



AN ENTREPRENEUR ACADEMY WORKBOOK

# SUPPLY CHAIN

## **Lesson 10: Supply Chain**

**“The Supply Chain stuff is really tricky.”**

**- Elon Musk**

## Supply chains aren't just for mega corporations. Large or small, we'll show you how to build a chain for your business that supports your current and emerging needs, ensuring that it will grow and mature as your business does.

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As an entrepreneur, it's easy to overlook the supply chain, as it conjures up images of giant container ships coursing their way across vast oceans and massive distribution centers filled with products as far as the eye can see.

But supply chains aren't always that grand or glorious. And they aren't just for big corporations. In its most basic form, a supply chain is everything that needs to happen to get your product from Point A to Point B.

For a new or small business, the supply chain can be one of your biggest assets or biggest risks. The good news is that small businesses have an advantage over the big guys because the supply chain itself is easier to set up and manage and far more flexible.

Factoring in your supply chain early will help you reduce costs, build stronger relationships and deliver higher profits as you streamline efficiencies and optimize the chain.

### Three mission-critical considerations

#### Supplier and stakeholder relationships

**Build partnerships** – You want to find suppliers and other stakeholders who bring value to your company in the goods, materials and services they provide. Obviously, you want these relationships to be cost-efficient, but you also want them to be reliable and easy to maintain. Loyalty is an admirable trait, but it doesn't pay the bills. Make sure your suppliers are performing the task they were asked to do and are meeting your expectations as well as those of your customers. If they aren't up to snuff, you may want to find a new partner.

**Keep the good ones going** – Once you've established a relationship with a trustworthy

vendor, make sure you continue to build it. Like any relationship, building rapport and trust will increase the security and resiliency of your supply chain, even when weather, market conditions or environmental risks create challenges.

#### Ethics, sustainability and responsibility

Customers want to patronize businesses that are aligned with their values. They want to deal with sustainable and responsible enterprises that reflect and embody their ethics. The same is true in business-to-business relationships. You want to find and work with supply chain partners that are aligned with who you are and reflect the same characteristics you hold to be important. Make sure you talk about what's important to you and your business as you build relationships with suppliers and contractors, including delicate subjects like human rights, social justice, equality and diversity.

#### Risk management

Your business is only as good as its supply chain. Even when you're just starting out, you want to manage your supply chain with risk in mind, planning for the worst while expecting the best. As you manage risk in your supply chain, consider:

**Marketing intelligence** – Larger businesses can hire other companies to keep them informed about what's going on in the marketplace. As a small business, you will need to do this work yourself. Staying up to date on the latest trends and what competitors are up to will help you stay a step or two ahead in the marketplace. Your suppliers and contractors can help you keep tabs on all this, so ask them for their help as part of the transactional relationship you have with them.

Supply chain continuity – The supply chain itself changes continually. Things like trade wars, climate change and yes – global pandemics – can upend your supply chain. Continually reevaluate your risk in light of events that are happening domestically and around the world, such as product recalls, safety notices, industry or societal unrest, etc. so you can be agile in your supply chain while protecting the bottom line and the needs of your customers.

## Tips for managing your supply chain

- 1. Think global, stay local** – It's hard to argue with the allure of global suppliers, but when possible, you should try to stay local. As we've seen in the pandemic and trade wars, businesses with global supply chains have had problems meeting customer needs because of logistical problems, tariffs, workforce shortages and closed factories. Going local whenever possible offers you expedited delivery and closer control over quality. The global supply chain is always out there, so don't ignore it completely, especially if selection or price are key differentiators in your business model.
- 2. When in doubt, delegate** – You can't be all things to all people. Know your strengths and weaknesses and, whenever possible, delegate or outsource the weaknesses. If you are a small operation or even going solo at the moment, invest in quality software that can automate routine tasks or find a trusted partner to handle these things for you. Companies that do save up to 20% over the course of five years, not to mention all the time you free up by outsourcing and automating tasks you don't enjoy anyway.
- 3. Data is your friend** – If you use a software solution to track and manage your inventory, you'll find that you can create a leaner, more efficient supply chain. Use data and analytics to track inventory, boost

fulfillment rates, build better relationships with vendors and manage customer interactions more fully. Depending on the software solution you choose, you may also be able to use analytics and artificial intelligence to predict future demand and spot problems before they affect your supply chain.

- 4. Build-in resiliency** – Given today's dynamic market, your supply chain needs to be responsive, flexible and resilient. Make sure that you have multiple options for suppliers, contractors and delivery networks so you can easily switch between them to ensure that your supply of raw materials, goods and products isn't disrupted or delayed. Even if you have a go-to supplier, you want to be able to pivot in real-time so that your customer's expectations are met should the unthinkable happen. If your customers become concerned that you aren't able to deliver on your promises, they may go elsewhere.

