



Information Booklet

Business Management

3



Business Supply Management for SMEs

Introduction

Small and Medium Enterprises Development Authority (SMEDA) works under the Ministry of Industries and Production, Government of Pakistan and was established in 1998 with the objective to propel economic growth through development of SMEs. SMEDA serves as an SME strategy-advisory body for the Government of Pakistan and facilitates partners in meeting their SME development agendas.

SMEDA envisions growth of a globally competitive SME sector (in Pakistan), through creating an enabling environment and support services for increase in the national economy. SMEDA strives to achieve this vision by providing assistance in employment generation and value addition to the national income, through development of the SME Sector, by helping increase the number, scale and competitiveness of SMEs.

National Business Development Program for SMEs (NBDP) is a project of SMEDA which intends to provide hands-on support services to SMEs. The aim of this business development support provided by NBDP is to advance new businesses and improve efficiencies in existing SME value chains to empower them to contend in global market. NBDP expects to facilitate around 314,000 SME beneficiaries over the period of five years.

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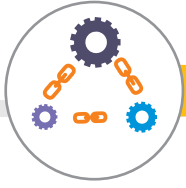


Objectives

- To define the concept and techniques for managing business supply chain.
- To provide details on supply chain operation, strategy, design, ethical procurement and corporate responsibility.

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**Supply Chain**

Supply chain is the planning, sourcing, manufacturing, distribution and delivery of products or services from the point of origin to the consumer.



Players involved in a typical supply chain include producers, vendors, warehouses, transportation businesses, distribution centers and retailers.



