

Global Sourcing: The SMB Challenge

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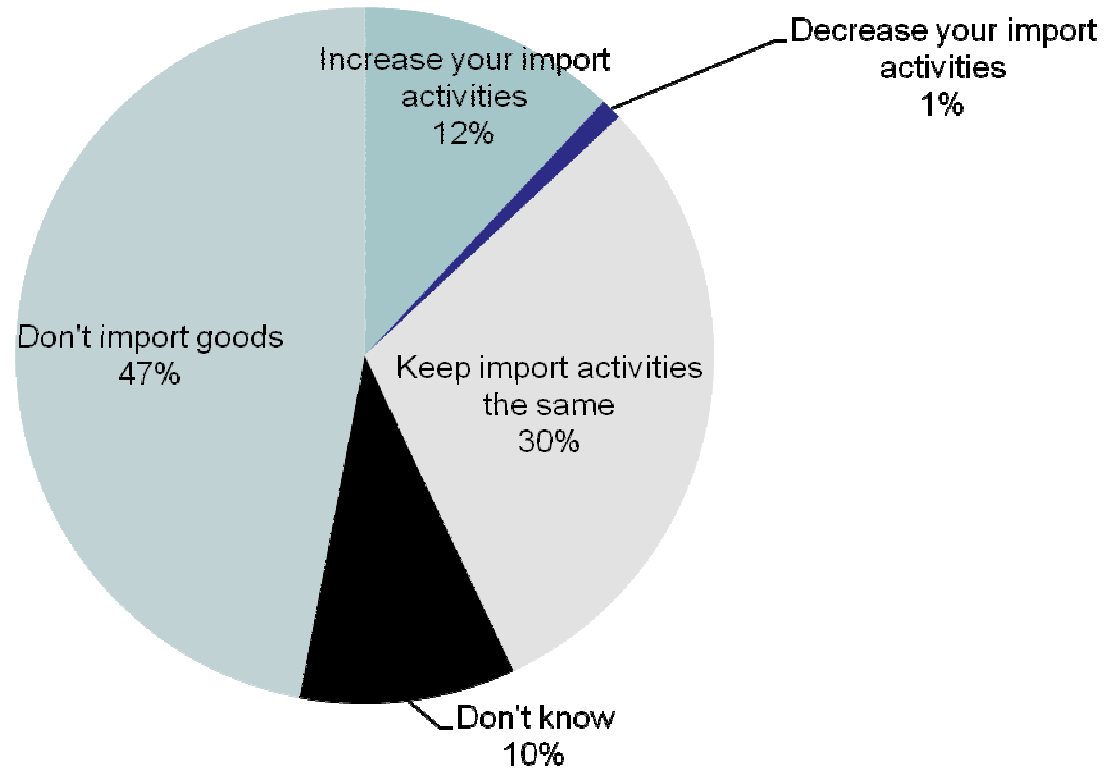
Purolator

Purolator's Perspective on SMB's

- Purolator serves more than 100,000 SMBs in Canada
- Quarterly research conducted through panel of 1589 SMBs
- April 2008 research focused on gaining insight into the importing activities of SMB customers
- 816 panelists began the survey, 397 (49%) qualified as importers and completed the survey

