

ANVYL

How to Minimize Your Cash Burn in Supply Chain Operations

Optimizing your cash flow supports your supply chain in

building up a substantial cash reserve, keeping your business afloat during poor supplier performance and forecast errors, and in other unforeseen predicaments. Remaining in a strong cash position takes effort, especially in today's economic climate. That's why it is imperative that you keep track of the cash flow and mitigate any reasons for cash burn.

Here are a few ways you might be unknowingly burning cash:

WORKING WITH A BROKER NETWORK

When launching a brand, the simplest course of action may be to rely on a broker or packaging expert to help you. They can make the operations seamless by handling expectations, managing orders, and ultimately ensuring the goods arrive.

Although those seem like great items to off-load, it may be more of a headache. Brokers aren't cheap. They tend to incur at least a 25% mark-up on the unit cost. Depending on the terms that are negotiated, the ultimate party responsible for the goods is the broker. The broker is the party that is placing the purchase order with the supplier. Even though the broker takes on all this responsibility, the broker doesn't pay for the production delays or mishaps, the brand does.

A broker does offer a wide range of suppliers that a brand may not have access to nor have time to find. Besides that, they can offer an in-house design team and logistics specialist. Even with these benefits, investing in a broker network may be costing you way more than it is actually worth. Many businesses save money by having a dedicated in-house team to handle these tasks to help optimize cash flow and reduce cash burn.

LOSING TRACK OF INVENTORY

Both having too much inventory or too little inventory impacts the balance sheet. In building a successful forecast, a brand needs to know the optimal safety stock for each SKU and how many components or goods in manufacturing or transit one has. Challenges are going to be thrown your way such as an overzealous marketing forecast or a manufacturer that is struggling to obtain a raw material. Shifting the focus to a Just-In-Time (JIT) inventory model can help resolve those issues. It keeps your days on-hand at an optimal amount and lessens your exposure to out of stock goods. However, one has to be conscious of airfreighting goods. Transit bills can rapidly increase if you are not balancing the amount of unfinished and finished goods correctly.

A division of Kraft Foods was able to **boost cash flow by 20%** by cleaning out their inventory for low-revenue products so that they only produce high-revenue products that quickly convert to cash.

A company cannot expect to run a successful supply chain if it doesn't keep track of the inventory on hand and the expected sell through.

Keep in mind the lead time you have for all components and order accordingly. An online production management platform like Anvyl can give you accurate visibility and transparency in your supply chain.

DISRUPTIONS WITHIN SUPPLY CHAIN COMMUNICATION

Companies need to make sure that their supply chain team communicates effectively with all stakeholders, including manufacturers, distributors, and others.

To avoid this, communication lines need to be optimized to ensure real-time visibility, which ultimately results in creating fewer production delays, minimizes over-ordering, and timely out-going shipments.

Moreover, by investing in new technology, such as order and production management solutions, you can effectively handle supplier issues, substantially reducing cash burn and increasing customer satisfaction.

Anvyl streamlines production management, supply chain communication, and delivers real-time production analytics.

UNNEGOTIATED PAYMENT TERMS AND UNIT COSTS

We all want to push a bill out as far as possible and pay the lowest unit cost possible. Negotiating these terms can be challenging. Asking for a cost down or mentioning the prices of another manufacturer does not always send the right message. However, putting together a Bottom-Up Cost (BUC) analysis can be a powerful negotiation tool. Knowing the cost of each material, the cycle time, yield and total rate/hr gives you negotiating power. If you are placing the purchase order, you are entitled to knowing how it is created.

Certain factories won't extend payment terms until a volume threshold is hit. American manufacturers are far more willing to lend payment terms than Chinese manufacturers. The one advantage of using a broker is that they tend to extend favorable payment terms. If you're using a broker, in reality, you're negotiating against the broker's commission, so make sure you take a proactive approach to the deal. When dealing directly with Chinese manufacturers, negotiate against a telex release. Ocean shipments from Shanghai to New York City take nearly 30 days, and upon telex release, you have already secured net 30 payment terms from the time it left the manufacturer's facility. Components are at the beginning of the product life cycle. The reality is these goods that are being paid for today may not be sold commercially for months.

FULFILLMENT ISSUES: WORKING WITH A DISTRIBUTION CENTER

Besides balancing components and finished goods, you still must pay the distribution/fulfillment center for picking and packing the goods along with incurred postage. Many fulfillment centers operate differently when it comes to postage. Some require a deposit up-front for the projected postage and others bill weekly.

These policies may be harder to drive initially but you can limit the amount of

postage being paid per customer by understanding each customer. Most DTC companies see growth along the coastline in major cities such as New York, Los Angeles, and San Francisco. Placing a centrally located fulfillment center can help reduce the number of shipments that exceed across Zone 6. Once a fulfillment center exceeds 15K orders a month, it becomes easier to open up a second center.

Consumers expect quick distribution, and unlike Amazon, you can't afford to **spend millions or billions of dollars** for cheap, fast shipment. Offering overnight and two-day shipping in the early stages of your business might be a smart move as these services can help build your consumer base – especially if you use a subscription model. DTC companies are estimating what the freight bill will be but will lose money on overnight shipments or if the shipment exceeds a certain amount of units.

With the addition of a second or third fulfillment center, you can ship faster without incurring those losses. A shipment from Nevada to California can be delivered within two days with basic economy shipping.

The BUC analysis applies to pick and pack and kitting as well. Understanding the time to fold a box, place the good in the box, seal the box, and pain points along the way will help you decide on where to optimize. If the facility has an automated corrugated assembler, you should look into seeing if your shipper can use that machine. To get the price down at these centers, it is essential to know how to increase their productivity, which ultimately drives throughput at a lower cost.

CONCLUSION

There are numerous ways supply chains can automate and optimize their cash flow. Of course, the decision to invest in technology is, in itself, a cash flow decision.

But when it comes down to highlighting ways your business is burning cash without even realizing it, the decision t

Anvyl is a comprehensive online system that enables companies to collect their production and order data on one platform, enable data access and visibility, provide trend insights, and facilitate supplier communication.

Get in touch with us to find out more.

About Anvyl

Anvyl's Production Management Platform streamlines supply chain communication, automates workflows, and delivers real-time production analytics from order to delivery. Companies across the globe use Anvyl to mitigate risk across their supply chains and save millions of dollars in operational costs. Anvyl's digital platform delivers transparency across the supply chain, surfaces key production insights for users, and provides predictive analytics to improve operational efficiency. Visit www.anvyl.com or email sales@anvyl.com to learn more about how Anvyl can help you simplify the production management process.