ICC Logistics Services, Inc.
Logistics Strategies

June 2008 Vol 1 Iss. 26

GETTING THE CEO'S ATTENTION

Over the past several years, most "C" level executives have been focusing their attention on Earnings per Share, the corporation's Return on Investment as well as managing Corporate Risk from all possible contingencies. Today, those same corporate executives, needing to stay ahead of the curve, are looking at all possibilities to control expenses as a way to improve profitability. And, one of the major areas for controlling expenses lies in the area of Supply Chain Management initiatives.

Not only is this an area for profit improvement, it is also a great area to reduce corporate risk and to enhance a company's performance against their competition. The overriding challenge however is to first, convince management of the tremendous potential for cost savings and risk reduction; secondly, to create a plan of action for the entire supply chain's improvement in terms of cost reduction and process improvements and; thirdly, to carry out the plans in a timely and efficient manner to ensure the expected results are actually achieved.

One of the key areas in this process is to identify strategic sources and business partners with whom the company can partner with to achieve the desired results. After all, you will want to create a "World Class" organization through this sourcing and partnering effort. So, where do you start?

The first step is to understand where the company is today with its current supply chain operation. This means understanding every facet of the operation, including the company's current product sourcing outlets, its current transportation and distribution model, as well as inventory control and customer service operations and expectations. Every company operates its supply chain a little differently and in many cases without a great deal of up-front analysis as to what is the best supply chain environment for the company. So without any advanced planning, how does a company know what's best? The way to start is to identify what's best for the company's customer! "World Class" supply chains are built from the back end, (the customer), to the front end, (the supplier) and throughout the supply chain process are constant checks and balances that focus on customer satisfaction, corporate controls and profitability.

The goal is to cut millions of dollars of costs out of the supply chain, not on a one-time basis, but continually. At the same time you must keep focused on what your customer expects and make sure you meet and ultimately exceed their demands. So how is this done?

You have to start identifying all of the costs associated with the supply chain by category. Identify all possible strategic sources of product supply and ascertain which option leads to the best sourcing partners with the lowest landed product costs. Once you have this information, you must place the transportation and logistics pipeline in place that assures prompt and efficient delivery of the goods to your customers... again, at the lowest landed costs. Don't forget, cutting costs out of the supply chain without improving customer satisfaction is a recipe for disaster.

Take the time to analyze the basic costs as follows:

· Ascertain the true and actual costs for every category of the supply chain annual spend.

· Identify what the corporate wide spend is currently for each of these categories. Are there any opportunities to improve pricing leverage with any of the company's suppliers?

· What are the top selling commodities? Will they be the same in the future? If not, what are the characteristic differences between the current top items and the items of the future? How does the difference in product characteristics affect the cost of the product through every facet of the supply chain?

· Which suppliers represent the "BEST" overall "Partner" for the company and, more importantly, the effect they may have on the ultimate customer? Remember, we are not just talking about product suppliers, we are also talking about transportation and logistics service providers as well.

This costing analysis is critical and will go a long way towards identifying ALL of the associated costs related to the complete supply chain. It is a fundamental step that many companies overlook. Without the TRUE numbers the company will only be deceiving themselves.

If you get the attention of the CEO and get the go- ahead to create the value in your supply chain we have detailed here, you had better make sure your customer receives the service THEY are looking for, which just may not be what's best for your company. Because, the result you will ultimately have will be an improved supply chain, but perhaps with less customers or less satisfied customers. Not the results you set out to achieve, nor the results your CEO was expecting from you.

OVER A BARREL

You don't have to be a rocket scientist to see that fuel costs are rising out of control, with the current cost of crude oil at around $140.00 per barrel and that there is no end in sight. The effect on the economy is staggering. The administration's Economic Stimulus Plan was to send out $600 or $1200 checks to taxpayers so that they would spend the money to help stimulate the economy. They were right on target! The money is being used to pay for gasoline so that these same taxpayers can get back and forth to work. Forget about vacations, there just isn't any money available for that. Whatever side of the aisle you are on, in our opinion, no one has come up with a solution to make it better and the net effect is a stalled economy affecting every U.S. citizen, and big brother just does not seem to care.

There are many that have predicted $10.00 per gallon fuel costs in the future. Are they crazy? Would you have believed that we would be paying $4.00 per gallon fuel costs today? I don't think so. The fuel costs are even higher for the transportation industry, which is seeing diesel fuel costs exceeding $5.00 per gallon. And, the airline industry has also been hit hard by these rising jet fuel costs. It has created a combined net loss of $1.3 BILLION in the first quarter alone for the major passenger airlines according to the U.S. Department of Transportation.