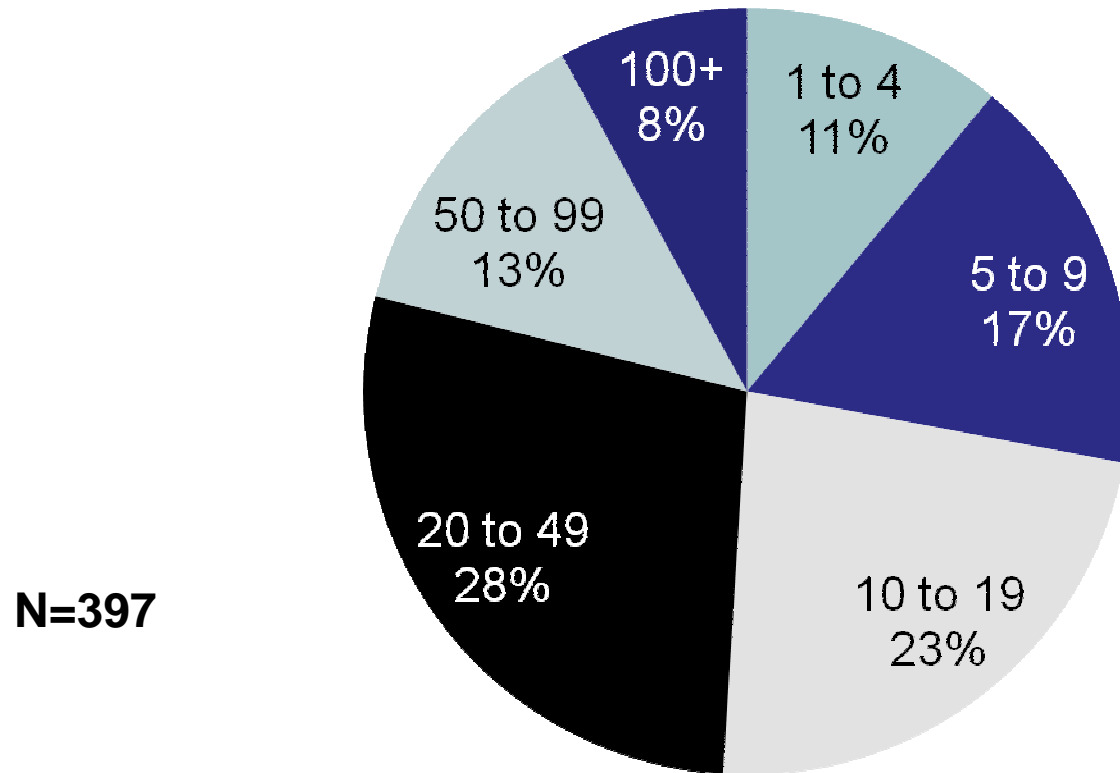
Half of the sample sources goods globally. Just over 40% plan to maintain or increase their import activity in the coming year.

If you import goods, are your plans to increase, decrease or keep import levels the same?



51% of importing SMBs have less than 20 employees. 79% have less than 50.

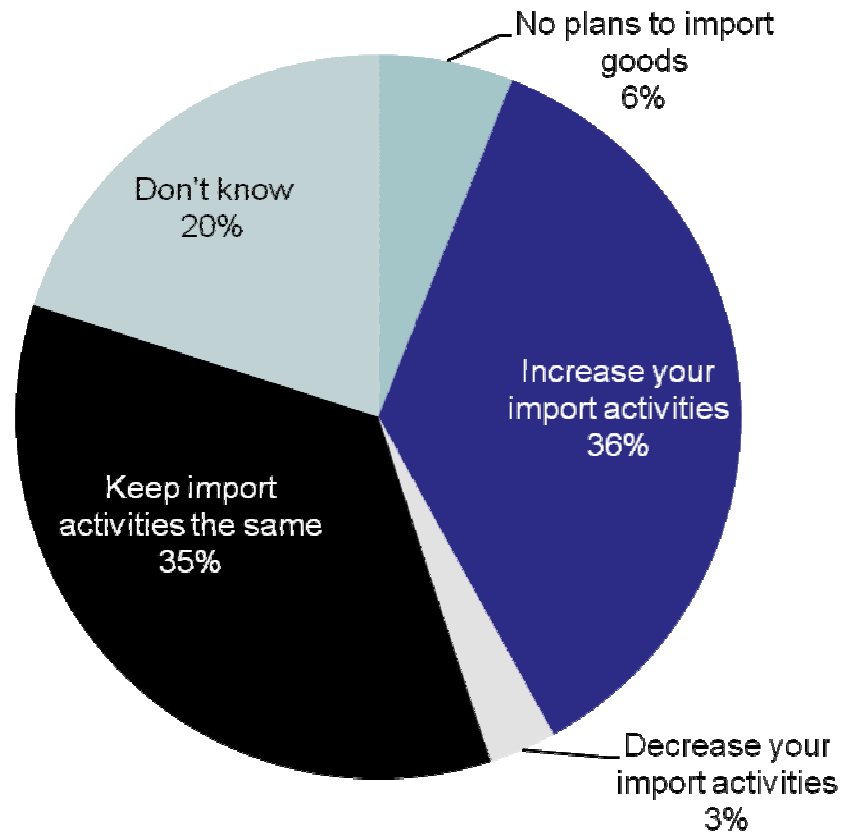
Number of employees



N=397

71% of importing SMBs plan to continue importing at the same or increased levels in the next 3 to 5 years

Longer term plans for importing



N=397

The vast majority of SMBs source from US or Mexico, however a third have ventured to Asia Pacific.