## Supply chain metrics

It's essential to monitor the health of your supply chain to know that you are getting the most out of it in terms of value, pricing, fulfillment and satisfaction. It's easy to let the train run away from you if you don't, as a new business requires you to wear many hats, often all at once. That's why you want to invest some time, money and effort into making sure your supply chain is operating correctly and at peak efficiency. Software will do a lot of the heavy lifting for you, but here are just a few of the things you should be monitoring:

**On-time Delivery** – This metric is all about your customers getting what they want when they want it and being able to track this process in real-time. As a business, you are also a customer of your suppliers, and this metric can be used to track that as well. In the beginning, you can track this information on a spreadsheet, but eventually you will want to automate this process. In its most basic

form, delivery is tracked by order date, date promised, date shipped and date delivered. If you shipped 100 orders in a month and one of them arrived a day late, your on-time delivery rate is 99% for that month. The same would be true for product ordered and shipped by your suppliers.

You should always set the goal for on-time delivery at 100%. Of course, it's not a realistic rate, since things are often out of your control such as weather or third-party shipping errors. Most companies find a 98.5% and higher on-time rate is acceptable and attainable.

**Inventory Accuracy** – Once again, the ideal is to have 100% accuracy, which means that everything you ship is what your customer ordered and expected. Monitoring your inventory to ensure there are no outages, or if there are, that product is on its way, will increase your on-time delivery. Accuracy also relates to fulfillment errors where incorrect products are shipped out to customers. A high return rate affects your inventory as well as your bottom line.

**Cycle Counting** – Counting the number of times products in your warehouse are completely replenished helps you control inventory effectively. You should assess this quarterly if possible, but no less than annually. If you have three cases of product and you need to order another three cases in a specific period of time, that is “one turn” or “one cycle.” Knowing your “turns” allows you to adjust your orders so that you always have sufficient quantities of popular items in stock and can liquidate items that are not selling. Items sitting on your shelves aren't profitable; they are a cost until they sell. Cycle counting is even more important if your products have a finite shelf life, which requires you to throw “spoiled” product away. For this metric you want to set an acceptable rate of turnover for all your products, specific product categories and individual items, so you always have a

complete picture of the performance of your inventory.

**Cost of Goods Sold** – This can be difficult to track. If you buy an item for \$10 and sell it for \$15, then your gross margin would appear to be \$5. But that doesn't factor in the cost of the goods. If you make the product yourself, you need to revisit the cost of making the item, including labor, raw materials, utilities, etc. By knowing the actual costs of goods sold, you'll know when to either raise prices or reduce expenses.

### **Managing your supply chain**

In the beginning you may find a supplier or a couple of suppliers who helped you realize your dream of operating a successful business. They helped you build your product line and may have offered attractive terms upfront or provided additional support.

Yes, loyalty is important in business, but you can't let it get in the way of smart business decisions. In the interest of maintaining the relationship, you may have forgiven a late delivery, poor quality or an unexpected increase in prices. But as your business grows, you want to make sure that you regularly assess your supply chain to ensure it is still performing for you.

Every year or two you should conduct a sourcing exercise. This means that you look at other potential suppliers and solicit their ideas about how you can make your business more competitive, whether it's in fulfillment, pricing, inventory control, selection or quality. If you wish, you can include your current supplier in this exercise. If they catch wind that you're looking at their competitors, they may offer to renegotiate pricing and terms as you conduct your search.

One of the keys to managing suppliers is to keep accurate records of some of the activities noted above. You want to be able to document

changes to your service, pricing, quality and fulfillment. All of these become points of negotiation with your supply chain partners.

## **Lead times**

One thing that new businesses often overlook is lead times. Time is money. Orders that are waiting to be filled and inventory sitting on shelves are costly. Ideally, you want to have as little stock on hand as possible to fill orders and a short enough lead time so that you can get new parts, supplies or products when you start to run low.

In working with your suppliers, find out what the lead times are, not only for your orders, but the lead times they have to get raw materials, parts or products from their suppliers. Get them to quote you lead times that mean the items are in-hand on your end. A vague promise of two weeks may not include the time it takes to ship it to you or produce it. If a new supplier comes courting, ask if you can contact a couple of their existing customers so you can better gauge their fulfillment cycles and actual lead times.

The same is true with your customers. As their supplier, you need to factor in the total lead time when you are confirming a delivery date. You need to add in your own internal processes as well as packaging and shipping to come up with the answer. Remember: Few customers will be unhappy that an order arrived early, but the ones who are left waiting will either complain about you to others or take their business elsewhere.



# Assignments

- 1. Research your supply chain.** Think about your business plan, product offerings, fulfillment and customer service models. Who would be potential suppliers? Why would you choose one over another? Is there more than one supplier?
- 2. Consider your business model.** Are you the low-cost provider in your market space? Is customer service more important than price? Do you plan to offer less selection at lower prices, or do you want greater selection to be a market differentiator? How will this affect your supply chain? Feel free to return to your Business Canvas to map these things out and make any adjustments to your plan.
- 3. Explore your metrics.** It's easy to lose control of your metrics once you're up and running. What will help you manage metrics and gauge the effectiveness of your supply chain? Will a spreadsheet suffice in the beginning to track all this? What software solutions are out there on the market to help you control inventory and manage the supply chain? At what point will one offer more efficiency than the other? At what point will you need to an a new team member to handle this for you?
- 4. Find weak links in the chain.** Think about your product or products. What factors could disrupt your supply chain or create scarcity or unavailability, either short- or long-term? What is the workaround for these situations? What is the threat to your business if a weak link fails partially or entirely? What are the risks to your business in terms of customer satisfaction, lawsuits, recalls, etc.?





