



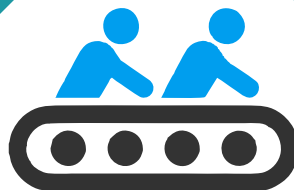
Information Booklet

## Business Management

# 9

# MANAGING SUPPLY CHAIN

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.

## Disclaimer

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## Objectives

- To elaborate the concept of the supply chain including the movement of products and services from suppliers to distributors and the flow of information between and among supply chain stages to maximize profitability

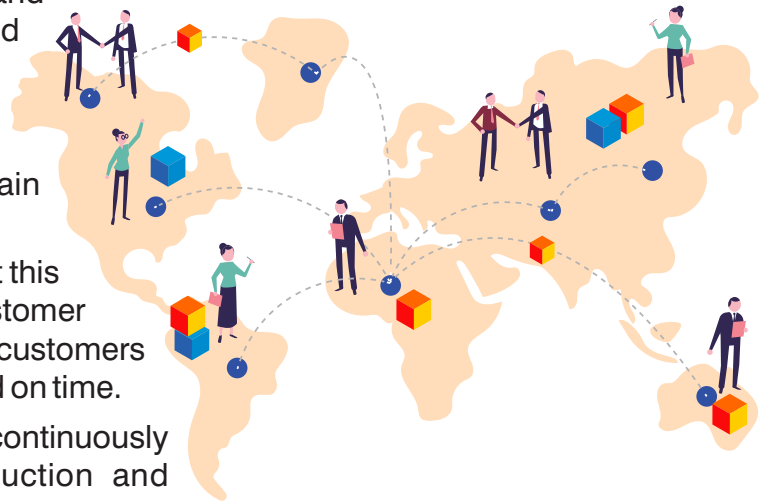
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Supply chain management is the flow of goods and services, from point of origin to point of end consumption. It is meant to oversee and manage the movement of products and services from material suppliers to product distributors as well as the flow of information between and among supply chain stages.

The importance of supply chain management is that this process increases customer service and boosts customer satisfaction. Supply chain management helps meet customers expectation for their desired products to be delivered on time.

Supply chain management allows a business to continuously review the costs during the purchasing, production and distribution functions.



## Seven Stages of Supply Chain Process



Supply chain management is important because it increases firms' competitiveness as it improves customer satisfaction. Efficiently running supply chains allow firms to quickly deliver products to the end-user at a low cost, in addition to the following;

### Improved supplier relations and purchasing terms:

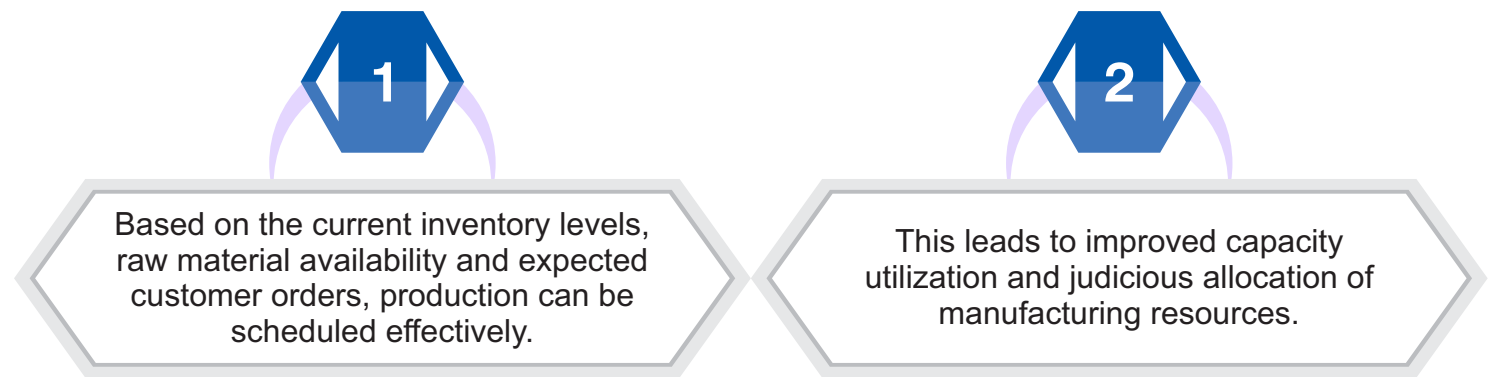
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Supply change management processes encourage timely procurement of raw materials which facilitates the Purchasing Managers to release timely purchase plan to suppliers.