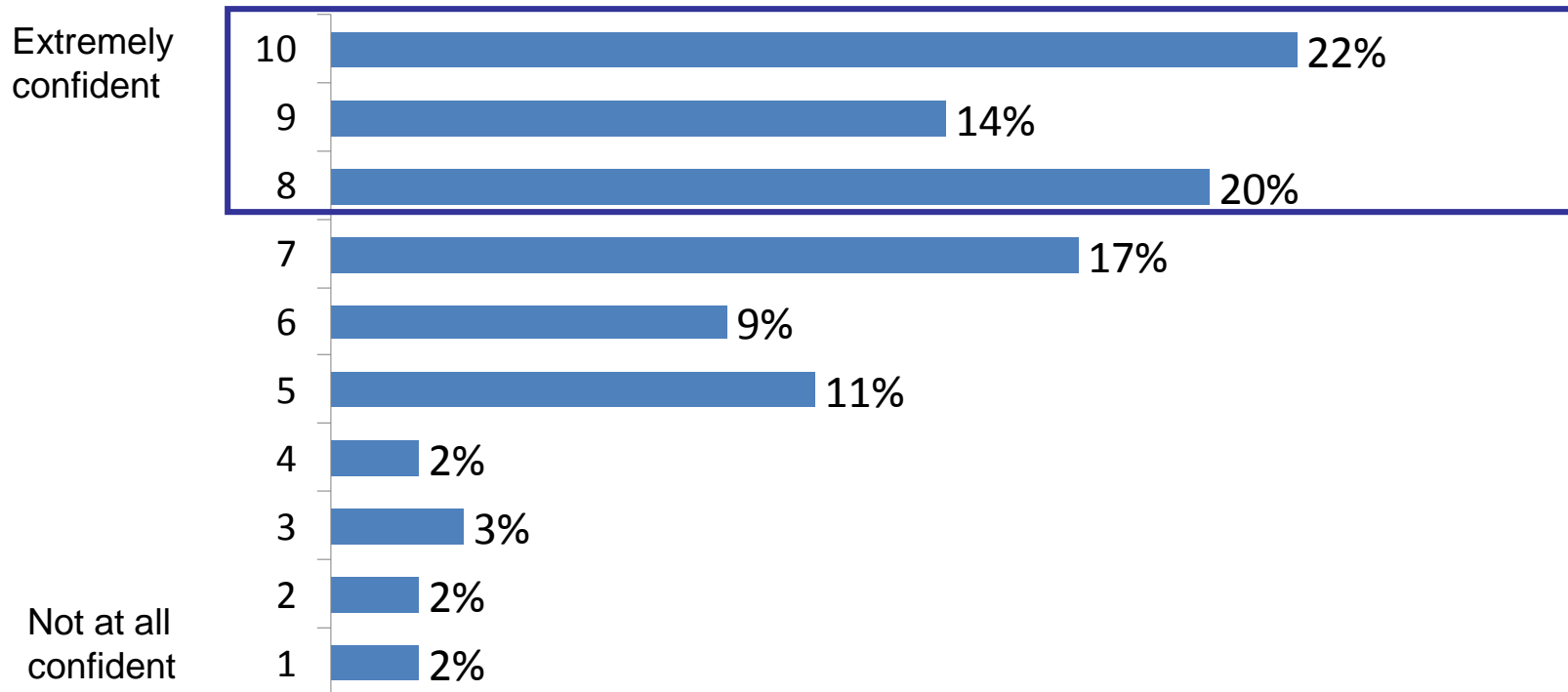
**Where are you receiving your imported goods from?
(multiple responses allowed)**

Origin country	SME Panel
USA or Mexico	82%
Asia-Pacific	35%
Europe	32%
South America and Middle East	4-6%

N=397

Over half are confident in their ability to manage the import process, the remainder are less confident.

