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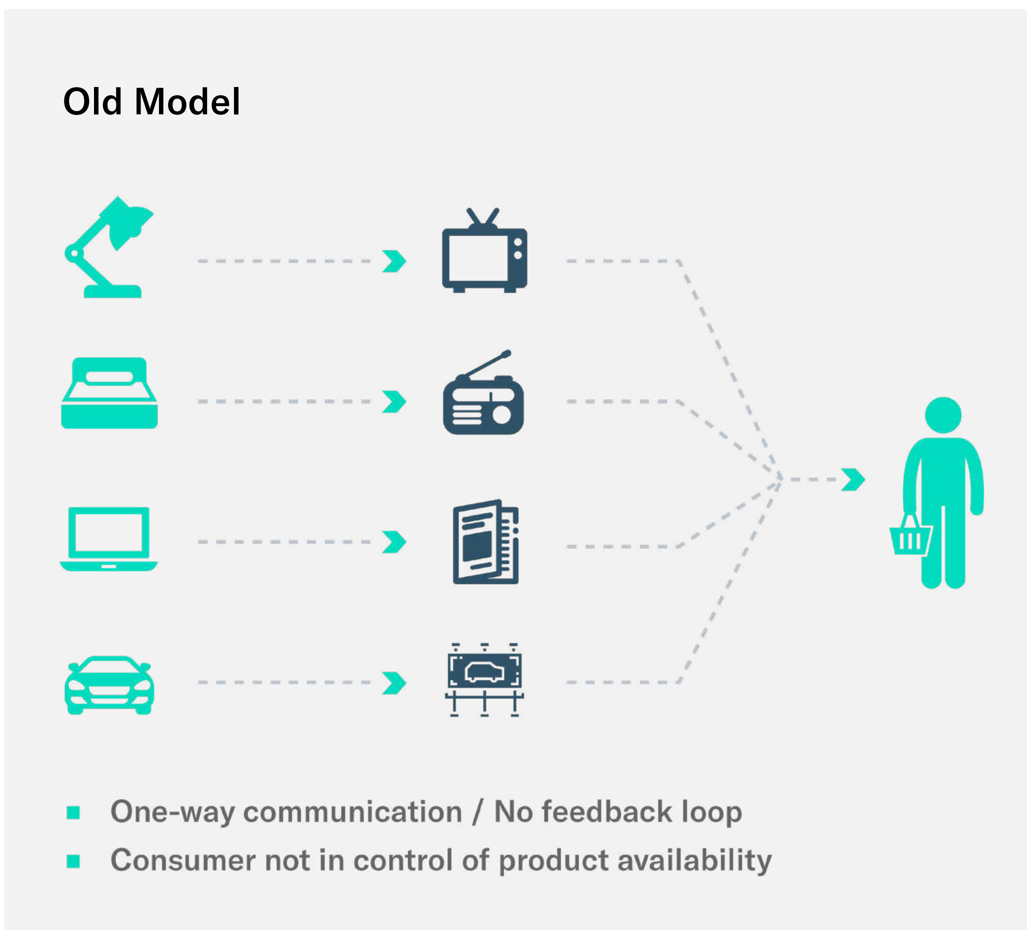
The CFO's View: 5 Megatrends That Make Supply Chains Growth Engines

