest and SupplyChainDigest - Logistics Edition, and web site (www.scdigest.com) deliver news, opinions and information to help end users improve supply chain processes and find technology solutions.

For more information, contact SupplyChainDigest at:

937-885-3253

www.scdigest.com

email: info@scdigest.com