Confidence in managing import process

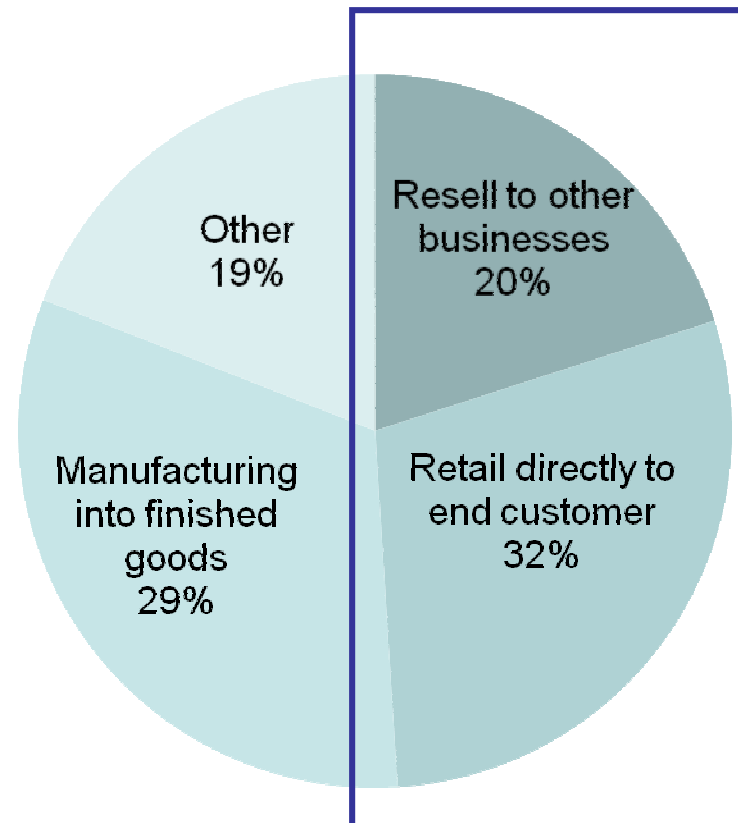


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52% of respondents re-sell their goods to either businesses or consumers.

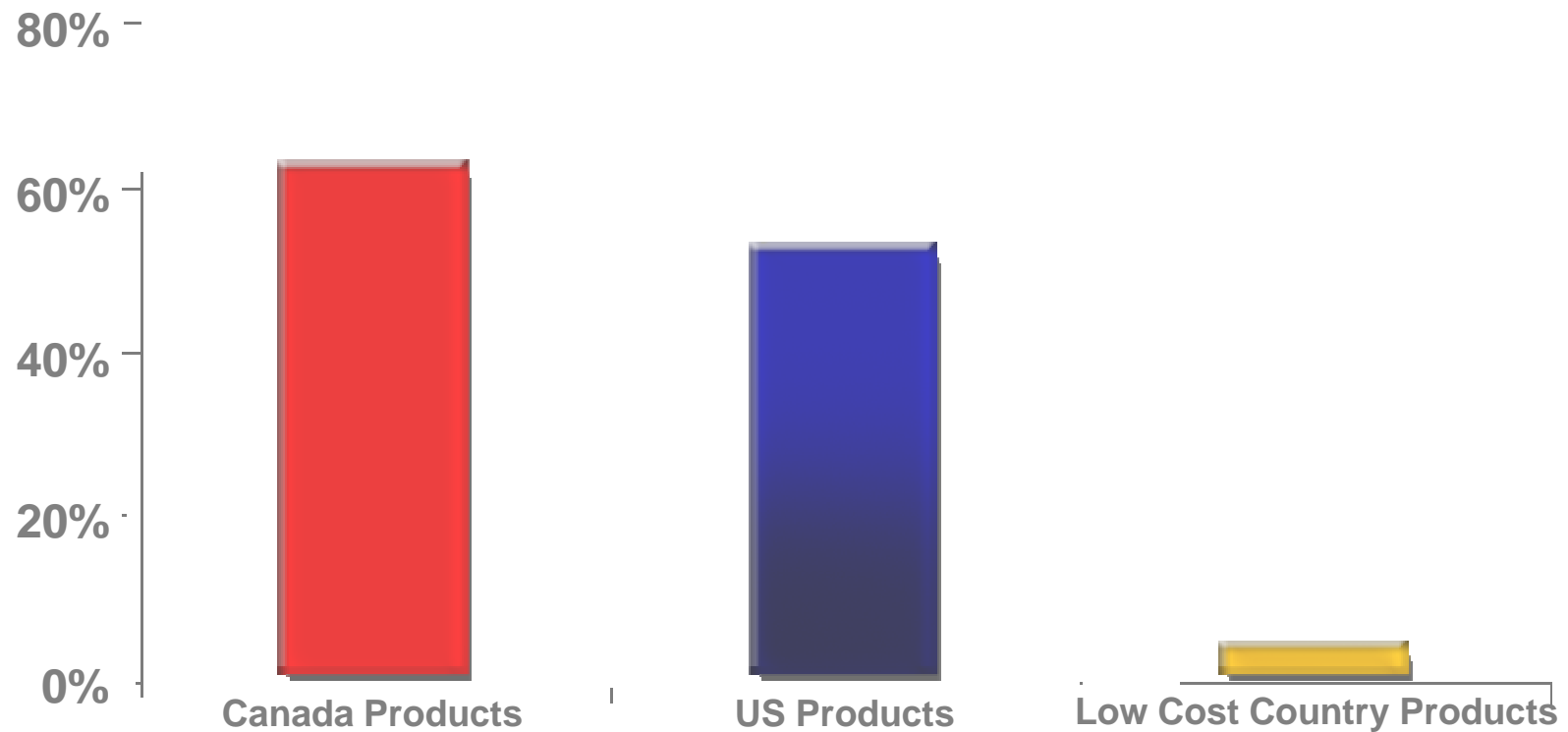
What do you do with most of your imported goods?

