# Supply Chain Management

*"The best supply chains aren't just fast and cost-effective. They are also agile and adaptable, and they ensure that all their companies' interests stay aligned."*
--Hau L. Lee, Harvard Business Review, Oct. 2004

For a product to reach the consumer, it must first pass through a supply chain. That is, a network of entities that create, store, transport, and deliver the product. The supply chain includes the supplier of raw materials, the manufacturer, the retailer, and the end consumer. It also includes the ties that bind these "nodes" within the supply network, including transportation and storage of both materials and goods. Information-based companies also rely on supply chain networks for the collection and delivery of information.

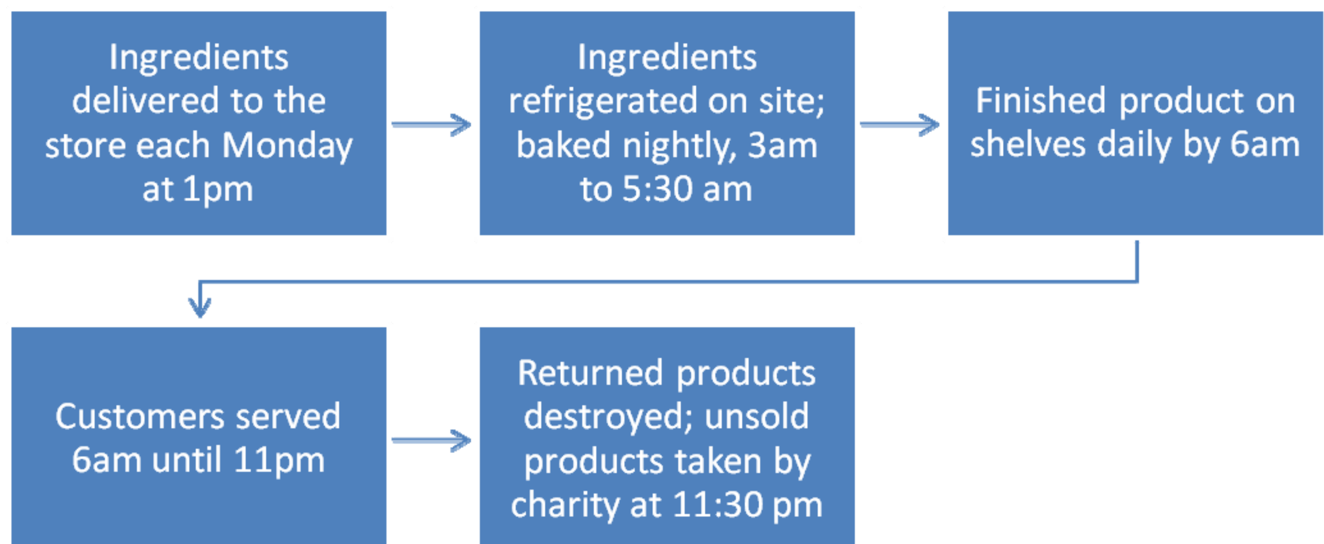
Supply Chain Management (SCM) refers to the planning, execution, and sustainability of the supply chain network with the goal of increased efficiency. Proper planning and management of the supply chain can reduce both time and costs to the company. Entrepreneurs have always dealt with supply chains, yet globalization as well as increased specialization and outsourcing have focused the need for focus on SCM. Even a small, home-based enterprise will likely require outsourcing of services to specialized providers such as a shipping service or a website maintenance provider.

Creating a simple flowchart will help you plan the movement of goods, materials, and information. Keep in mind that very few supply chains work flawlessly at every stage on the first run. Furthermore, circumstances change. Business growth or reduction may call for adjustment in the supply chain, and some portion of the network itself may be flawed. The important thing is to maintain feedback loops with each portion of the supply chain to see where inefficiencies occur. Supply chain management should be an ongoing and flexible process, allowing for new technologies—such as GPS tracking of a product—to be integrated into the supply chain.

