



## SMEs: Finding Profitability through the Value Chain

A recent OESA survey of small and medium enterprises (SMEs) found inventory represents a significant cost reduction opportunity. Study results presented at an OESA Breakfast Briefing found SMEs, or companies with less than \$500 million in annual sales, must formally align procurement objectives, corporate strategies, and measurement metrics.

**Joe Bione**, President, The Whitehall Group, challenged suppliers to tackle inventories throughout the supply chain, as inventory remains a static 200 days.

Data collected from the OESA Small and Medium Suppliers Council and anecdotal case studies reveal that 10% of small suppliers have formal Supply Chain Management (SCM) systems.

The survey found suppliers are committing to more stringent requirements up the value chain to customers, than companies demand from suppliers down the chain. The survey found 69% provide, at most, verbal encouragement to suppliers on performance requirements such as customer service levels and quality. In both areas the same suppliers have detailed performance demands from customers. The survey also revealed that suppliers receive on time delivery from downstream suppliers 97% of the time. The risk to the supplier is that

inventories burdening working capital requirements are used as a buffer between customer demands and supplier requirements.

Respondents indicate priorities are primarily driven by direct cost, quality, and delivery requirements. Inventory is one focal point suppliers can attack and drive attention to the most appropriate SCM issues. Survey respondents indicate order to delivery time is approximately 48 days.

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**Bione** recommends that suppliers set up war rooms that creates a mindset and mechanism to remove inventory, time, and cost from systems. By creating the right physical place and communication linkages to bring purchasing, materials management, inventory control, planning, scheduling, and operations together, suppliers can drive

improvements to working capital, cycle time reduction, supply base consolidation, return on assets, as well as other financial measures. Using the war room approach, **Bione** identified one supplier that reduced overtime by 19% and cost of quality by 22%. The same supplier improved lead times by 20%.

OESA members may access complete survey data and background material at [www.oesa.org](http://www.oesa.org) under Presentations. For more information contact Dave Andrea, at [dandrea@oesa.org](mailto:dandrea@oesa.org) or 248.952.6401 extension 228. •