N=397



Re-seller supply chain impact of importing: Lower reliability

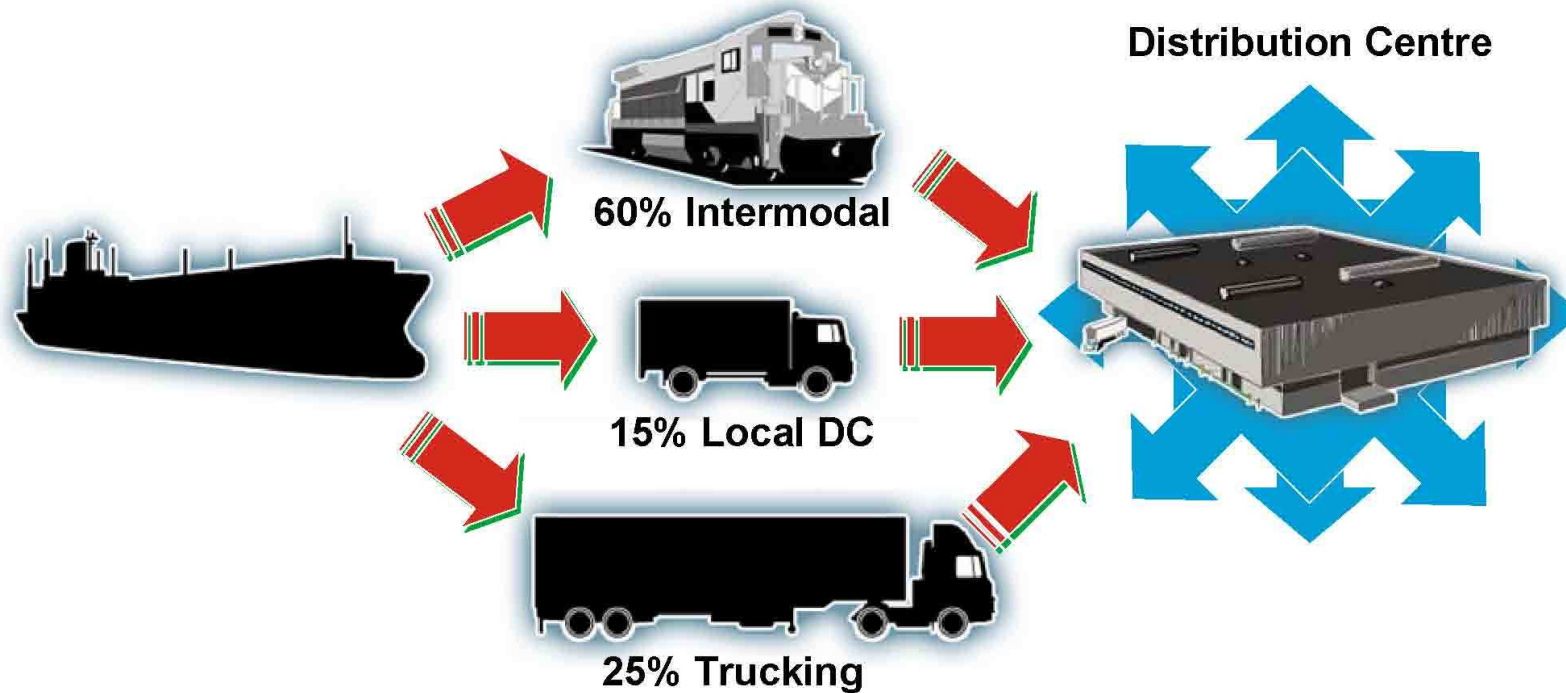
Canadian retailers and distributors achieving 90% or higher on-time delivery



Source: Low Cost Country Sourcing, A Canadian Retail and Consumer Goods Perspective, Industry Canada



85% of imported goods move to a DC before delivery to the market – creating further complexity and delay



Source: PIERS Trade data, October 2005; Norbridge analysis

Poor supply chain performance for re-sellers leads to a downward spiral of business performance

- Missed shelf dates
- Stock-outs
- Unhappy customers
- Frustrated channel partners
- Loss of share to competitor
- Product obsolescence
- Discounting to liquidate inventory
- Reduced revenue and margins



Mitigating the risks of poor supply chain performance is tricky, particularly for a small business

Companies mitigate risks in several ways:

- Carrying additional inventory
- Maintaining secondary sources of supply
- Longer term inventory forecasting and planning

These mitigation strategies have implications

- **Additional inventory has a cost**
 - Carrying cost charges
 - Facility space, equipment and labour
 - Greater impact with obsolescence