**Example**
Your bakery depends on the delivery of flower, sugar, eggs, and other ingredients to produce your goods. The shipper delivers these ingredients once a week. Since these materials are perishable, you require refrigerated storage, preferably on premise for easy, daily access. Careful management of the supply chain is required here so that you don't risk either a) running out of materials/ingredients prior to the next shipment or b) find yourself with so many materials that you run out of storage room or that your goods perish.

From these raw materials, you produce your goods fresh daily. The process takes about three hours. Since your busiest time for sales is in the morning, you should begin baking overnight, at least three hours prior to opening your doors for business. Returned products will be destroyed. Unsold products may also be destroyed, or you might make arrangements to have them picked up at closing time by a local, charitable organization.

A simple flowchart clarifies the process.



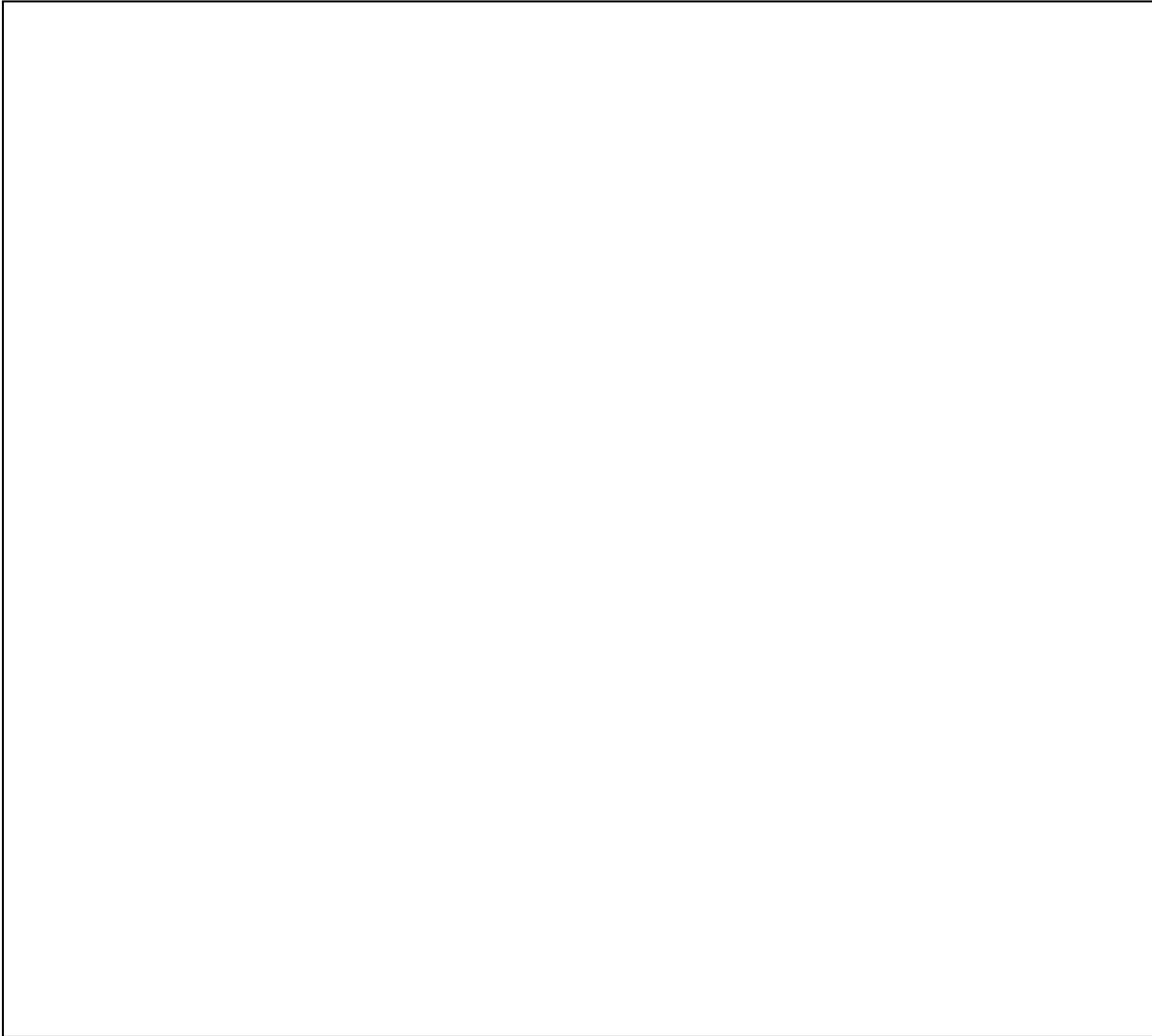

Once implemented, you monitor the supply chain and discover problems. Your employees inform you that 1pm is a terrible time to receive a delivery because they are busy with a lunch hour rush. And while having the charitable organization pick up leftovers at 11:30 p.m. sounded like a good plan, it has caused employees to remain on the clock after hours with no hope for a sale. Keep in mind the *management* side of supply chain management by maintaining feedback loops and implementing changes to maximize efficiency.

**Exercise**

Create a flowchart to graphically illustrate your supply chain. It should include every stage from delivery of raw materials to the potential return or exchange of your product by the end-consumer. Your flowchart should represent not only the direction of flow, but also the amount of time and level of frequency (daily, weekly, etc.) required in each stage of the chain. The following questions will assist you.

1. How are your raw materials delivered to you? When and how often?
2. If you run short on a raw material, how will you deal with it? That is, will it be more cost-effective to increase the size of your orders, or increase the frequency of their delivery?
3. How long will it take to produce your goods once the materials are received?
4. How frequently do you produce these goods? That is, daily, weekly, or ongoing?
5. Where are your materials stored? Are they perishable? Where is the final product stored?
6. By what means does your product reach the consumer?
7. How well does your production time match the needs of the consumer?
8. If a product is returned, what happens next?

Use the area below to create your supply chain flowchart.



# Brand Development— Marketing and Public Relations

*"Advertising doesn't create a product advantage. It can only convey it."*
--William Bernbach, advertising director and founder of Doyle, Dane, Bernbach