The airline industry had a combined operating loss margin in the first three months of this year at 5.2% compared to a 7.7% profit margin, which these same airlines experienced in the first quarter of 2007. And, this was before a sharp rise in jet fuel prices that sent the air carriers' finances into a tailspin. Fuel costs ate up 29.4% of the airlines operating expenses in the first quarter of 2008 compared with 13.8% in the same quarter of 2007, a staggering increase. The seven largest passenger airlines spent a combined $7.9 BILLION dollars for jet fuel in the first quarter of 2008 alone.

Diesel fuel prices in April of 2004 averaged $1.65 per gallon. That same gallon of diesel fuel cost $2.62 in April of 2006 and in April of 2008 the average price of diesel fuel was $3.96 per gallon. Now, that seems like a bargain! Higher fuel costs have caused many independent truckers to park their trucks and find other ways to make a living. The truckload carrier sector, which is extremely vulnerable to these rising fuel costs, has seen many carriers being forced to file for bankruptcy. You may not believe this, but over 1000 truckload carriers have filed for bankruptcy already in 2008. Do you know how to spell CRISIS?

So what is creating this huge spike in oil prices? There are probably several dozen reasons, depending on who you speak to and who you believe. Here are some facts as reported by Lean Logistics, Inc.:

· World consumption of oil is around 84 million barrels per day.

· World production of oil is around 82 million barrels per day.

· Asia Pacific countries now consume about 23 million barrels per day, up from about 10 million barrels per day in 1981, a 130% increase.

· North America is consuming around 25 million barrels per day compared to 1981 totals of 21 million barrels, an increase of 19%.

· Many parts of the world, including China and the Middle East, have government-subsidized fuel. Cheap fuel discourages fuel efficiency in these parts of the world. There are recent reports that China will not subsidize their fuel costs as much as they have in the past. Bad news for China, but perhaps good news for the U.S.

· The world's known oil reserve to production ratio is currently at 40.5 years (ratio of amount of reserves to consumption). Recently, President Bush is proposing additional drilling right here in the U.S. Perhaps another good sign for the U.S. economy.

We're not sure how impressive these statistics are, but the real bottom line is that every transportation service provider and every U.S. company's bottom line is being negatively affected by whatever the REAL reason is for these out of sight fuel prices. Where it all ends is anyone's guess, but we will tell you this... whether you are a freight carrier or shipper you MUST take immediate action to reduce your fuel related expenses through efficient management of resources. We wish you all Good Luck in this endeavor!

U.S. MANDATES AUTOMATED EXPORT FILING

According to a recent report by Outsourced Logistics Newsletter, new regulations governing export shipments are due to become effective July 2, 2008. These new regulations will not only tighten export regulations, but also carry stiff penalties both civil and criminal for those companies that do not comply.

The U.S. Census Bureau has issued its final rule implementing provisions requiring mandatory filing of export information through the Automated Export System (AES).

Effective July 2, 2008, the Census Bureau is requiring mandatory filing of export information through the Automated Export System (AES) or through the AESDirect for all shipments where the Shipper's Export Declaration (SED) is required. The Census Bureau is providing an additional 90 days to implement these new requirements. After the 90-day implementation period, which ends September 30, 2008, exporters must file export information electronically through the AES or AESDirect.

Additionally, these new regulations have tougher penalty provisions that affect everyone in the export process, says the Census Bureau. Penalties may be imposed per violation of the Foreign Trade Regulations (FTR) from $1,100 to $10,000 both civil and criminal, for the delayed filing, failure to file, false filing of export information, and/or using the AES to further any illegal activity. Also, all AES filers are faced with new filing deadlines by mode of transportation for reporting export information.

The Census Bureau has instructed filers of export information to make every effort to submit these data via the AES or AESDirect to eliminate the use of paper SEDs immediately. During the 120-day implementation phase, the Census Bureau will use "informed compliance" to reach out to filers identified as being in violation of the FTR. Anyone submitting paper after September 30, 2008 will be in violation of the FTR and subject to penalties.

The Census Bureau can assist with information on the new FTR and filing export information electronically through the AES. Exporters may call 1-800-549-0595 with questions. AES Compliance Seminars and AESP Link Certification Workshops will be offered in various cities in the United States. To find out more about these seminars and workshops, visit the Census Bureau Website.

Copyright (c) 2006 ICC Logistics Services, Inc. All rights reserved. 960 South Broadway Hicksville NY 11801