- **Even the best forecasting models have limits**
 - Customers' preferences change
 - Competitors actions change
 - Weather impacts on time and demand

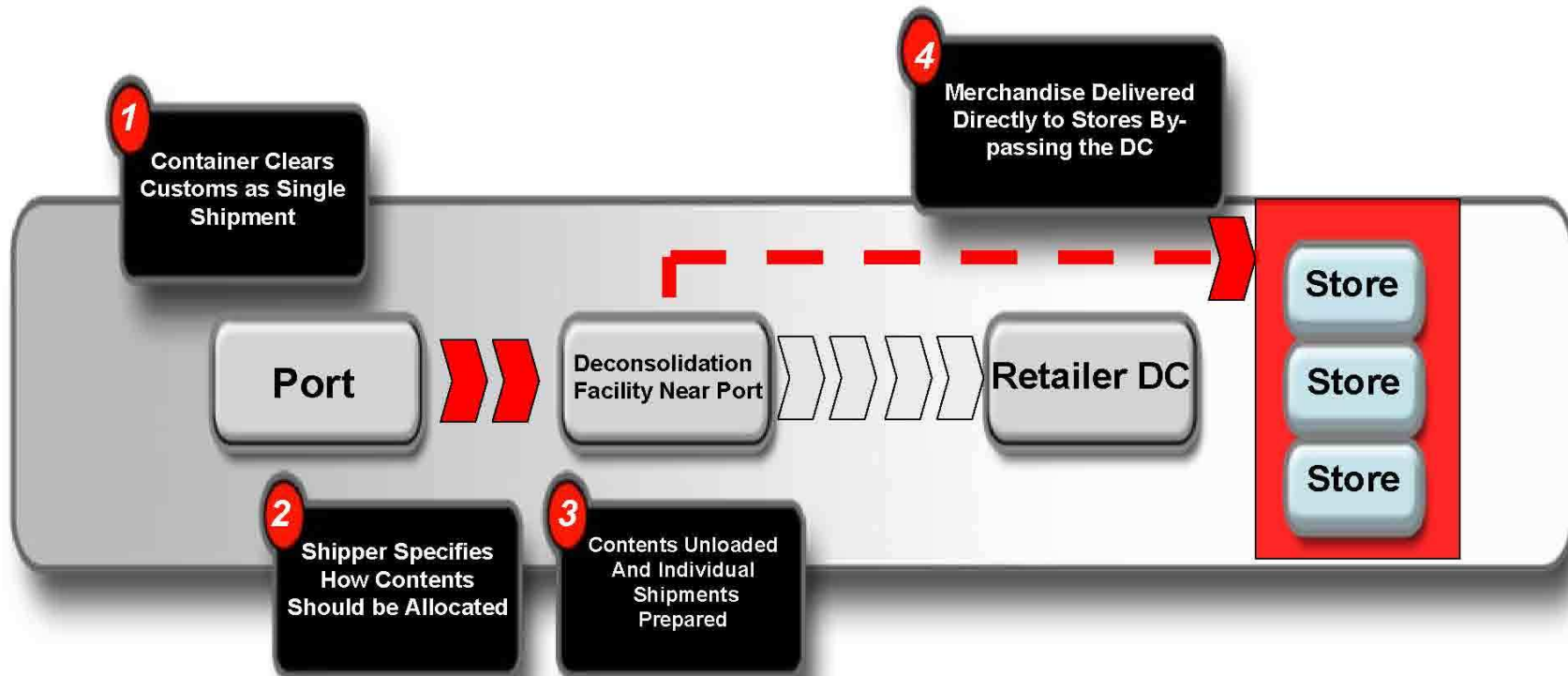


Supply chain challenges facing SMBs that import

- Lack of personnel – both expertise and labour
- Limited facilities to manage supply chain activities
- Higher total logistics costs
- Understanding trade regulations
- Added financial complexities
- Impact of longer supply chain on cash flow