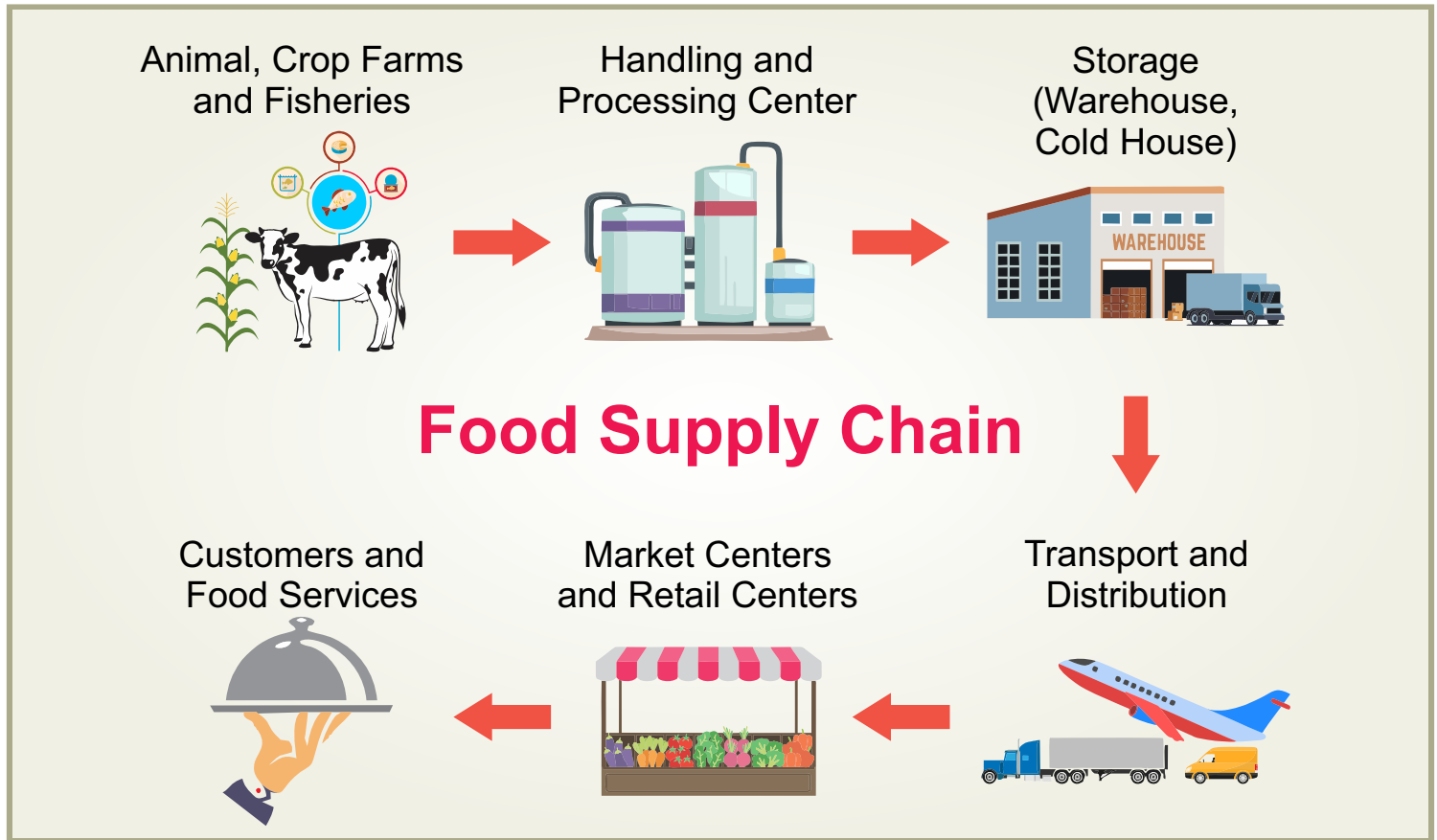
Basic Supply Chain Actors

**Supply Chain Management**

The process of managing flow of materials and finished products or services in a supply chain is called Supply Chain Management (SCM). Efficiently managing the supply chain is essential to ensure the availability of the right product at the right place at the right time for the right price.



Example of a Food Supply Chain



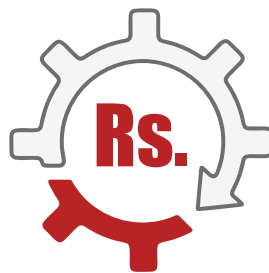
Importance of Supply Chain Management*

Supply Chain Management will help SME businesses to:



Boost Customer Service:

Customers expect products to be delivered on time with after sales support. Supply chain management helps meet those expectations.



Reduce Operating Costs:

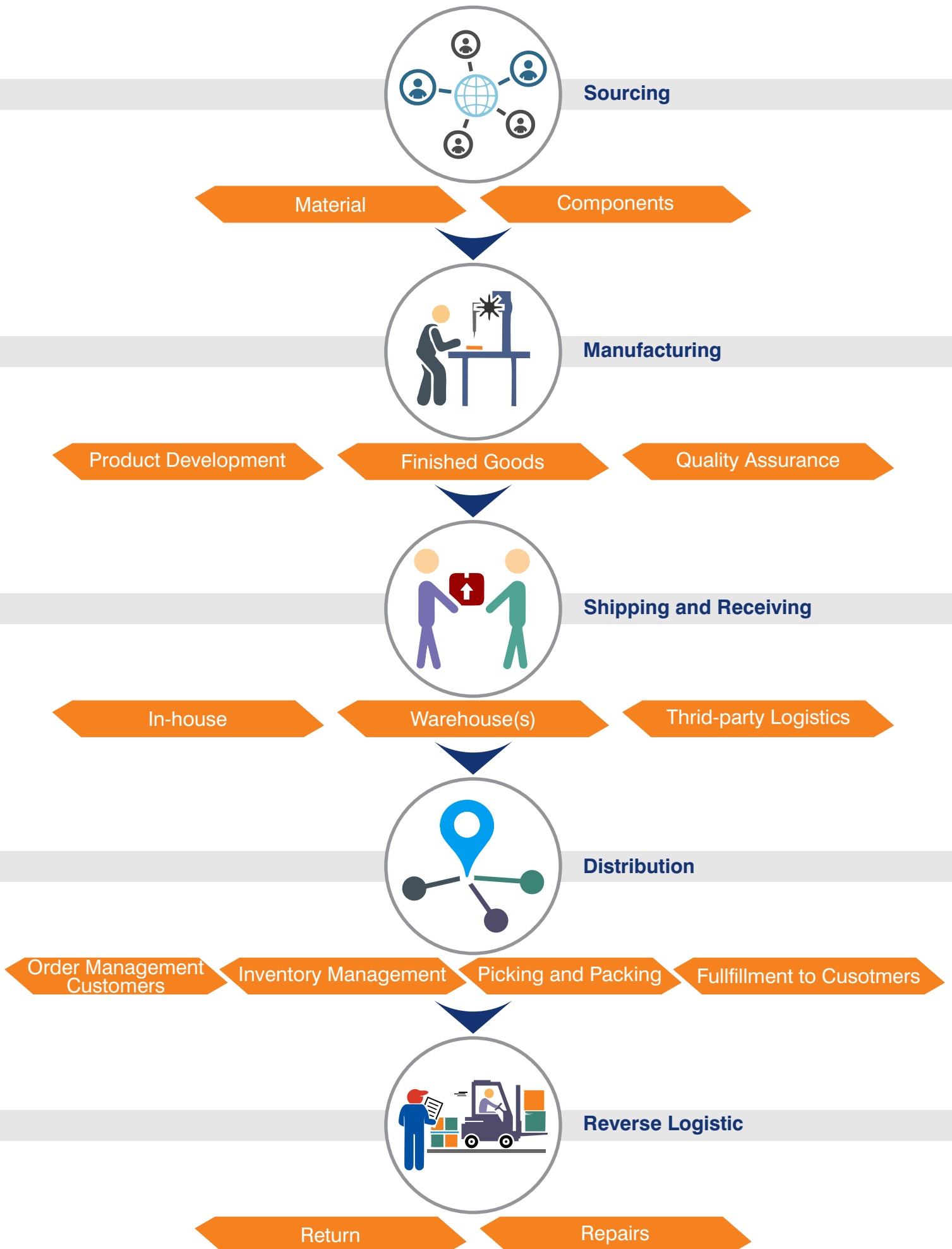
Supply chain management allows a business to decrease the cost of purchase and production.



