



LOGISTICS STRATEGIES

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Greetings

Welcome to the July Edition of Logistics Strategies. Your feedback on our newsletter has been very positive and we welcome your comments. Please keep them coming!

We hope that you'll find this month's articles to be beneficial and useful to your company.

Enjoy the rest of the summer!

Pleasing the CEO

Charter Consulting and Professor Don Eisenstein of The University of Chicago Graduate School of Business recently completed a survey of Chief Executive Officers asking what they see as key issues in their businesses for the future. 75% of those CEO's polled said their focus was on increasing the top-line profitable growth. This comes after years of focusing on cost reductions and efficiency improvements. Unfortunately, in the same survey, 82% of those CEO's surveyed viewed Supply Chain Management initiatives as strictly focused on cost reduction. So, does this mean that top level CEO's no longer perceive Supply Chain Management as a key driver to business success? Surely not, as 93% of those surveyed identified Supply Chain Management as "critical" or "very critical" to their overall business strategy. So, what needs to change?

In another recent study conducted by the MIT Center for Transportation and Logistics found that "focusing supply chains on achieving customer objectives rather than reducing near term costs and inventories can have a greater impact on a company's financial performance. Leading enterprises integrate elements of Supply Chain Management with customer-facing revenue generating capabilities." This fact is borne out by major companies such as Wal-Mart, Dell and Best Buy as they have captured large profitable shares of their markets by integrating Supply Chain Management into their growth efforts.

Now that you have the outline of where the big guys and gals are going and what the big guys and gals are looking for in the future, what can you do to make these improvements within your own

organization?

Thanks to the insight and knowledge of Rich Thompson and Tim Stratman, both members of the Council of Supply Chain Management, and experts in their fields, provide the following tips on how to make this happen within your own organization.

MAKING THE SHIFT:

First, your company must shift from the concept of right product, right place, right time, lowest cost to a focus on growth. SCM executives can accelerate this transition by adopting a "growth focused" mentality and strengthening their leadership capabilities in this area.

GROWTH MENTALITY:

- Start by thinking like a customer. Besides price, what are the five major reasons that your customers buy from you?
- How is the supply chain aligned to meet customer's needs?
- Does everyone in the supply chain understand what the customer values?
- How should you begin improving the process?

START WITH THE CUSTOMER:

- Your team needs to develop an "outside-in" perspective. Like any good personal relationship, you must see the world through the other person's eyes.
- Use the customer centric approach and develop a non-biased approach understanding of how you create value.
- Get out and meet the customers. Understand what they value most.
- Spend time talking to them on a regular basis. Identify what you can do to increase the value your company can provide.

LEVERAGE YOUR STRENGTHS:

- The ability to comprehend, leverage and manage business processes is essential to success.
- Leverage a deeply integrated culture of continued improvement to attain advantages that go beyond cost to create new growth potential.
- What could our offerings be? What should they be?
- It can be a Grand Canyon sized opportunity for Supply Chain Management executives to stretch themselves by playing key roles in driving their company's future growth.

HELP ARTICULATE 'WHAT'S IN IT FOR ME':

You need to leverage your knowledge of the extended supply chain to help the organization build offerings that provide measurable value. How does the customer measure value? What components of the supply chain concentrate that value? Who captures it? How much is invested in the supply chain to deliver that value? The answers to these questions will help quantify the expected customer benefits.

LEADERSHIP SKILLS:

Leadership skills can be learned. The best leaders spend their entire careers acquiring new and improved skills and adapting these skills to changing circumstances and constantly improving. Stereotypes must

be overcome as traditionally growing revenue has been the purview of Sales and Marketing. Supply chain executives usually work behind the scenes with limited visibility. It's time for them to become more visible. Many have never met a major customer.

So what can you do to make all this happen?

1. Be a world class listener. 90% of your communication should be focused on listening. This will help you to grow your knowledge base, demonstrate leadership and put yourself in a strong position to influence the CEO's growth agenda.
2. Rely on influence. Influence is the power of producing a desired effect without any apparent exertion or force. Continue developing your ability to influence in a way that captures the head and the heart, and motivates people to take action.
3. Develop your personal leadership brand. It is about how others perceive you. Great leadership branding defines your values. Make sure your leadership brand reflects strong growth bias and you will be able to reduce barriers to your ideas and eliminate perception that you are strictly a cost- focused executive.

Expert Advice on Parcel Carrier Contracting

Every once in a while you come across a story pertaining to a subject that is near and dear to your heart. And when you finish reading the story, you say WOW! This person really knows what they are talking about. Such a story appeared in the July issue of Parcel Magazine and it was written by Mark Taylor of Taylor Systems Engineering Company. I immediately contacted Mark and asked for his permission to reprint his article and he was very gracious and said yes. THANK YOU MARK for this wonderful advice! You really hit the mark with this article. Enjoy!

How to Choose a Consultant that Negotiates Small Parcel Contracts

By Mark Taylor, MBA, DLP

According to a survey conducted by Parcel magazine and Morgan Stanley, "11% of respondents use consultants to negotiate rates, and consultants negotiate more favorable rates, driving discounts 49% lower than if the company negotiates." Wow! A few people have been able to achieve some extraordinary results that can significantly increase the profitability of any organization that ships small packages. Why doesn't everyone use a consultant? I believe one of the greatest obstacles is that, "we don't know what we don't know." We may think we are getting a great deal from our carrier, but the truth is, we really don't know. Using a consultant to help negotiate

small parcel contracts can offer the following advantages.

