



## Fine-Tuning the Supply Chain for Market Expansion



# Content

Evaluating Current And Potential Markets.....	3
Risk Management.....	4
Tune Up Your Supply Chain Before Entering New Markets .....	6
Conclusion .....	8



## Evaluating current and potential markets

**Staying competitive in today's dynamic business environment is challenging for any organization. As a middle-market company, market expansion might be the right move as you pursue new business opportunities. This eBook outlines key areas of supply chain operations, including processes and tools, that you can leverage to aid in your expansion.**

The supply chain historically has been perceived as a cost center rather than a value center for many organizations. However, when you align supply chain with business strategy, you can create a very powerful tool that keeps your mid-market business agile as it expands into new markets.

But, your mid-market company cannot grow faster than its supply chain infrastructure; understanding the range and limitations of your supply chain is critical for expansion. Your supply chain should be robust enough to withstand changing local, social, and environmental demands while remaining agile enough to react—and serve multiple markets depending on business needs.

In assessing current and potential areas where your mid-market business can expand, you have likely already answered questions such as:

- What markets are we currently reaching?
- What other markets exist for our products?
- Which potential markets are easiest to reach and offer the greatest sales and growth opportunities?
- Can consumers in the potential target market(s) afford to purchase our goods?

Unplanned costs, unanticipated legal liabilities, and unforeseen regulatory nightmares can inhibit expansion before it begins. Consider approaching questions similar to the above when evaluating your supply chain to help avoid the headaches of entry. For example:

- What markets are we not currently serving that can easily be reached by our current supply chain?
- Can we negotiate discounts with local suppliers to reduce carrier costs?
- Are there geographic restrictions on where our goods can be efficiently delivered?
- What about taxes or other regulatory considerations on moving goods across states/regions?
- Can we efficiently expand our product line using our current suppliers?

Next, you'll read about a number of risks to your supply chain that can have an impact on your mid-market organization all the way to the consumer level. How do these concerns affect market expansion? If your supply chain isn't solid, you could find your expansion plans delayed or worse: if you can't get goods to your customers in a new market, you can't successfully expand.



## Risk Management

### Outsourced manufacturing

Outsourcing manufacturing can come with risks that are not immediately obvious. It may be difficult for your company to financially consider expanding into new markets if the margins for your mid-market business are flagging under the weight of price and total landed cost.

The economics of outsourcing have changed in recent years; companies studying outsourcing must also consider oil and natural gas prices, environmental concerns, inflating wage rates, political climate, weather and other natural disasters, substandard and/or toxic ingredients an outsourced supplier might use, and more.<sup>2</sup> Any disrupted points in your outsourced supply chain can cause a domino effect that produces lasting, negative results for your customer.

**Risk is inherent in the fast pace of business change. Some of the risks that every mid-market organization faces each day fall under the supply chain umbrella. A complex supply chain with large numbers of moving parts, tight customer fulfillment timelines, and demand volatility has increasingly driven outsourcing to become the rule rather than the exception.<sup>1</sup> Whether risks are deal-breakers or simply force your company to think or operate outside its comfort zone, it's important to view multiple perspectives. Below are some risks common to the supply chain that your middle-market business should consider.**

### Environmental and social risks

A study performed by Cone Communications in 2013 indicates that 71% of consumers consider the environment when they shop.<sup>3</sup> Consumers are increasingly more informed about the supply chain, and are prepared to vote with their dollars — Nielsen reports that more than half of consumers (55%) indicate willingness to pay extra for products and services from businesses that reflect positive environmental and social impact. Below are two examples of environmental and social issues that can affect the supply chain all the way to the customer level.