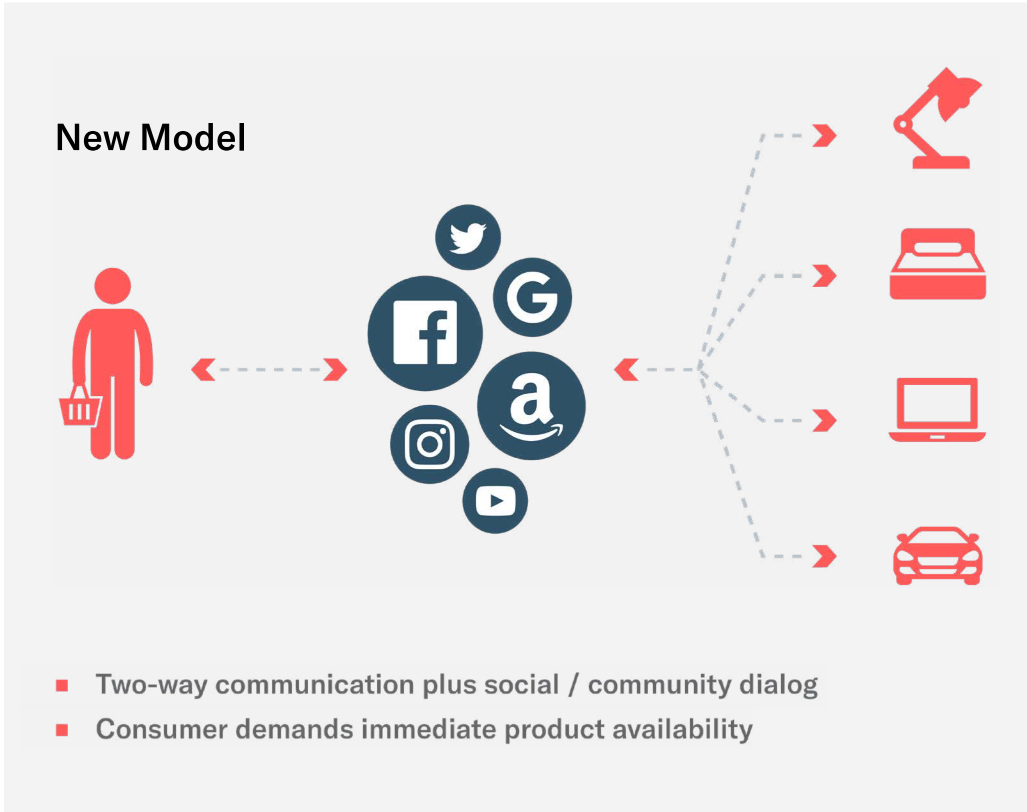
Introduction

In the world of business finance, supply chains tend to get the short end of the stick. Many CFOs simply see logistics as a cost center — each link in the chain an additional expense. But the world of global trade is changing, and with these changes comes the opportunity to shift focus from lowering supply chain costs to strategically positioning supply networks as the driver for significant business growth. With the right strategy, partners, funding and technology in place, businesses of all sizes can unlock the full potential of their supply chains. This whitepaper will help you understand the trends driving supply chains forward, as well as some tips to help you transition your supply chain from cost center to growth engine.

1 Competition Is More Fierce Than Ever

The rise of new marketing and advertising trends has left a profound impact on business growth. For decades, fewer clearly defined lines of marketing communications meant some companies could claim and own marketing channels, including television, radio, and print. But the rise of the internet has given consumers more buying options than ever before. Businesses now have low-cost marketing channels with global reach, meaning previously untapped markets are fair game. What's more, advertising has gone from a one-way to a two-way street, meaning potential customers can communicate directly with the brands vying for their buying power.





So what does this mean for CFOs?

The explosion of competition has precipitated a need for more agile supply chains. In the days of minimal competition, supply chains only needed to be optimized for economies of scale, and surprisingly, supply chains didn't even need to be that reliable for a business to succeed. The formula was simple: Keep products simple and constant and produce in mass quantities. Today, things aren't quite so simple.

CFO Call to Action: Set strategic goals.