2

Visibility and transparency of raw material demand improve supplier relations and empowers Purchasing Managers to negotiate favorable terms for their companies.

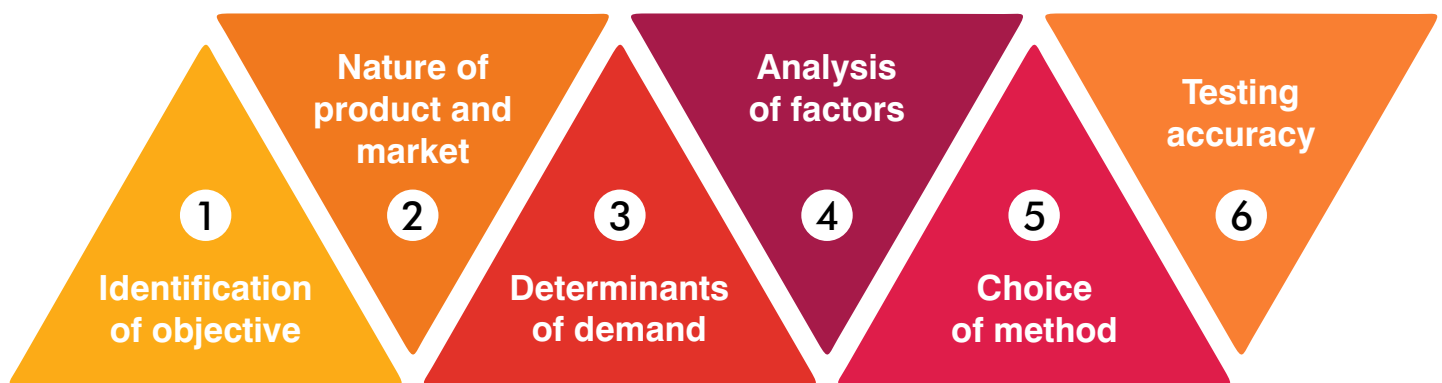
## Better capacity utilization and allocation of resources:



## **b** Forecasting and Planning the Balance of Supply and Demand

Demand forecasting is an essential component of the supply chain process. While it is important from the point of view of resource mobilization, it's also a challenging aspects of supply chain planning. It's the starting point for almost all supply chain related decisions.

### STEPS IN DEMAND FORECASTING



Demand Forecasting is used to develop an estimate of the expected forecast of customer demand for company's products. Demand Forecasting provides an estimate of the of goods and services that customers will buy in the foreseeable future.

In terms of forecasting and planning the balance of supply and demand, demand forecasting is considered the most important element as it facilitates critical planning activities like sales and marketing plans, production budgeting, production planning, raw material planning etc.

It allows optimization of inventory levels as a proper Demand Forecast provides vital information for estimating the desired raw material, Work in Progress (WIP) and finished goods inventory levels. This reduces the oversupply situations across the Supply Chain, leading to optimization of inventory levels and reduction in over-stocking situations or stock-out.

It increases the customer service levels with optimized inventory levels and improved Distribution Planning and Logistics. It improves customer service metrics like on-time delivery (OTD) rate, etc. are improved due to right sizing and right positioning of inventory.

Demand forecasting allows better business management as it provide better control and allows synchronization in raw material, manufacturing and inventory planning to support business growth.



## How to forecast sales:

Trying to build a sales forecast can be overwhelming, especially when you try it for the first time. A quick reference or search tells you about a process as follows.

### Step 1: Calculate your current sales rate

One way to get a Sales revenue forecast is to look at your sales or alternatively, you may estimate the sales of a competitor and assume if it kept happening in the future at the same rate as today.

You do this through a simple equation: Divide your current year-to-date sales by the number of sales periods to date. For example, if you've made PKR 120,000 through March 30. Then divide PKR 120,000 by 3 months. That tells you you're generating PKR 40,000 per month. That's your run rate. Then, multiply that number by remaining sales periods in the year to come up with an annual projection. So in this example it would be PKR 40,000 \* 9 months left in the year. This tells you PKR 360,000 is the sales volume you can expect through the end of the year.

The estimated sale if you change nothing about your business.

