# Intersection of Wall Street, Private Equity Continues to Increasingly Intersect with the Supply Chain

## Supply Chain as the New Source of Capital? Small and Medium-Sized Businesses Need to Pay more Attention to Supply Chain

**SCDigest Editorial Staff**

In a CSCMP session on the last day of the recent conference in Chicago, a panel of Wall Street and financial professionals articulated how Wall Street, private equity and other financially related pressures and opportunities continue to grow in their connection to the supply chain.

**Paul Carbery**, Managing Director at private equity firm Frontenac, **Bill Hunter**, Managing Director at investment bank Jefferies & Company, and **Bob Hess**, a partner at financial firm Newmark Knight Frank, had a lively and well attended discussion on a host of issues related to the Wall Street/supply chain connection.

Although the private equity pursuit of large companies has scaled back quite a bit since the financial crisis started last year and the availability of credit for such deals has dried up dramatically, there remain many deals and opportunities in the small and mid-sized company (SMB) market, Carbery said – and supply chain improvement is often a key element of those deals.

He said that SMBs often have innovative products or other competitive advantages, but fail to fully leverage those strengths because they haven't paid enough attention to their supply chains. An important part of the calculus of whether to invest in a company and how much a PE is willing to pay is a result of considering what the opportunities for improving the supply chain are, Carbery said.

"Supply chain has become a real focus for us in the last five years," Carbery said.

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Carbery sited the case of medical devices maker Crescent Healthcare, which had innovative products but "had well under managed its supply chain."

After Frontenac bought the company, it brought in a new CEO with significant supply chain acumen. The company rapidly crafted two focused supply chains for its two primary product segments, with differing needs, while focusing on inventory management and distribution networks.

Within 18 months, those supply chain efforts had led to a doubling of gross margins and a sales increase of some 100%.

### Supply Chain as a Source of Capital

Bob Hess noted that with capital markets still

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tough, many companies are turning to the supply chain to deliver free cash flow that is needed to fund growth opportunities – or in some cases to survive.

Cost reduction is part of that, he said, but much importance is on reducing inventories as a percent of sales, which directly improves free cash flow, and getting better return on assets deployed in the supply chain.

He gave an example of just how tight the capital markets can be, noting one large retailer that had the opportunity recently to save an expected $50 million supply chain network redesign project, included shifting from a number of smaller distribution centers into larger ones. The project had a great ROI and the capital was available – but the company delayed the project just because of the potential for Wall Street to view the project as too risky operationally and financially.

"Achieving return on assets is more critical then ever," he said. "You must achieve what you set out to do, or Wall Street will crush you."

He said companies are pursuing some number of the following strategies which link financials with the supply chain:

- Consolidating and monetizing assets
- Rationalizing SKU and service portfolios
- Focus on innovation and new product development process excellence
- Breaking down cross functional silos within the company
- Improving "demand management" through additional analytic tools
- Better understanding the cost of quality

"You better know that cold," he said.

But, he added, the financial crisis has made many companies and their supply chains stronger.

"Flexibility is in." he said. "Companies will want to ensure they can survive a stress test like this again."

Bill Hunter of Jeffries noted right now there seem to be two types of CEOs.

"The one type is saying I am just hunkering down and not doing anything," he said. "I have some cash and I am just sitting on it to be safe."

Others, however, are starting to think offense.

"These will be a lot more strategic, and are looking to grab market share through innovation, execution, and acquisitions."

Hunter follows the transport sector, and added that he expects significant changes in the rail industry, especially more "coordinated strategies" between competitors, including track sharing and similar arrangements.

As a final thought, Hess said the more forward thinking CEOs are anticipating recovery – and whether their supply chains will be ready when it does.

"They are asking: Do I have the right people and the right talent in place to gain on the competition when the market comes back?" he said.