Distribution Center MANAGEMENT

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From the Golden Zone

Five ways to create value in an uncertain economy

By Joe Brady, Supply Chain Edge

As companies continue to sort out what the global economic malaise means for business, one thing is clear: little tolerance exists for inefficient supply chains.

Senior executives want to reduce costs and improve profitability, so the pressure is on supply chain leaders to improve the performance of supply chain functions, including distribution and transportation.

Here are five key actions that generate substantial — and sustainable — financial benefits.

Key 1: Get the right data and get the data right. A food processing company wanted to reduce its transportation costs. But the company's bills were being paid by a freight payment service provider, and while the provider could give the company an aggregate figure for its annual transportation spend, it could not give the food processor the level of detail necessary for the company to identify potential areas of waste.

The food processor eventually pushed its payment provider for more granularity and discovered that it had a large carrier base (more than 70 companies), inconsistent and varied fuel surcharge scales applied by each of those carriers, and nonstandard rate tariffs across each carrier, making it almost impossible for the company to compare shipping costs. Following this analysis, the food processor put its shipping contracts out for rebid. It eventually whittled the number of carriers to 25, and it required each to use the same fuel surcharge scale and a common rate tariff. These and other changes helped the company save $2 million annually in transportation costs.

Being able to collect and analyze critical transportation and distribution cost data is a key step toward improving financial performance.

Key 2: Collaborate externally. Like the food processor, a cosmetics manufacturer used an analysis of shipping costs as a springboard to consolidating its carrier base and renegotiating with its remaining carriers. It also used its findings to reduce the time to load and ship products, reducing costs and benefiting its carriers in the bargain.

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The manufacturer adopted a ship, load, and count approach in which the company vouches for the accuracy of its own count of the number of items in any given shipment on the loading dock. As a result, the carrier's driver doesn't have to spend time at the dock counting and double-checking all of the items in a shipment before they're loaded onto his truck. The driver merely signs for the shipment, thereby increasing the carrier's ability to optimize its use of its drivers, leading to lower costs for both the cosmetics company and its carriers.

Instead of treating providers as vendors to be managed on price and service, treat them as partners and work with them to help them improve their own operations and lower their own costs.

Key 3: Collaborate internally. To boost business at the aforementioned food processor, the sales team came up with a great idea: It committed the company to a one-day delivery window for certain customers. But because the sales team didn't communicate well with the company's load planners, the planners often didn't learn about those orders until a day or two before they were shipped. The planners were forced to insist their carriers agree to accept those shipments within 30 minutes, or lose the load.

Not surprisingly, the company's carriers frequently had to decline the shipments, and the food processor had to pay a premium to other carriers who could take the shipments on such short notice.

All these issues are consequences of business functions operating within their own silos, attempting to optimize their own processes without regard for enterprise goals — and doing so because their company measures and rewards them according to their performance inside their own areas. Senior management must address these issues by developing new, enterprise-centric metrics, and promote communication — and understanding — between functional units.

Key 4: Respect the function and pay for talent. Not only does the transportation function at many companies tend to grow stale, it is also frequently neglected by senior management that regards investing in and staffing the supply chain to be a necessary evil, rather than a key lever for dramatically enhancing profitability and financial performance. The cosmetics manufacturer mentioned earlier, for example, spent nearly $30 million a year on shipping but had no individual fully accountable for that spending. The time when the supply chain could be taken for granted, or viewed as a cost center, managed simply to control overhead, has long passed. Companies need to invest in the talented people who will help take their supply chain operations to the next level.

Key 5: Use metrics that tell the whole story. One of the most widely used — and most meaningless — metrics today is the cost of transportation as a percentage of sales. It's meaningless, and potentially harmful to a company's financial performance, because it encourages behaviors that can easily obscure transportation's true costs.

For instance, if a transportation manager is gauged by this metric, all he has to do to make himself look good is to have his suppliers pay for shipping rather than his company, thereby moving a large charge off his balance sheet.

Instead of such narrow and functionally based metrics, companies should use key performance indicators and benchmarks that focus on broad business outcomes instead of simply reducing near-term costs and inventories. Such metrics can have a greater impact on a company's financial performance.

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