On March 11, 2011, the Tōhoku earthquake and tsunami caused extensive and severe structural damage in northeastern Japan.<sup>4</sup> Before the earthquake, Freescale Semiconductor's fabrication plant in Sendai was in full production; the damage and disruption seriously impacted Freescale customers in the global networking, automotive, and industrial markets. This natural environmental disaster disrupted the supply chain; ultimately, Freescale was forced to close the fabrication plant.<sup>5</sup>

In November of 2012, a garment factory fire killed more than 100 workers, and in April of 2013, an eight-story clothing factory building collapsed — both in Bangladesh. The brands associated with these manufacturers took a hit in the media and in sales; consumers were outraged to learn about the conditions in these factories and demands for change spread across the globe.



## Risk Management (cont)

### Last mile distribution centers

The “last mile” of the supply chain is the final transportation of goods from the delivery center to the customer’s door, and can reach hundreds of miles from the destination port to the store or distribution center.<sup>6</sup>

Today, customers expect cheap and fast delivery, often making purchasing decisions on the basis of shipping costs — and that leaves little room for error. Many companies have multiple store locations that each serve as an independent logistics silo. Your mid-size business will need to determine whether this method or a consolidated distribution center will provide the best last-mile delivery experience for the customer.

If you partner with a last mile distribution center, you may be able to take advantage of benefits that are out of reach to many middle-market companies’ budgets—starting with the cost savings of not building your own distribution center. Technologies and services that keep customers updated with the status of their order, streamline the distribution and delivery process, and ensure products are delivered free of damage may be part of the distribution center’s offerings.<sup>7</sup>



### Outsourced returns

While outsourcing customer returns can seem alluring — after all, you are in business to sell products, not sacrifice profits on returns — it may not be the right strategy for your mid-market company.

The risks of outsourcing returns are softer than many other business risks, but they come at a level that is very personal to your customer. If you wouldn’t consider outsourcing customer service, you might not want to outsource returns — ensuring the returns process is as painless as possible will be the last step in the transaction experience a customer has with you and your product.

There will always be customer returns. Third-party fulfillment and returns companies are intended to be generic as they attempt to meet the needs of a wide variety of their customers. Unfortunately these attempts are often considerably less efficient than the returns your company can process by itself. You know what your best sellers are, you know how best to package them, and you maintain control of the entire process. If you aren’t processing the returns in-house, you may miss the opportunity to gain feedback about why the items are being returned.<sup>8</sup>

### Regulatory and compliance risks

In 2012, 65% of global pharmaceutical/biotech companies ranked regulatory compliance as both a top supply chain and business concern. Middle market businesses can lose both potential revenue and possibly even market share if a manufacturer must remove a product from the market due to non-compliance with a new regulation.<sup>9</sup>

Regulatory compliance can increase complexity for manufacturers. Supply chain leaders should cooperate and collaborate with regulatory affairs organizations to assess new and pending regulations and changes. Noncompliance can involve fines, supply chain disruptions, and delays — up to and including product expiration.

## Tune up your supply chain before entering new markets

To increase your middle market company's competitiveness in existing and new markets, your supply chain should consider tracking defined metrics and targets like lead time, inventory levels, order fill rates, and prompt delivery. These metrics and targets must align with the goals in your market expansion strategy.

Think back to the environmental and social risks discussed earlier. Would you know which of your products were being sourced in affected areas? How long would it have taken you to find out? You need timely, reliable, detailed, and easily accessible supplier and sourcing information. Possessing a profound understanding of each aspect of your supply chain empowers you to define the balance particular to your business's performance objectives, including flexibility, reliability, cost reduction, speed, and sustainability. Once you recognize the relationship between your business goals and the issues in your supply chain that can be optimized and improved, you can begin to consider supply chain software.



“How you gather, manage, and use information will determine whether you win or lose.”

Bill Gates, Microsoft

### Organize and optimize

One of the first challenges is to learn what supply chain technologies are capable of, then take those capabilities and put them to work for you. A single system might not meet all your needs; in that case, it is important to try to find systems that can talk to each other, at the very least.