**Projected sales = Run rate (Current sales/number of sales periods this far) x Remaining # of sales period**



#### Example:

Run Rate:  $120,000/3 = 40,000/\text{month}$

$40,000 * 9 = 360,000$

This is one of the most primitive and, frankly, rather basic ways to build a sales plan, because it does not take into account seasonality, growth or decline in your business. But it's a starting point that you can refine with the following steps.

### Step 2: Adjust for historical trends and seasonality

If you are an established business and have historical data, it is important to incorporate that, too. You want to take a look at the previous 12-24 months of your business; look at which months saw spikes and where you saw dips. For example, if your business sells farm inputs to farmers, it's common to see a massive spike around September/ October and April/ May, and a dip off in other months.

Similarly, if there's seasonality or trends in your business, you should look at the percent increase from your average month. For example, if your sales typically spike by 30% in October, adjust your sales run rate to take these trends into consideration. But if you don't have historical data or seasonality in your business yet, don't sweat it. Just skip this step.



### Step 3: Modify sales forecast for anticipated market trends and changes

Most businesses follow the trend. Businesses are built and destroyed by market forces, so you need to consider changes by the marketplace.

Things like changes in overall market growth rate, consumer behavior, and emerging trends can have a huge impact on business and likewise should reflect in your business plans.

For example, if you are in Agri inputs market, and the industry is projected to grow by 13% in 2019, that can be a benchmark for your growth rate. Doubling the market trend is really aggressive sales but it's possible with a great marketing plan and team, where everything has to go right. On the other hand, a 7% growth projection might be too low. These projections can be helpful ways to project what could happen.

#### Step 4: Add your firm's strategic business plans

The market forces have a huge impact on every business, but what you plan also affects the results you might expect over the coming months. Are you going to change prices? Or is there some product change. Are you marketing to new customer segments? How many new customers do you expect these new markets to add to your portfolio? What would that do to sales if they did? These can all have big effects on your future revenue and import.



#### ANNEXURE A

#### Template for planning and forecasting checklist

GOAL	TARGET	STRATEGIES	TACTICS / MESSAGES	CALENDAR	MEASUREMENT
Specific, measurable objectives to accomplish in an established time period.	Specific targets, reachable segments of people with similar needs or interests, motivations, demographics, locations, etc.	Strategies to attract the specific people or organizations you're trying to reach with a compelling offer that meets their interests/needs.	Tools or channels you'll use to reach your targets. What's unique about your story/product/services/bio/history that connects with your target audience? Which messages will be persuasive?	Specify which activities you will do daily, weekly, monthly or quarterly to achieve your goals. What time of day or day of week is most effective for each activity?	How will you track results? How will you compare the effectiveness of each tactic? How will you calculate the time/money/# of contacts it takes to attract/retain each customer/client?

Product	Sales last year (Customers) (2019)	Sales last year (PKR) (2019)	Projected number (Customers) (2020)	Projected Sales (PKR) (2020)	Actual Number of customers	Actual sales (PKR) (2020)	Variance (Customers)	Variance (PKR)
A	250	100,000	270	125,000	260			
B	225	90,000	230	100,000	220			

## 12 month sales forecast template

PRODUCT NAME		Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	TOTAL
ITEM 1	PRICE PER UNIT	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	
	UNITS SOLD	500	400	500	400	500	400	500	400	500	400	500	400	5400
	TOTAL	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$540,000.00
ITEM 2	PRICE PER UNIT	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00	
	UNITS SOLD	1000	800	1000	800	1000	800	1000	800	1000	800	1000	800	10800
	TOTAL	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$540,000.00
ITEM 3	PRICE PER UNIT	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	\$25.00	
	UNITS SOLD	2000	1600	2000	1600	2000	1600	2000	1600	2000	1600	2000	1600	21600
	TOTAL	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$50,000.00	\$40,000.00	\$540,000.00
ITEM 4	PRICE PER UNIT													0
	UNITS SOLD													0
	TOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ITEM 5	PRICE PER UNIT													0
	UNITS SOLD													0
	TOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ITEM 6	PRICE PER UNIT													0
	UNITS SOLD													0
	TOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ITEM 7	PRICE PER UNIT													0
	UNITS SOLD													0
	TOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ITEM 8	PRICE PER UNIT													0
	UNITS SOLD													0
	TOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ITEM 9	PRICE PER UNIT													0
	UNITS SOLD													0
	TOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ITEM 10	PRICE PER UNIT													0
	UNITS SOLD													0
	TOTAL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
MONTHLY TOTALS														
UNITS SOLD		3500	2800	3500	2800	3500	2800	3500	2800	3500	2800	3500	2800	37800
TOTAL		\$150,000.00	\$120,000.00	\$150,000.00	\$120,000.00	\$150,000.00	\$120,000.00	\$150,000.00	\$120,000.00	\$150,000.00	\$120,000.00	\$150,000.00	\$120,000.00	\$1,420,000.00

