



LOGISTICS STRATEGIES

August 2007 Vol 1 Iss. 19

in this issue

IS THE LOWEST BID
THE BEST BID?

COST OF IMPORTS TO
RISE SHARPLY

CREATING STRATEGIC
PLANS TO ACHIEVE
OPERATIONAL
IMPROVEMENTS AND
REDUCE COSTS

Labor Day? Wasn't it just Memorial Day? Hasn't the summer gone by fast.

Welcome to Fall and to this month's edition of Logistics Strategies. We're very excited about this edition because we KNOW that we have addressed topics that many of you care about.

So, please take a moment and read the information we've provided. And let us know what you think. As always, we are interested in your feedback.

Best wishes for a wonderful Labor Day!

IS THE LOWEST BID THE BEST BID?

With so much of today's transportation business handled by competitive bid processes, one has to ask, is the lowest bid the best bid?

As a transportation service provider, the various companies should be well aware of the value that they each bring to the market place. They should be able to prove their value to the prospective customer in any number of ways. Price, however, should never be the differentiator between themselves and their competitors because they are selling a critical service and not a commodity. So why do they feel that they have to be the lowest bidder to win the business?

There are many transportation service providers that win business even though they are not the lowest bidder in the process. How do they do it? The reality is while their business is providing transportation services they must also be a sales organization to prove their value beyond price. This is a great myth that many service providers have fallen into over the years. If the service they provide is above the threshold for comparison purposes, why do they still get hammered on price? There are some basic sales principles that we believe will aid these service providers to set themselves apart from the competition.

1. Put a face on the proposal. They should make sure that the proposal clearly spells out the differences between the company submitting the bid and its fiercest competitors. If possible, they should not submit the proposal to the prospective buyer without an opportunity to review the entire proposal in a face-to-face meeting.

2. The service provider should clearly define competitive separating factors between itself and its closest competitors. If they do not, the potential buyer sees no difference between the company submitting the bid and its competitors. Therefore, price would be the only differentiator.

3. The service provider should be sure to follow up immediately after submitting the proposal. If they do not follow up it shows the buyer a lack of interest and can open the door for a more enthusiastic competitor to take the lead in the bidding process.

4. The service provider should always establish a partnership immediately once the bid proposal has been submitted. Failure to show its interest in becoming the lead candidate for the business will put it on equal footing with its competitors.

5. The service provider should make sure it has thoroughly qualified the potential customer and the business that they are offering. They should never assume that the bid is similar to any other piece of business it has previously bid on in the past.

All transportation service providers continue to improve their services with subtle and sometimes major differences between their competitors, however, they fail to win higher margin bids and more profitable business because their sales and presentation skills are lacking. Remember that shippers want to buy from service providers that they feel comfortable with. Ones that will make their jobs easier by creating partnerships with full understandings of not only each parties responsibilities, but, more importantly, each parties full commitment to make the business relationship a complete success.

Whether the market is weak or strong, good sales and presentation skills are critical to securing strong margins and will not have the service provider's expertise degraded by a pricing war. Once a service provider establishes that it will negotiate primarily on price, they've built the foundation for the customer to take the upper hand in the negotiation process now and in the future. The service provider will lose its identity as a cut above the rest. If the service provider does lose the bid, they should ask the customer why. Ask what, besides price, might have been a contributing factor to the loss of the bid.

Without revenue, no business would succeed. However, there is a real benefit to creating value beyond the price that a service provider charges. The really successful companies are those that continue to receive higher margin business because they have set themselves apart from their competition. Price should never be the reason a service provider loses additional business opportunities.

COST OF IMPORTS TO RISE SHARPLY

The members of a House-Senate Conference Committee agreed on July 19th to require that within five years ALL maritime cargo containers bound for the United States MUST be scanned before they are loaded aboard ships at foreign ports. They also agreed to require inspections using what they termed "Non-Intrusive Technology" for

ALL cargo on board passenger aircraft. Most of us would agree that these measures are long overdue and some might have even been under the impression that these procedures were already in place.

While the good news is that it looks like these regulations will finally become law, the bad news is that it will cost every consumer more money. How much more you might ask? Well, based on projections from the federal government, it will cost between \$650 Million to \$750 Million a year for the air portion of the screening process. Over a ten-year period, this cost would approach \$4 Billion dollars. Unfortunately, at the present time the feds have not come up with a projection on the ocean side, but it is our projection that the costs could be ten (10) times the cost of the air freight screening process.

Obviously, there will be a ripple effect here. The initial onus for financing the screening processes will fall squarely on the carriers and you know that won't last long as they will pass the costs on to the user of the service, (the shippers), then ultimately us lowly consumers will pay the price. There is some speculation that the costs could force shippers to move manufacturing operations back to the US or on the flip side, shift all manufacturing to foreign countries. That would be an interesting turn of events and only time will tell if that is the case. There are, however, deeper issues that have been raised by this projected legislation and that is will these processes work?