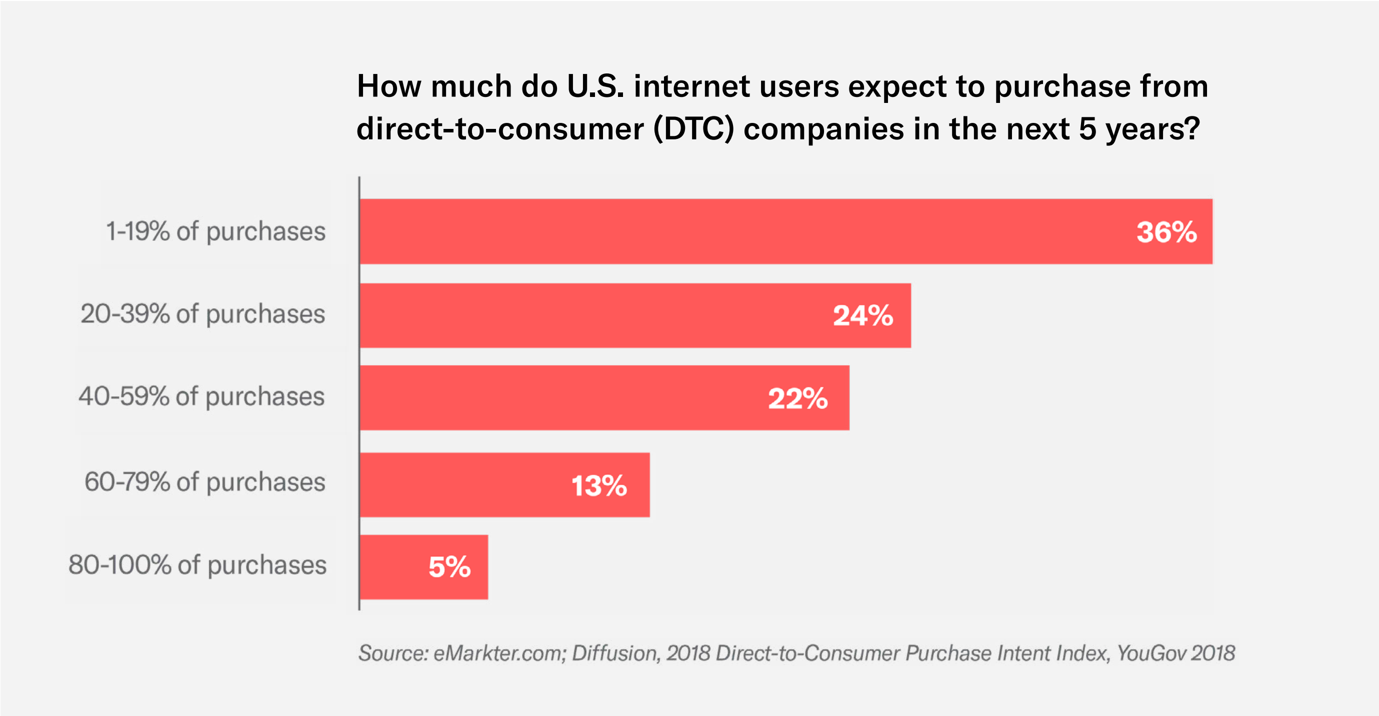
Effective research and deep business understanding also set the stage for meaningful goal-setting. Since many of the issues covered here are seemingly at odds with each other — margins versus working capital, investing in growth versus profitability — it's important to think about which areas may deliver the most impact for your business specifically. Cost can no longer be the single determining factor when selecting strategic partners, especially suppliers. Instead, look for partners with whom you can build relationships. And, make sure suppliers can still keep up with your growth. At least once a year, discuss pricing and payment terms, and be aware that the cheapest option might lead to a drop in service quality or prioritization status.

Competition and faster innovation cycles mean that the path to the lowest cost is no longer the best, making CFOs’ jobs harder than ever before. CFOs must invest in customer-informed innovations, be educated in technologies and market changes, and be empowered to make data-enabled decisions quickly.

2 The Rise of Direct-to-Consumer

Wholesale was the most direct form of consumer sales for decades. But the rise of ecommerce changed all of that. Now, customers can buy virtually any good straight from the source. In fact, more than 20% of consumers expect half of their purchases to be purchased via direct-to-consumer companies over the next five years.[1] The direct-to-consumer approach can be beneficial for businesses by cutting out the middle man, but it also comes with its fair share of challenges. Notably, businesses must find ways to offer positive differentiated customer experiences to keep buyers. Fast delivery is most often a key indicator of a good ecommerce customer experience. With this in mind, investments in supply chain and distribution centers are actually investments in customer experience. And developing these experiences is a large investment that requires strategic planning between logistics and finance teams.

[1] Direct-to-Consumer Brands 2019: How Digital Natives Are Disrupting Traditional Brands and Retailers



The most profound effect of direct-to-consumer sales in terms of business finance is felt in cash flow management. Unlike traditional warehouse models, brands have to hold a lot more inventory to sell consistently over time. This cash conversion cycle is more similar to a "mom and pop" store except ecommerce allows these companies to operate at a massive scale with the right financial planning.

CFO Call to Action: Make the right matches.

CFOs must focus on keeping inventory management, working capital and lending partners, and marketing spend tightly coordinated. Because customer experience, supply chain, and marketing are so intertwined — and each requires significant budget — CFOs should be at the center of cross-functional planning. This will help ensure that each team has the appropriate budgets and ability to grow in lockstep and deliver the best experience to each customer.

3

Retailers Are Driving Demand

Retailers like Walmart command significant bargaining power

Source: Company Reports

Just because direct-to-consumer sales are growing doesn't mean retail sales have slowed down. Similar to many businesses, large retailers like Amazon and Walmart are trying to become more agile while offering faster delivery, more selection, and lower prices. In turn, they are putting significant pressure on their vendors in the form of harsher terms and penalties for missed deliveries. Retailers maintain these terms to uphold promises of faster delivery and amazing customer experiences.