## Marketing

The U.S. Small Business Administration (SBA) states that advertising costs typically run at about 5% of a company's gross income and may range from 1% to 10%. The SBA advises an entrepreneur to determine what he or she can afford to spend on advertising based upon income, expenses, and sales projections. They also suggest that entrepreneurs "research and experiment."

Clearly, advertising is as much an art as a science. That does not mean that you should approach the situation blindly. Start with the basics of understanding your product's advantages, your company's mission, and the audience you intend to reach. Even if you decide to contract a public relations or marketing firm, you must have a clear understanding of these basics. An agency provides advertising experts, but you must be the expert of your business to explain your needs.

One approach to developing a successful marketing strategy is the use of a marketing mix. A marketing mix refers to a structure—or recipe—of activities that support your marketing plan. By integrating various tactics toward an overall goal, a company can meet the needs of potential customers in a more organized, memorable, and cost-effective fashion. Dozens if not hundreds of marketing consultants and management leaders have created their own marketing mixes. We will focus on the two best known among them: the Four P's and the Four C's.

## Four P's

Created by E. Jerome McCarthy of Michigan State, the Four P's marketing mix refers to the development and integration of product, price, place and promotion. Each of these "ingredients" of the mix requires that you ask yourself a series of questions regarding your business and answer these questions carefully. As an exercise, we suggest writing down your own answers to the questions below starting with the four P's.

- **Product** refers to the goods or services you will provide. How does your product address a particular need? What is the product design? What properties make your product or service unique? How will you package your product? How will you weigh issues of affordability versus quality? What kind of warranty or service will you provide for your product after the sale?

- **Price** refers to the cost of your goods or services. What are your production costs? How much is your consumer willing to pay? Have your surveyed competitor prices and customer expectations? Is there a niche to fill insofar as price? Will you offer discounts to repeat clients, certain organizations, or high-volume buyers?
- **Place** refers to the location where your customers or clients can purchase your product or service. Is it a physical or a virtual location? What are the benefits of this location, and what are the drawbacks? How does the product reach the consumer? If you perform a service, where is the work performed and where will the point-of-sale occur?
- **Promotion** refers to educating the public of the goods and services you offer. What is the overall marketing strategy? Should it depend on expensive ad campaigns to reach a large audience? Or does networking and word of mouth better serve your needs? What is your budget for promotion, and how do you best reach your target audience?