As of this writing, we have the head of U.S. Customs and Border Protection saying that the legislation is "fundamentally flawed" and the economic havoc it would wreak on the US economy would be synonymous with handing "the terrorists a victory" says Ralph Basham. "Trying to legislate a requirement that all 11 million plus containers undergo image scanning and radiation detection just does not make sense. The impact on the flow of commerce would be enormous and the result would be lower profits and higher transportation costs for US importers." In the United States, approximately 50 air carriers transport cargo on passenger aircraft, handling nearly two million shippers per day, so this gives you some idea of the impact of the air portion alone.

Already, there are people and organizations lining up on both sides of the aisle on this issue. Much more time and dialogue will be needed before a final bill is rolled out of Congress. With the 2008 election looming, this issue will probably be tabled, but we may hear a lot about it during the upcoming campaign for the White House. Costs aside, we believe that the 100 percent screening process makes all the sense in the world. The true test is how do we get it done at a cost that does not negatively impact our economy.

CREATING STRATEGIC PLANS TO ACHIEVE OPERATIONAL IMPROVEMENTS AND REDUCE COSTS

Every year at this time, logistics and supply chain executives begin to think about their plans, goals and expectations for the next year. How they go about these plans has sometimes been a mundane task of projecting what they believe will be the impact on their expenses and budgeting for those added costs. We have a much better approach that we believe would make sense for these executives going forward.

Many corporations have high level Strategic Planning Sessions each year to set out the corporation's plan for the near and long term future. However, many in the logistics and supply chain field never look long term and usually concentrate on the near future. We believe that there is a lot to gain by creating an on-going environment for strategic planning, as follows:

1. Create quarterly Business Review Sessions with all key parties involved in the logistics and supply chain process. We recommend quarterly because the yearly sessions are too far apart for any meaningful results to be achieved. Many logistics and supply chain executives are so preoccupied with immediate pressing issues that they lose sight of their ultimate objectives. That's why the quarterly business review process is such a necessity. The Strategic Planning Session may not be a recipe for success in and of itself, but without it logistics and supply chain executives are much more likely to fail. Very often, the right hand does not know what the left hand is doing. Corporate reporting responsibilities sometimes create roadblocks for some executives to obtain information from departments that have a direct impact on the logistics pipeline. How can the corporate vision for logistics be carried out if those departments have no means of effective communications.

2. At these quarterly Business Review Sessions, the group should focus on securing buy in from all of the key stakeholders. They should agree to work towards more detailed planning for future sessions. All key stakeholders should explain their concerns and goals to the group with the hope of informing, motivating and involving everyone in the strategic planning process. Each party should assist in the benchmarking and performance monitoring towards a goal of stimulating change and become a building block for the next plan. It is critical for the success of the programs being developed that every stakeholder has his or her day in court. This is effective management by teams of seasoned logistics professionals that know their business inside out and collectively will have much more power to make huge strides in improving efficiencies and reducing overall costs than they would have if they were operating as individual empires.

3. A satisfactory strategic plan must be realistic and attainable in order to allow all managers in the logistics and supply chain network to think strategically and act operationally. It is a multi- step process covering vision, mission, objectives, values, strategies, goals and programs. These attributes should be inter-linked and consistent with each other. They are not just elements of future planning. They also provide benchmarks for a historic review of the business to learn from past mistakes and past successes. It is difficult for the logisticians to develop future strategies for their business without knowing its current strategies and measuring their success to date. This is another strong reason for having these sessions on a quarterly basis rather than annually. The quarterly time frame allows logistics managers to react to issues in a timely fashion rather than waiting to find out that they should have taken action to resolve a previously unidentified problem months earlier.

When the logistics team gets together to assess its current position and discuss its goals for the future, they must ask themselves many questions such as:

Is the current vision being realized?

How has the corporation's vision of the logistics plan changed over the past 90 days?

Why have those changes occurred?

Were there outside or inside influences that affected the changes? How has the corporate logistics process been managed? Were there any major changes? If so, why?

How has the corporate logistics plan been funded? Were there any major changes? If so, why?

What have the metrics taught the team about the overall plan? Were there proper metrics in place to assess the overall plan?

For each of the above questions the team must react to change the negatives and continue to implement processes and solutions that had a positive impact on the overall plan. Another critical key is communicating the good and the bad to top management. Remember, to be truly successful the team must build on strengths, resolve weaknesses, exploit opportunities and avoid threats. The resulting strategies can then be filtered and molded to form the basis of a realistic strategic plan.