Improve Financial Position:

Profitability of the business increases by reducing operating costs and providing timely delivery of products and services to customers.

Supply Chain Process



b Management of Business Logistics

Logistics is the movement, storage and flow of goods and services within the supply chain.

Seven R's of Logistics



Right Product



Right Quantity



Right Condition



Right Place



Right Time



Right Customer



Right Price

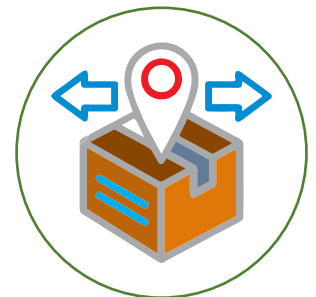
Types of Logistics



Inbound Logistics

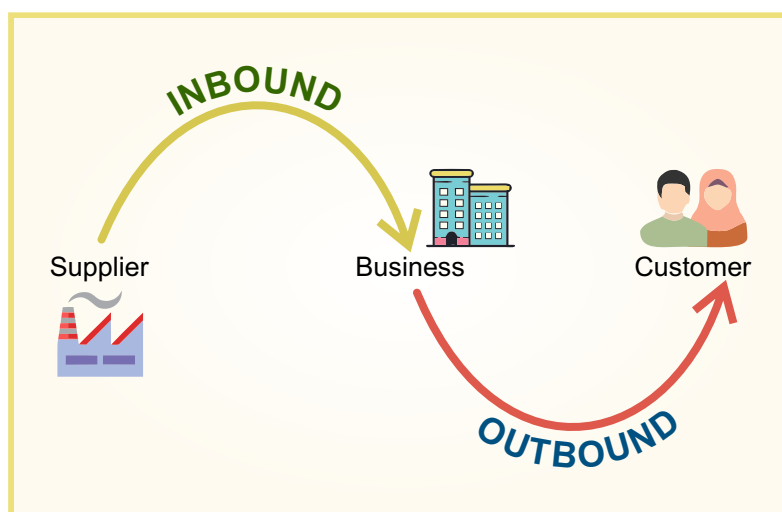
This is the flow of material from a supplier to the business such as supply of raw material and parts needed for a production facility.

For example, raw materials including fabrics, zips and buttons delivered to a garment's factory for stitching of garments.