## Four C’s

The Four C’s marketing mix was developed by Philip Kotler, an international consultant, author, and management leader. Some entrepreneurs consider this model more customer-oriented, or better suited to modern *niche marketing* rather than the *mass marketing* focused on by the Four P’s. The Four C’s are Consumer, Cost, Convenience, and Communication. Again, we strongly advise that you consider and answer each of these questions.

- **Consumer** refers to those who will purchase your goods or services. What public or consumer need is currently unfulfilled? What product can you create to meet the needs of these potential clients? In other words, start with market research, and learn what need exists among potential consumers.
- **Cost** differs in “price” by again, focusing on the consumer and the overall “cost” of obtaining your goods or services. For instance, does your customer have to drive to your establishment? Or will you deliver? What will the delivery cost? Will your customer have to purchase other items such as batteries or goggles to use your product, adding to the overall consumer cost?
- **Convenience** is similar to “place” but broadens the term with the customer in mind. What is the most convenient means for a customer to purchase your product? Do you have a physical location? Some may prefer to shop online or order by phone. Do you offer a choice of payment methods, such as cash, credit card, and check? Customer support policies must also keep customer convenience in mind.
- **Communication** is similar to “promotion” but again, the definition is broadened to imply *listening* to your customers as well as educating them about your goods or services. Have you made yourself or an employee available for questions? Have you provided surveys, email addresses, or other means for your client to voice concerns? Do you reply to these queries promptly and, when appropriate, do you make follow-up calls to better understand customer needs?

**Example**
Your bakery has a strong brand identity. You have had the same name, location, and slogan for several years now. You have used a consistent and recognizable color theme for all aspects of promotion including your logo, storefront, business cards, and employee uniforms.

Yet sales at your bakery have tapered off recently, and you decide to improve your marketing strategy. You begin with your customers by creating a questionnaire. Anyone who turns in a completed survey gets a free cookie, so response is good. Questions run the gamut from the customer's time of visit to what new products they'd like to see offered. You even ask if they visit your competitors for certain goods, and of course you ask about the quality of your products and service.

Your survey indicates that people are happy with our hours and service. In fact, it is your friendly employees and high quality service that keep them coming back. The problem is that you do not offer all the goods and services your customers expect, and so they occasionally turn to your competitors. If even one of these competitors makes the decision to compete with you in terms of quality and service, your bakery will be in deep trouble!

So what do your customers want? They appear to want more variety of doughnuts. Furthermore, they want your specialty cakes and pastries delivered. Now you must consider how to fulfill these needs.

You never thought of your business as a doughnut shop. You are more of a high-end specialty store, and doughnut sales were never strong. Now you know why—a lack of variety! Since you already have the necessary equipment and ingredients, it will not cost you much to increase your variety and see if sales pick up.

Delivery is a trickier matter. Your survey indicates that many of your customers work downtown on weekdays. They do not want to waste their lunch breaks in traffic, so they call a competitor who delivers pastries to their offices for events such as office parties. That is not good news, but you must do your research before jumping into something as costly as hiring a driver and buying a delivery truck. Perhaps you can contract a local delivery service and set a minimum price for orders. You might even begin preliminary research on leasing rates downtown for purposes of a smaller, second location geared toward a lunchtime crowd.

In the meantime, you may consider spending some more money on advertising. While large venues such as newspapers, television, and radio are generally not cost-effective for niche markets, your city publishes a small, financial news tabloid that targets your downtown clientele at rates much more affordable than the city newspaper. You might try running a single ad in the business news tabloid with no long-term commitment, and you can measure response by providing a coupon unique to the advertisement in that publication.

In this example, you have paid attention to both the 4 P's and the 4 C's. You also kept in mind brand identity, such as using a consistent color scheme and logo for all of your promotions, and

you looked at the basics of how to spend advertising dollars wisely. In the following exercise, you will develop these concepts for your own business.

**Exercise**

1. Describe your product or service. How is it unique? What customer need does it meet, and how does it meet that need better than your competitors?