First, a consultant can give you objective information. How do you really know if you are getting a good deal? Your carrier sales representative will tell you that you are getting the best deal possible. Do you really believe that? Of course, you may compare it to rates you had when you worked somewhere else, but was that a good deal? Working with an experienced industry consultant can provide you with independent feedback that will ensure the rates you are getting are the rates your organization deserves. Consultants who have worked for the carriers know the "real" truth because they have been on the "other side of the table." They may have hundreds of clients who can help them compare your discounts to the discounts of others with similar package characteristics. They also know which accessorial charges certain carriers are willing to negotiate. Consultants can broaden the range of options for you to consider, provide a seasoned perspective, and suggest which avenues are the most promising to explore. They are able to address the essential issues more efficiently because they know what the carrier representatives are expecting. Furthermore, they can recognize and voice issues that you and your staff may be reluctant to discuss with the carriers.

Second, you can gain an invaluable education by working with an industry expert. You will learn how the "other side" thinks and the type of information they find valuable. In many cases, the carrier knows more about your shipping characteristics, patterns, and trends than you might; this can give you equal footing. You will see which models and methodologies they use to achieve results. And you will have a partner who is able to devote the time required to get the job done—probably in much less time than it would take if you were to do it yourself.

What should you look for in a consultant?

Competence:

The most important quality you are looking for is competence. What is the consultant's specific experience? Has the consultant worked for one of the carriers? What was his or her position and job description? You don't want a person that worked as a "driver" or had some sales experience just like you don't want an intern to perform heart surgery on an intern. How long did the consultant work for the carrier, and how long has it been since he or she left? How many people does the consultant's company employ? How broad is the experience of the team? Does the company employ consultants who have worked for other carriers, or do they have only one person? How long have they been in business? How many organizations similar to yours have been clients? How many contracts have they negotiated? Some companies may have many auditing clients but are beginners at negotiating carrier agreements. You will want to do a legal inquiry and see if they have any law suits or have been sued by their clients or carriers, as well as a credit check. Of course, you will want to get the names and phone numbers of a few clients they have worked with in the past. Make sure you call them and ask them about their experience.

Confidentiality:

You signed an agreement with the carrier to keep your rates and contract confidential; your consultant should also be willing to sign a non-disclosure agreement with you. If the consultant is a professional, he or she won't be telling you that Company X has a particular discount. If the consultant violates a confidence with another company, your confidential information could be next. The consultant should look professional and act accordingly.

Cost:

How are consultants paid? Many times they are paid a percentage of the actual savings they are able to generate. If this is the case, you want to be sure that you don't have to pay anything until you actually have the new rates in place. Other proposals may specify a fixed fee for the project. If this is the case, make sure you have clarity regarding the terms.

Clarity:

You want a simple agreement that clearly explains how the consultant will be paid. Payment should be based on achieving a clear outcome. If it's necessary to have your legal department interpret the agreement's "fine print," it may be too complicated. You should understand exactly what the consulting firm proposes to do and what you are expected to do in order to achieve the results. Most of the time, you will be asked to provide the consultant with data related to your shipping operations; this could consist of copies of electronic carrier invoices and/or exports from your shipping system. You will need to decide whether or not you want the consulting company to negotiate for you, or if you just want them to advise you in the background. If they are doing the negotiation, they will require you to inform your carrier representative (in writing) that you have hired them and that you request the carrier to work with them.

Chemistry:

Perhaps the single most important criterion in making the decision to hire a consultant is whether or not you trust this individual. Trust is a gut feeling. Can you work with this person? If you don't feel the consultant is the right fit, you should keep looking.

There are a number of reputable consulting firms that can help your organization dramatically reduce shipping costs. Find out if they can help you.

Mark Taylor, MBA, DLP, is the President of TAYLOR Systems Engineering Corporation. He has been featured as an industry expert on ABC News and in the New York Times and is the author of Computerized Shipping Systems: Increasing Profit & Productivity Through Technology. Taylor has been named a Distinguished Logistics Professional (DLP) by the American Society of Transportation & Logistics in recognition of the contributions he has made to the field of logistics during his 30-year career. He can be reached at MTaylor@TAYLORSYSTEMSENGINEERING.COM. © Mark Taylor 2007. All Rights Reserved.

Airlines Hike Fares as Fuel Bill Rises

Southwest Airlines has led the way with several other airlines following right behind in raising round trip airfares as much as \$20 to help offset rising fuel prices. The move was seen as a way for the airlines to help blunt the 10 percent rise in the price of jet fuel in the past three months and to take advantage of record summer travel demand.

Carriers have failed in some recent widespread attempts to raise fares when Southwest and other discounters did not take part. It is the third fare increase this year by Southwest, the biggest discount carrier and sixth largest overall. The Dallas-based carrier boosted prices six times in 2006 as its fuel bill surged a whopping 50% to \$2.14 billion. Fuel is Southwest's second largest expense after labor costs. No surprise here.

U.S. Airlines are struggling to adapt to historically high jet fuel prices and have no alternative but to raise fares. The price of jet fuel has increased a whopping 35% in the first six months of 2007, with no relief in sight. Now that Southwest has taken the lead, the major non-discount carriers are also taking increases that they were reluctant to take the lead on. Now that the discounters have increased their fares the big boys are finally showing their true colors. A little different spin as the big guys are following the little guys. Who says competition isn't good for commerce?