Outbound Logistics

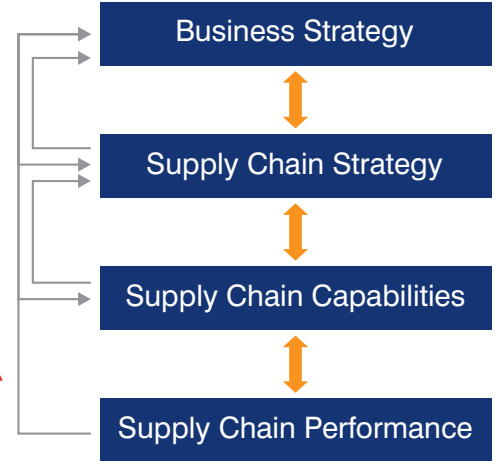
Storage and delivery of the final product or service from your business to your customer. For example finished garments from a stitching unit transported to warehouses or retail outlets.



c Supply Chain Strategy*

SMEs should incorporate their business strategy and focus into the supply chain strategy such that both strategies complement each other.

There are various different types of supply chain approaches and strategies but they can be broadly grouped in to following three types:



1. Just in Time and Lean Supply Chain

This type of supply chain is mostly maintained by the automotive and component manufacturers. It is designed to respond to customer needs as efficiently as possible, with minimal work in progress, inventory levels and wastage. Production schedules, production data, quality and consumer demand are carefully monitored to ensure optimum levels of inventory holdings.



Outsource Where Appropriate

Part of developing a supply chain strategy includes evaluating opportunities to outsource areas that are not the business's core competency. If someone else can do it cheaper, it may be worth outsourcing not only to drive down costs, but also to focus more resources on the core competencies the business.

Creating a Leaner Supply Chain



Pros of Using the JIT System

- Efficient low-cost supply chain with high inventory turnover.
- Ability to better predict and respond to customer demand patterns.
- Faster turnaround of inventory prevents products from becoming damaged or obsolete while in storage, thereby, reducing waste.



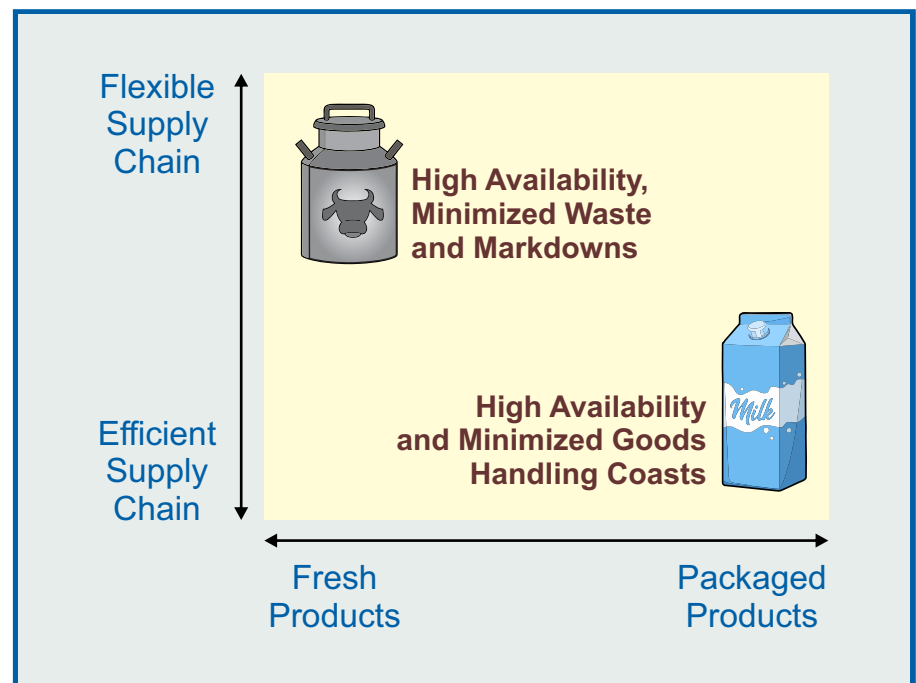
Cons of Using the JIT System

- Requires technology and highly skilled labor to plan and operate.
- May require sharing of confidential information.
- Requires high initial investment if converting an existing inefficient supply chain to this model.



2. Responsive/Flexible Supply Chains

A flexible supply chain readily adapts to changing customer demands and shorter lead times. This is mostly applicable to situations where there are similar products which can be manufactured from the same production line. For example, fresh products with a high risk of waste require a more responsive/flexible supply chain compared to packaged products.



Pros of Flexible Supply Chain

- Ability to provide customers a wide range of products efficiently.
- Easily adaptable to changing customer demands and preferences.
- Ability to predict and respond to changing customer preferences.
- Ability to handle peak load movement across the supply chain.



