



LOGISTICS STRATEGIES

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A MESSAGE TO THE
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MANAGES RISK AND
IMPROVES THE BOTTOM
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A MESSAGE TO THE CEO -- CENTRALIZED PROCUREMENT MANAGES RISK AND IMPROVES THE BOTTOM LINE

Many companies are taking advantage of the current economic conditions to ensure they not only survive 2009, but prosper mightily in 2010 and beyond. How are they doing this? Well, there are a number of areas they are looking at including maintaining a lean workforce for the foreseeable future. There are no major signs on the employment front indicating corporations are going to increase headcount in the near future. Companies have also been aggressively reducing operating expenses to keep those expenses at the barest minimum. Unfortunately many companies do not have a handle on all of their expenses so cutting them to the bone is a major challenge. This is especially true in the area of the company's Supply Chain expenses where very few companies have a complete handle on their total costs. And, some companies are even aggressively looking at mergers and acquisitions as a way to grow their businesses and put them in a much stronger competitive position when this current recession ends. On the other hand, there are thousands of companies who believe in the status quo and will just ride out the storm and hope everything will be just fine.

Wherever a company falls in the above descriptions, there is a concept that many corporations overlook that can have a profound impact on the company's Supply Chain operations and ultimately its bottom line. That concept is utilizing Centralized Procurement systems to manage a company's risk as well as obtaining for those companies the lowest Supply Chain costs possible. Centralized Procurement involves the most effective utilization of the buying power of the entire corporation to yield these benefits. Sounds pretty simple doesn't it but you would be amazed at how many companies do not know what their current risks are or what their total Supply Chain costs are. If they do not know their risk how can they manage it? If they do not know their total Supply Chain costs how can they possibly implement processes and procedures to control those expenses?

The first step in the Centralized Procurement process is to identify whether the corporation has the necessary skill sets to thoroughly understand a company's risk due to lack of knowledge in many areas. If the company does not have the in-house expertise to solve these major issues it is incumbent on them to seek outside help from knowledgeable consultants that have the expertise and staff levels to solve these

problems with little involvement from their in-house staff. One of the major areas where companies are vulnerable is the area of computer security. If you read the trade journals and listen to the news you know that corporate executives including the CEO will not only receive stiff fines for violations of security measures, they can also serve jail time for not complying with the latest security mandates. With these stiff penalties what CEO does not want to pull out all the stops to ensure he does not trade in his pinstriped suit for an orange suit with numbers on it?

In the Supply Chain area let's explore some examples of companies that would like to get their arms around their costs so they can control them, but just do not have a clue on how to go about it. In a recent consulting assignment we were contracted to analyze a company's transportation expenses to determine what potential savings might be available if their current transportation contracts were re-negotiated by our team of Supply Chain Contract Negotiators. During the initial phase of our assignment it was determined that the company did not know who was routing and bearing the expense of their inbound supplier shipments. Nor did they know what their total inbound freight cost liability was. Sounds impossible but we see this all the time. The result of our study indicated that the company was certainly paying for the inbound freight costs either through a freight bill issued by the freight carrier, as an added charge on the merchandise invoice, which by the way also included an arbitrary shipping and handling cost, or the freight costs were "buried" in the product cost. In each case the company bore the expense but did not control it and had no idea what the total liability should be.

In another case we recently re-negotiated our client's parcel carrier contract and found out that for the past 10 years several of their shipping facilities were not included in the contract and therefore never received any discounts or pricing incentives from the carrier for shipments made from those facilities. In another case a client refused to audit its parcel carrier's invoice claiming it was receiving huge incentives based on the company's multi million dollar annual spend with the parcel carrier. We convinced them to perform an audit even though the company had given up their right to file claims for recoveries of late delivered shipments. The initial audit which covered a 60-day period resulted in refunds from the parcel carrier in excess of \$40,000. What company can afford to leave these dollars on the table in today's economic environment?

These are but a few examples where Centralized Procurement initiatives would have paid off greatly. In each of these cases there was no central control over the costs, how they were allocated and reported. Therefore, how could they possibly be controlled? Very often in today's corporate environment there are many independent empires where the right hand does not know what the left hand is doing. Someone at the "C" level has to take ownership over these situations before it's too late. Many companies will not survive 2009 unless they get their arms around these uncontrolled and spiraling costs. The "C" level executive has a fiduciary responsibility to make sure the company is as profitable as it can be. How can this be done if the middle management team does not know some of the most fundamental terms of sale and or purchase terms of its raw materials and finished goods? Why would any corporate executive refuse to audit the invoices it receives from ANY carrier? This is however very prevalent in the area of parcel carrier invoice auditing.

This is a real call to action for all "C" level executives. Now is the time to act. Make sure everyone in your organization understands their job to the fullest and knows what the company's risks are. Ask questions, probe, set up teams to look under every stone to make sure your company knows what its true costs of operations are. Make sure those costs are the lowest costs based on the services offered. Make sure your company is not exposed to lawsuits, fines and most importantly that the CEO won't be spending time in jail because he or she failed to understand what the law

provides. Ignorance is no excuse! Bring in those outside consultants to help you get where you need to go immediately and without hesitation. Stand strong when employees put up roadblocks for their own personal benefit. What are they hiding from? You need to know or you may be the one to take the fall.

TEXTING WHILE DRIVING - WHAT YOU NEED TO KNOW!

A recent study conducted by the Virginia Tech Transport Institute on behalf of the Federal Motor Carrier Safety Administration has found that truckers that text while driving are about 23 times more likely to have a crash, or at least a close encounter, than drivers who are watching the road.

The study took place between 2005 and 2007 and monitored 203 drivers operating 55 trucks. The data covered over three million miles of actual driving time. The study indicated that the risk of crashes or near crash events were 5.9 times higher for truck drivers that were dialing cell phones as compared to a non- distracted driver. When those drivers were using or reaching for an electronic device the risk of a crash was 6.7 times higher. When those drivers were texting the risk of crash increased to 23.2 times higher than the non-distracted driver.

Another study conducted in June by Car and Driver Magazine indicated that texting while driving was more dangerous than driving while intoxicated.

Currently 14 states and the District of Columbia have laws that ban texting while driving. Look for additional states to follow. There is a Senate bill that would force states to enact these laws to ban texting or risk the loss of a big chunk of their highway appropriations funding.

Technology is a wonderful thing but as a society we are getting to the point where we are so involved in this technology we are losing sight of all logic. For those of us who fall into this category, lets use our heads while we are driving to drastically reduce the risk that we will endanger ourselves, our family and those innocent folks driving in the vehicle next to us.