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2. How much will your product cost? What other costs to the consumer are associated with your product or service? Will customers require specialized goods or even training to use your product or service? What other investment, such as drive time, will your clients have to make?

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3. Does your place of business have a virtual location? A physical location? Both? Describe the location, and why it is attractive to customers in terms of convenience. What options do your customers have for payment, delivery, or returns?

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4. How will you promote your enterprise? Looking at competitors, what appear to be their most and least effective forms of promotion? What new tactics can you use to promote your business in a cost-efficient manner? What system do you have in place to get feedback, both positive and negative, from your clients or potential clients?

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## Viral Marketing

Viral marketing is a current trend in advertising that has not only proven very effective, but much more cost friendly than traditional advertising methods. While billboard, newspaper, or

phonebook advertisements are useful, they can also be very expensive and may not always reach your target audience. Through viral marketing you are not only able to advertise through popular social networks to help your business grow, but you are often able to do this for free or at a low, monthly fee.

It is common to think of a social network as your immediate business, family, or social relationships; however social networking has spread far beyond face-to-face interactions and into the growing world of online, Internet-age socialization. The most common social networking takes the form of websites where friends are able to connect with one another and make new friends. You can also create a profile about yourself that includes a large amount of information about your business. These social networking tools are part of the latest technology. Since technology is always evolving, it is important as an entrepreneur to keep up to date with the latest trends.

Some examples of the most popular social networking sites include Facebook, LinkedIn, MySpace, and Twitter. If you go to these websites, you can sign up for a free account and familiarize yourself with the many capabilities and advantages such as free advertising and social networking. Once you create a profile for yourself, you have already begun to utilize viral marketing. Just be sure to present yourself and your business in a classy way in order to generate useful interest and inquiries.

## Financing Options for Your Business

You will likely need to borrow money to achieve your entrepreneurial ambitions. There are three primary means by which to finance your business: debt financing, equity financing, and customer financing.

**Debt financing** refers to borrowing money to fund your enterprise. This is very difficult for most businesses as it requires a near flawless credit history, a secondary source of repayment, and/or collateral. According to banking and investment professionals Sam N. Basu and Harold L. Rolfes, "A suitable source of cash flow must be identified as the primary source of repayment… [but many banks] have a standard policy of not making the loan unless two *independent* sources of repayment are identified.[1]" Solid cash flow constitutes the bulk of what banks look for in a primary source of repayment. According to Ray Fincken of HSBC Bank USA, his lenders watch for "a consistent, sound cash flow from operations and good, quality assets.[2]" Potential for refinancing and liquidation are also considered primary sources of repayment. Secondary sources are the same but from an entity independent of the primary source.

[1] Basu and Rolfes, *Strategic Credit Management*
[2] John Vinturella, Loopbiz.com

Typical forms of debt financing include a bank loan or credit line. Debt financing is preferred by many as it allows for a boost in cash to invest in the company while maintaining full ownership of that company. On the other hand, a poor credit rating or high debt may make a loan difficult to obtain, and interest must be paid on the loan. Businesses typically opt for debt financing when cash is needed for a specific project in a specific time-frame, with a clear plan for repayment to the lender in the shortest term possible.

Debt financing is very difficult to come by for a startup, and a tightening of the economy has only increased this problem for entrepreneurs. Equity financing constitutes a second option.

**Equity financing** refers to raising capital from partners or investors who, in turn, will likely own a stake in your company or small business. The downside for some entrepreneurs is obvious: they no longer hold sole proprietorship of the company. On the other hand, no payment schedule and no interest may mean more cash on hand and less stress. Among smaller businesses, investors typically include friends, family, or even other small businesses with a stake in your goods or services. Angel investors—individuals who invest in startups—provide another option for equity financing. Equity financing is most common for startups, or any case where the need for cash assistance is long term and not tied to a specific short-term goal.

The third, perhaps most elusive of financing options is **customer financing**. This method assumes that the business has enough cash flow for the profits to be invested back into the business, providing sustainable and internally funded growth. This is also known as "bootstrapping" and often the owner is not able to take any draw whatsoever to ensure growth can continue. While it may take longer to exact the desired effects, this method will save money in the long run with no cost of capital expended or ownership relinquished.