Cons of Flexible Supply Chain

- May lead to increased storage costs due to extra inventory.
- May require outsourcing of certain activities such as manufacturing and logistics to handle peak demand load.
- Business risk may be difficult to assess due to greater third-party involvement.

Most businesses opt to have a combination of supply chains depending on the nature and size of the business.



3. Risk Adverse Supply Chain

A risk adverse supply chain is used when both demand and raw material supply is unpredictable or when there is uncertainty around suppliers and logistics networks.

Large inventory levels and work in progress may have to be maintained in this type of supply chain to address poor infrastructure, economic and political instability.

This type of supply chain strategy can also be used when despite demand being stable, there are production, supply and logistical risks. In these cases it is difficult to achieve full capacity utilization due to presence of inefficiencies. An example of this type of supply chain would be petrochemical and agricultural industries.



Depending on their product, customer and market characteristics most business use a combination of the above strategies and/or modify them according to their requirements.

Pros of Risk Adverse Supply Chain

- Ability to avoid major supply chain interruptions.
- Can withstand raw material supply delays without affecting customer deliveries.
- Can better respond to peak demand.



Cons of Risk Adverse Supply Chain

- May require large volumes of raw materials.
- Large working capital requirements.
- High inventory holding costs.
- May require outsourcing to handle peak demand.
- Increased business risk due to third party involvement.



Supply Chain Operations

Supply chain operations include processes to plan and execute the flow of goods and services from supplier to customer. To ensure operational efficiency, it is necessary to evaluate a business' internal operations and its supply chain.



1. Supply Chain Policy

A supply chain policy indicates roles, responsibilities, and procedures a business conforms to. A supply chain policy can be formulated by defining the following:



Purpose

Define the purpose of developing the supply chain policy or procedure. For example, a business specializing in food products can state the purpose of developing the supply chain as ensuring minimal waste.



Roles

Indicate roles of all components clearly. For example, a Manager in a coffee shop is assigned the role of managing overall activities of the business.



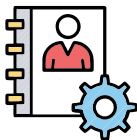
Scope

The scope defines what is included and excluded from the supply chain policy or procedure parameters. For example, while enlisting the scope of the policy or procedure it can be stated that this policy only covers the internal operations.



Responsibility

Indicate tasks against assigned roles. For example, Manager of the coffee shop will ensure timely delivery of customer orders, smooth kitchen operations, cleanliness of the space, etc.



Procedures

Indicate the process in a step-by-step method. For example specify the quantity of reserves of sugar, milk or coffee before replenishment to ensure smooth kitchen operations.



Key performance Indicators for Supplier Performance Management

Key performance Indicators are key success indicators that enable businesses to measure the supplier performance management in specific activities that relate to services, products or other parts of the business supply. The effectiveness of a business supplier performance can be measured in different ways, and the measurements chosen by a business are usually specific to the kind of business being done, so that it includes those aspects of effectiveness which are most important to the business.



2. Supplier Performance Management

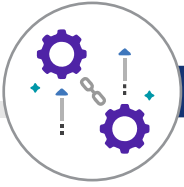
Supplier performance management measures and analyzes the performance of a supplier.

To measure, identify Key Performance Indicators (KPIs) of the supplier, e.g. in case of a distributor, an indicator to consider is average time taken to deliver the product from production facility to the retailer.

To analyze this KPI, compare the indicators of your business with industry norms and benchmarks.



Supplier Performance Management (SPM) Cycle



3. Supply Chain Costs

The diagram below indicates some costs associated with business supply chain:



e Ethical Procurement

Businesses should ideally move towards ethical practices ensuring environmental sustainability and social responsibility.