Microsoft’s Bill Gates said “How you gather, manage, and use information will determine whether you win or lose.”<sup>10</sup> This advice can easily be applied to supply chain data integration and collaboration. At a recent supply chain conference called Smart Conference, 70% of senior supply chain executives indicated supply chain visibility as a key improvement objective.<sup>11</sup> They understand that a middle-market company can increase profit by reducing complexity or isolating actions.

Today, mid-market businesses are organizing policies and processes to optimize ordering, storing, producing, and distributing raw materials as well as finished goods. Data integration and collaboration can provide views into the big picture, helping buyers and suppliers find and correct idle assets, shortages, bottlenecks, and excess that can impact cash flow.<sup>12</sup>

### Forecasting and meeting demand

New market entry points can be challenging for any middle market business. Establishing a healthy, well-tuned supply chain before market expansion can help facilitate your entry into new markets with the ability to better forecast:

**Sales:** Fine-tune order quantity and type — carry only what you need to fulfill orders on a regular basis, eliminating the carrying cost of physical inventory in warehouses, on the production floor, or on retail shelves.

**Product volume:** Higher frequency and smaller deliveries allow you to adjust product volume to keep pace with changing demand and production requirements.

**Scale:** Large and high-volume orders often mean lower prices with better terms and conditions.

**Cash flow:** Carefully planned delivery policies and terms may offload much of the capital required to finance, deliver, and carry inventory assets to the seller.



## Conclusion

To successfully leverage your supply chain as you expand into new markets, it's important to have a sound business plan in place — and update it regularly — to ensure you remain on track for the goals you've set for your mid-market organization. Even if your business is still in planning phases, evaluating how you will overcome obstacles in your supply chain will help you overcome these issues to penetrating new markets.



<sup>1</sup> TAKE Supply Chain, Practical Steps to Better Integration and Value from Your CMOs and 3PLs  
<sup>2</sup> [cerasis.com/2013/10/03/reshoring-manufacturing/](http://cerasis.com/2013/10/03/reshoring-manufacturing/)  
<sup>3</sup> [environmentalleader.com/2013/04/03/71-of-consumers-think-green-when-purchasing/](http://environmentalleader.com/2013/04/03/71-of-consumers-think-green-when-purchasing/)  
<sup>4</sup> [earthquake.usgs.gov/earthquakes/eqinthenews/2011/usc0001xgp/](http://earthquake.usgs.gov/earthquakes/eqinthenews/2011/usc0001xgp/)  
<sup>5</sup> [media.freescale.com/phoenix.zhtml?c=196520&p=irol-newsArticle&ID=1547120&highlight](http://media.freescale.com/phoenix.zhtml?c=196520&p=irol-newsArticle&ID=1547120&highlight)  
<sup>6</sup> [inboundlogistics.com/cms/article/last-mile-logistics-key-to-competing-in-the-retail-race/](http://inboundlogistics.com/cms/article/last-mile-logistics-key-to-competing-in-the-retail-race/)  
<sup>7</sup> [xpolastmile.com/solutions/](http://xpolastmile.com/solutions/)  
<sup>8</sup> [practicalecommerce.com/columns/the-ecommerce-corner-office/10846-Top-7-Reasons-Why-You-Shouldn-t-Outsource-Fulfillment](http://practicalecommerce.com/columns/the-ecommerce-corner-office/10846-Top-7-Reasons-Why-You-Shouldn-t-Outsource-Fulfillment)  
<sup>9</sup> TAKE Supply Chain, 9 Quick Safety Checks for Supply Chain Compliance  
<sup>10</sup> [ethix.org/1999/06/01/information-is-not-enough-for-business](http://ethix.org/1999/06/01/information-is-not-enough-for-business)  
<sup>11</sup> [smartdatacollective.com/Home/22230](http://smartdatacollective.com/Home/22230)  
<sup>12</sup> [usbankconnect.com/article/streamlining-supply-chain](http://usbankconnect.com/article/streamlining-supply-chain)