"Large retailers, especially those in the direct-to-consumer space, have realized that their vendors directly impact that ability to meet and exceed customer expectations," adds Dan Glazer, Vice President of Flexport Capital. "As such, these retailers are demanding longer payment terms and implementing high penalties for missed shipments."

Financial leaders must have a good handle on all aspects of their supply chain — via good, reliable data — to help remain in good standing with retailers. Furthermore, identifying the right partners and suppliers is also key. Today, it pays to pay a premium for reliable, trustworthy partners.

CFO Call to Action: Secure the right financing.
Many of the trade finance and working capital solutions available don't provide funds when businesses actually need them most. This can put companies' negotiating leverage at risk — a supplier still needs to fund its own working capital, so it is less inclined to give a price break. By getting funding when companies need it most — for deposits or at the time of shipping — CFOs are better positioned to negotiate better pricing with suppliers, get preferential production priority, and free up working capital for other activities they cannot finance as easily.

4 Increased Tariff Volatility

It goes without saying that increasing tariffs result in higher landed costs. With an additional 15% tariff set to take effect on $300 billion worth of goods as 2019[2] draws to a close, the impact on businesses can be tremendous. While tariffs are pushing up costs, it's also expensive to alter supply chains — especially rapidly — to minimize tariff exposure. So what's a CFO to do?

"Tariff uncertainty and fear of rising costs are keeping a lot of financial leaders up at night," says Glazer.

[2] How The Digital Age Has Changed Marketing Channels Forever

New tariffs have been imposed, reversing decades of continuous tariff declines

$550 Billion
U.S. imports from China

List 1+2		**$50 billion**	Went into effect July 2018 and Aug 2018	Machinery, semiconductors, autos, aircraft parts, electronic components
List 3		**$200 billion**	Went into effect Sept 2018	Computer modems and routers, printed circuit boards, chemicals, building materials, furniture
List 4	4a	**$125 billion**	Went into effect Sept 2019	Computers, iron and steel products, telecommunications equipment, motor vehicle products, agricultural items
	4b	**$175 billion**	Goes into effect Dec 2019	Cell phones, laptops, video games, certain toys and apparel

CFO Call to Action: Build a data-enabled business.

The first step in any strategic initiative is to ensure you have the full picture of the state of your business. Understanding landed costs at a granular level, individual SKUs, and shipping container volumes is instrumental in adjusting costs and finding efficiencies. Identifying and investigating every touchpoint along your supply chain will give you a comprehensive view and help you find the right targets for greater cost effectiveness.

5 Logistics Can No Longer Be an Afterthought

According to Logistics Management's "27th Annual Study on Trends and Issues in Logistics & Transportation," businesses with less than $250M in revenue spend on average 10-11% of their revenue on transportation.[3] Given that this is such a significant part of overall revenue, many CFOs have often looked for ways to move goods more cheaply, but that's changing. Today, value is the key driver in logistics. Across industries, businesses are consistently investing more in logistics technology.

[3] New September Tariffs: 3 Critical Things to Know for Your Supply Chain Now

Transportation enables businesses to meet the increased demands from retailers and consumer expectations of same-day shipping. To deliver on that promise, and deliver on it profitably, businesses need to optimize logistics via software, technology, and data—followed by building partner networks that can deliver on their requirements.

CFO Call to Action: Invest in Data and Visibility.
Effective planning is the first step to unlocking supply chain profitability, but meaningful strategies can't be developed in a silo. Get granular with data and collaborate with sales, marketing, and logistics leadership to help ensure success. Transportation is the backbone of being able to meet the increased demands from retailers and the consumer demands of same-day shipping.

Conclusion

The way your business approaches its supply chain may mean the difference between record sales and failing to meet strategic goals. Building the foundation for an agile, effective supply chain will help you build a logistics network that’s capable of driving growth for years to come.

Connect with a Flexport Capital expert to discuss how your supplier terms, customer terms, and capital structure can be optimized to support your working capital goals and business growth.

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About Flexport

Through its Operating System for Global Trade, Flexport delivers a strategic model for global businesses that combines advanced technology and analytics, logistics infrastructure, and hands-on supply chain expertise. Delivered to customers and suppliers via a highly available and secure cloud software platform, Flexport's Operating System for Global Trade enables fast and reliable transit times, greater visibility and control, and low and predictable supply chain costs.

With its cloud software and data analytics platform, Flexport today serves almost 10,000 clients and suppliers across 109 countries. Its offerings span ocean, air, truck and rail freight, drayage and cartage, warehousing, customs advisory, financing, and insurance.

Learn more at flexport.com