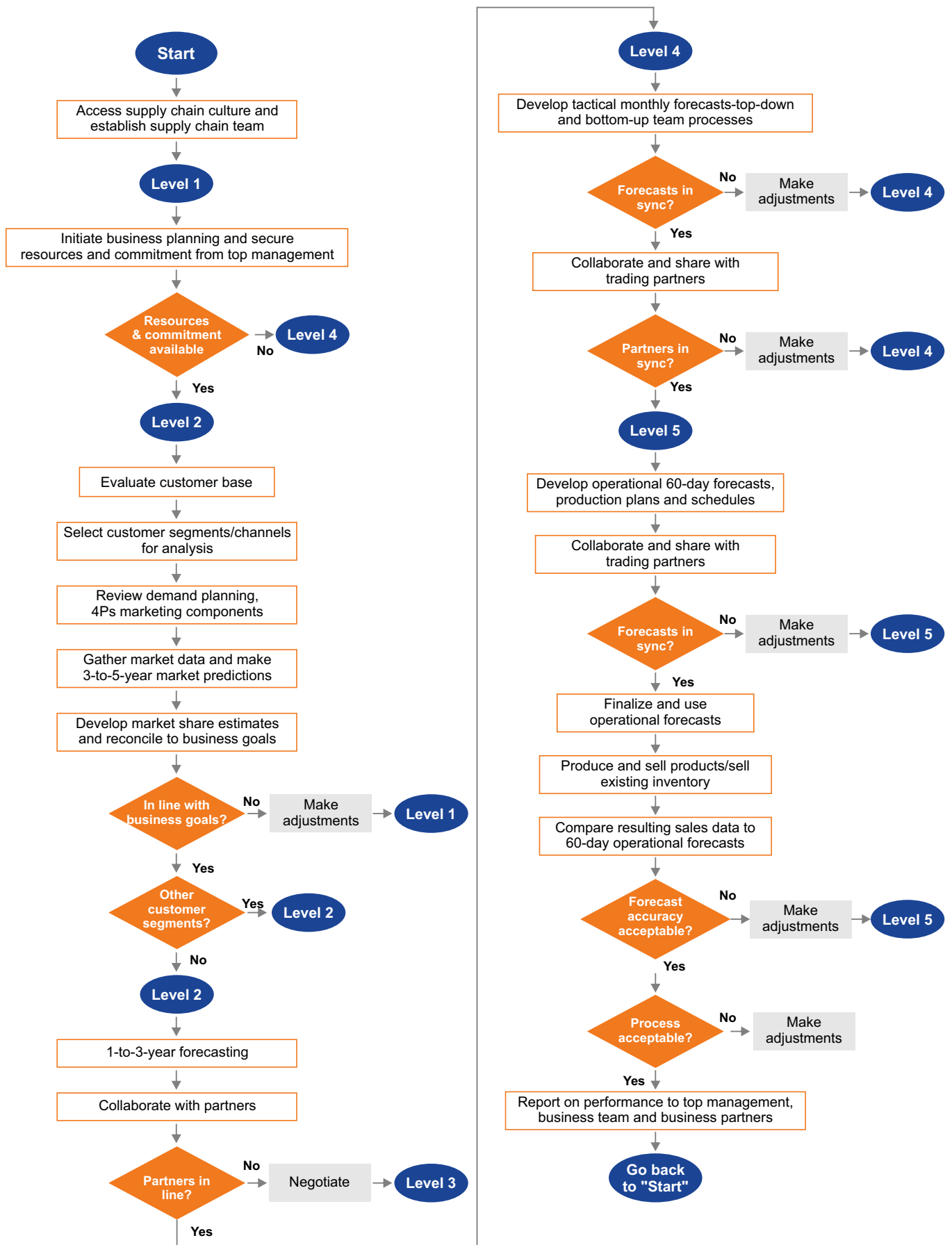
Ethical procurement is an important aspect of becoming an ethical business.

An example of an ethical business is for a departmental store to offer environment friendly packaging to its customers. Ethical procurement by the store will imply that they require their suppliers to be compliant with environmental standards.



How to Establish Ethical Procurement Practices?

- Develop a purchasing code of conduct.
- Integrate ethical purchasing and cultivate an organizational culture that prioritizes ethical procurement.
- Rewards and performance reviews.
- Lead by example and ensure top management support in establishing ethical codes.
- Training employees and staff.
- Clearly communicate ethical practices at all levels.
- Ethical audits – surprise visits to factories, warehouses.





Conclusion

Business Supply Management involves a series of steps to get a product or service to the customer. The steps include moving and converting raw materials into finished products, transporting those products and distributing them to the end user. Efficiently managing the supply chain is essential to ensure the availability of the products in good quality for the customer. Supply Chain Management is important for SMEs because it helps SMEs to boost the customer service, reduce operating costs and improve financial positions.



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