One solution for SMB's

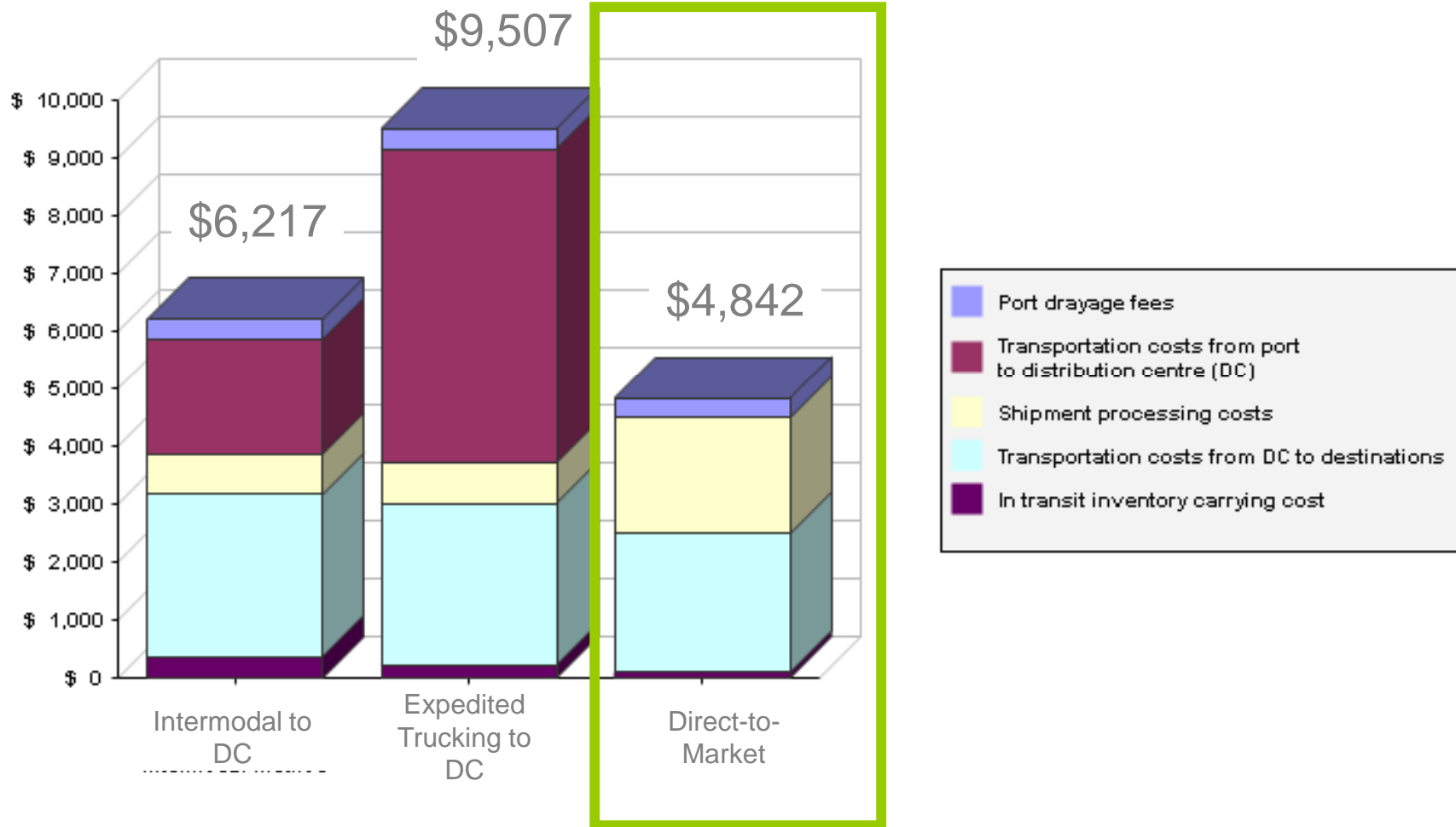
Direct to market distribution



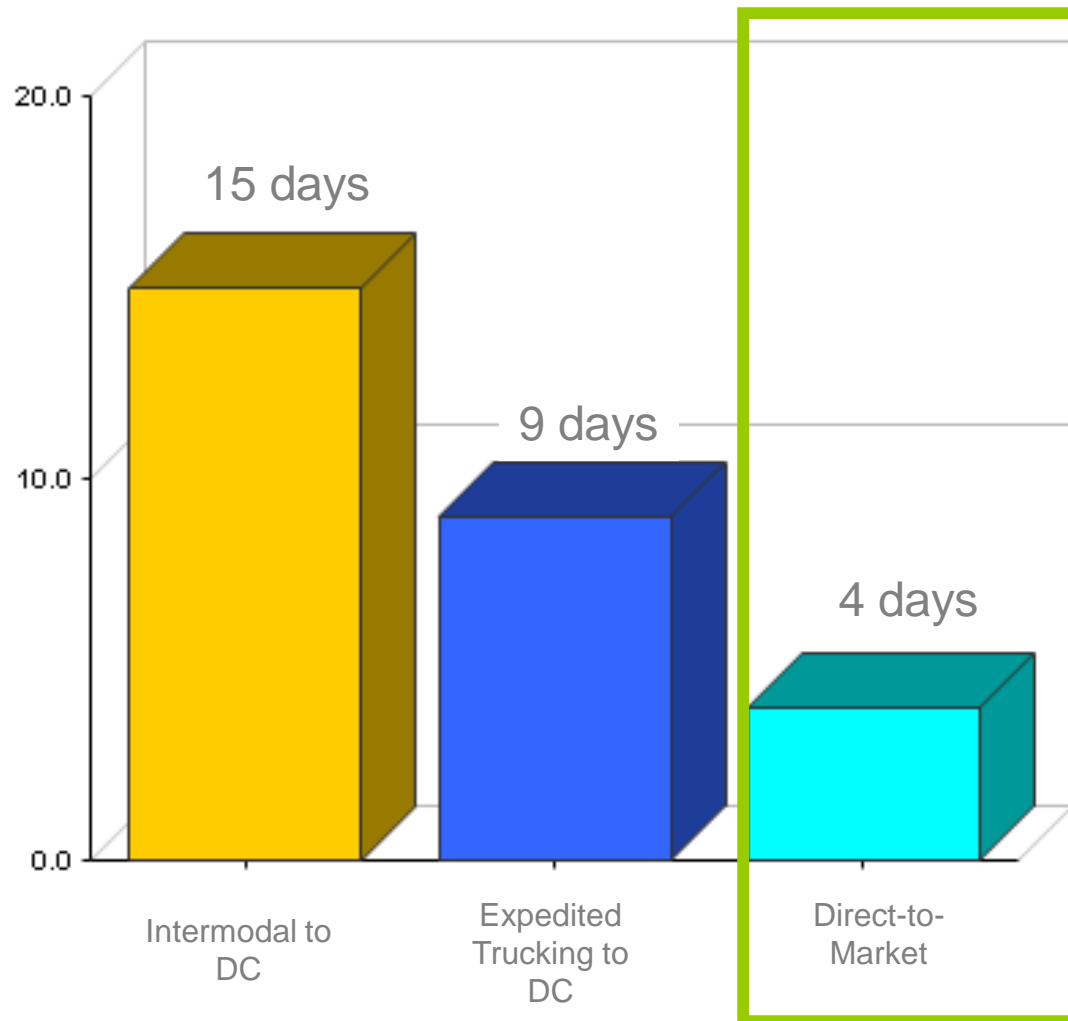
Example supply chain: Mighty Sportswear

- Canadian distributor of sportswear
- 15 employees
- Entry port location: Vancouver
- DC location: Mississauga
- 40 end delivery locations across Canada
- Mix of intermodal and full truckload to move goods to DC
- Average container weight: 5,000 lbs
- Average value of contents per container: \$50,000
- Average weight per shipment
 - 400 lbs – LTL
 - 33 lbs – courier

Total cost of distribution decreases by 20% to 50%



Total transit time decreases by 50% to 70%



Impact of Direct to Market Distribution

- **Less stock-outs**
- **Increased sales**
- **Increased customer satisfaction**
- **Reduced need for facilities and labor**
- **Lower distribution costs**
- **Reduced inventory costs**
- **Improved cash flow**

Case study: KO Music Marketing is a small business whose supply chain was limiting its growth.

Profile

- 2 person company operating on Vancouver Island
- Distributes equipment and accessories for musicians to music stores across Canada

Challenges before Direct to Market Distribution

- Purchased from US distributors but priced out of the market as customers went direct to US
- Switched to sourcing direct from Asia but struggling with cost and complexity of managing import and distribution process
- Too much time on supply chain, little time on growth
- Limited space to store merchandise to fulfill orders

Impact

- Saved costs associated with extra warehouse space
- Increased sales projections from \$150K to \$250K this year
- Increased focus on adding product lines, delivering excellent service and adding retail customers

Case study: 1664 BMX's supply chain was impacting customer commitments and cash flow.

Profile

- Edmonton-based specialty bicycle distribution company with less than 20 employees in two DCs

Challenges before Direct to Market Distribution

- Supply chain delays related to weather, rail, port congestion resulted in missed customer commitments
- Shipping process took 2-3 weeks to get goods to eastern Canada DC, then further delay to ship to customers
- Labor shortage limited ability to make up lost time
- Paid for goods FOB so cash flow squeezed with delay in customer delivery

Impact

- Speed to market: saved 2-4 weeks on delivery time
- More efficient use of staff resources and existing warehousing space
- Significantly improved cash flow
- Peace of mind: ability to focus on day-to-day business

Summary

- SMB's are actively sourcing goods globally
- Less capital and less personnel
 - Managing supply chain is a challenge
- Supply chain challenges impact business performance
 - Customer satisfaction, cash flow, growth

For Further Discussion

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