2019	2018	2017	2016	2015
ITEM 1				
3750	4200	4000	3750	3890
\$375,000.00	\$420,000.00	\$400,000.00	\$375,000.00	\$389,000.00
ITEM 2				
3750	4200	4000	3750	3890
\$375,000.00	\$420,000.00	\$400,000.00	\$375,000.00	\$389,000.00
ITEM 3				
3750	4200	4000	3750	3890
\$375,000.00	\$420,000.00	\$400,000.00	\$375,000.00	\$389,000.00
ITEM 4				
ITEM 5				
ITEM 6				
ITEM 7				
ITEM 8				
ITEM 9				
ITEM 10				
YEARLY TOTALS				
11250	12600	12000	11250	11670
\$1,125,000.00	\$1,260,000.00	\$1,200,000.00	\$1,125,000.00	\$1,167,000.00

### C

## Sourcing Raw Material

Sourcing starts with identifying the needs for materials and goods to finding suppliers for those materials and goods. It involves getting quotes for the raw materials, evaluating them and continuing business with the suppliers.

First step in the Sourcing process is identifying the need for goods and services. A contract is negotiated with the supplier that is suitable for the company. All businesses need supplies, and generally spend 50% to 70% of their budget procuring them.

Apart from the actual purchase of goods and services, sourcing covers the full life cycle of procurement by analyzing how a company selects its materials and goods. This includes identifying and selecting opportunities to reduce wastage in procurement through controlling over-spending and yet fulfilling the company's needs, and negotiating, managing, and monitoring contracts for goods.

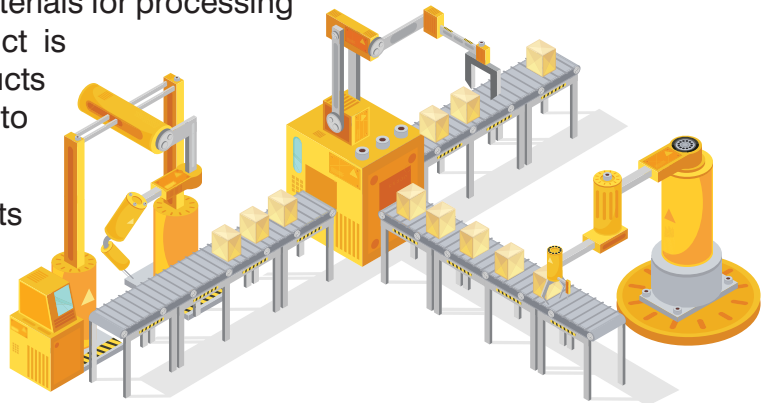
There is an old adage that says that the first profit is made in the buying, which implies that economical buying is the basis of a profitable venture.



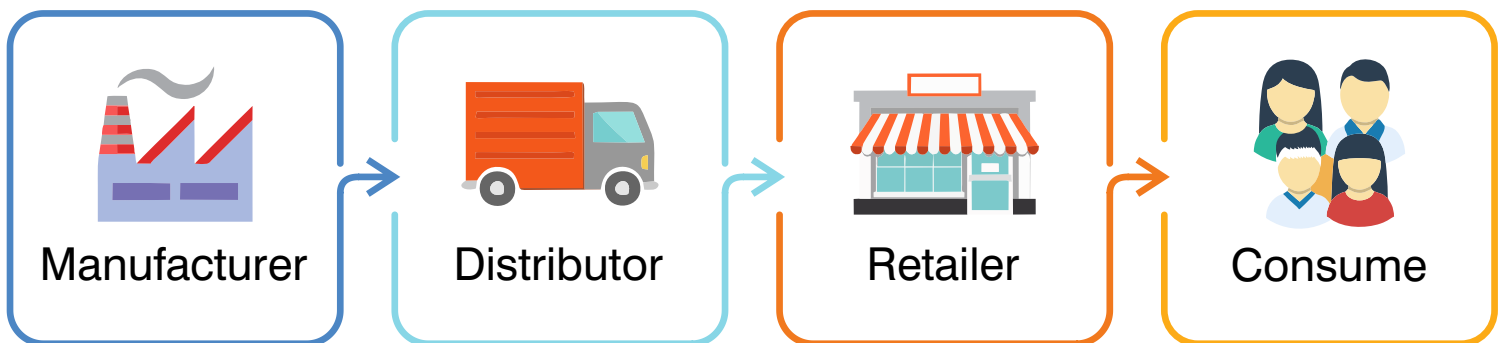
**d****Manufacturing, Storing and Delivering the Products**

Manufacturing process starts with acquisition of materials for processing and continues as work in process till the product is completed. In the next stage we store finished products arriving from production until they are delivered to distributors for eventual delivery to customers.

Supply chain reflects the store-in of finished products arriving from production and their posting as fifth stage to the system. They cover all warehouse activities, part of which is - even multi-level - packaging and the composition of delivery units, the application of various store-in strategies and the manufacturing of multipack products.



In the packaging process we prepare packages ready for transportation - supplemented by the required accessories for the products arriving from production, and sorts them into further master cartons and pallets, if needed.

**e****Handling Product Returns**

It is good business to accept your faulty product back and it is still better to give your customers the freedom to return products that do not serve their purpose, especially if the fault is on your side. But be a little more forgiving even if the fault is on the customer's side, after all, you want to win over the customer for life.

Following are some suggested ways in which you should handle product returns for your business

- **Easy return policy:** If you deal with returns in a way that gains customer trust, it will make them think highly of your business.
- **Use automated returns:** Using computerized software saves time and money for your business, not to mention the goodwill that you earn from the customer for keeping it easy and fast for them.
- **Keep them updated:** Customers appreciate knowing the status of their returns.
- **Make customer your strong supporter:** There will be customers who need a bit more hand-holding. Some customers require the help of a customer service executive who can clearly explain the procedure to them. They will either contact you over emails or want to get on calls to solve their issue.
- **Request customers feedback:** The business should learn the reason behind the customer asking for a refund. It will help you unearth trends which will help you understand better business. Did your customers return the products because your competitors priced it cheaper? Did they get a better-quality product elsewhere?

You should write returns off as losses, and it is not wise to paint all customers with the same brush. There will be customers whose sole intention is to return products after using it for a certain amount of time.



**58%**  
want a hassle-free  
"no questions asked"  
return policy



**47%**  
want an  
easy-to-print  
return label



**62%**  
of shoppers are  
more likely to  
shop online if  
they can return  
an item in-store.



## Feedback System

Always request customers feedback, it is the cheapest way of getting market research. The business should learn the most from its customers, both the satisfied and the unsatisfied ones.

From the satisfied ones you can learn about the product attributes that attract the customer and from unsatisfied ones you can learn about reason behind the customer asking for a refund. These will help you unearth trends which will help you understand better business.

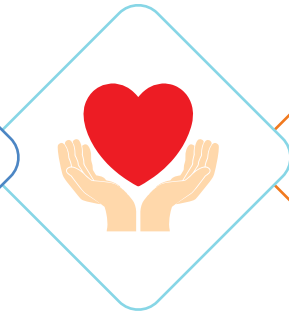
Every business needs to improve to remain competitive and making improvements on the basis of customer feedback is an easy solution as compared to carrying out an independent market research or technology study.



# Why use a feedback system?



It is generally good business practice to obtain regular customer feedback on your products / service



It shows your existing customers that you care about their opinions



Use this as an opportunity to identify negative feedback, respond and rectify it and then stop it from happening again



Maximize the impact of positive feedback to increase exposure and credibility of the business



It can be used as a low maintenance system to collect & build an email marketing list

## Conclusion



Export business source and manufacture locally and sell internationally. Export can help a business rapidly expand its potential market. Exports are a crucial component in the economy of a country, and increase in exports mean increase in the production, jobs and revenue. To successfully run an export business, it is important to know its procedure and documentation, legal issues and export strategies.



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