



LOGISTICS STRATEGIES

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in this issue

SUCCESSFUL
TRANSPORTATION
CONTRACTING: A
SHIPPER/CARRIER
PARTNERSHIP
APPROACH

THE U. S. POSTAL
SERVICE RATE CASE
TAKES HOLD

Greetings

We continue to hear very positive feedback on our newsletter, and we're glad that it is being enjoyed - and more importantly, that the advice is being profitably applied.

Once again, we have packed to-the-point information in this month's edition, including the following articles:

SUCCESSFUL TRANSPORTATION CONTRACTING: A SHIPPER/CARRIER PARTNERSHIP APPROACH

THE U. S. POSTAL SERVICE RATE CASE TAKES HOLD

As always, we want your feedback - please tell us what you like, and what you would like to see. This newsletter is 100% about helping you save money, time, and improve quality in your transportation and logistics programs. Let us know about some of the real-world issues that you face, and we will be glad to cover it in a future edition.

SUCCESSFUL TRANSPORTATION CONTRACTING: A SHIPPER/CARRIER PARTNERSHIP APPROACH

Does the term "Successful" Transportation Contracting sound like an oxymoron to you? Many executives involved in negotiating contractual agreements between service providers and their customers may not think it is, but their actions usually speak volumes. Thousands of contracts are negotiated each year and hundreds of those agreements wind up in court with one party suing the other for any number of reasons. These executives talk up a good game when it comes to "partnering" but in the final analysis, many of them wind up taking advantage of the other party by applying pressure to get the results they really want. The reality is, establishing successful contract agreements for long-term benefits is not a difficult task, it just requires that both parties be created equal and both parties need to clearly understand what the outcome should be. So what steps do these parties need to take to ensure that their contract agreements are successful all of the time? Here are our thoughts on the subject.

Create a Quality Partnering Program:

There are many steps in the process and the first is to establish a Quality

Partnering Program. The most important step is to ensure that there is joint ownership of the partnering process. One party cannot allow the other party to take advantage of them. Each party needs to be prepared to walk away from the business relationship if both parties are not created equal.

Both parties must cooperate completely by contributing their knowledge to the partnering relationship. Knowledge that each side possesses must be shared with the other party so that both sides will have a complete understanding of the value to be created by the relationship. Both parties must insure that there is complete buy in before the process moves forward.

Is it the corporate purchasing department, the manufacturing production department, or the supply chain group, or any combination of the above? Each department will have their own reasons for spending beyond its means, but all departments should have one single goal. That goal is to avoid raw material stock outs, to oversee and optimize supply chain objectives, and to optimize purchase order size, control inventories, price, delivery requirements and availability.

Know Your Partner:

It is incredible to us that many executives in the transportation and logistics field today enter into discussions for long term business relationships without truly knowing who their partner is. Can the partner provide all of the services requested? Can the customer pay for the services requested? Are both parties in this for the long haul and are both committed to positive results in the end? How can any of these questions be answered unless each party truly knows who they are dealing with. It is a marriage, so each party needs to start the courting process right away and get to know everything there is to know about its partner. If not, both parties will be headed to divorce court.

Do Competitive Proposals Really Work?

Many companies today use the competitive proposal process to award business to suppliers and logistics service providers. The competitive proposal MUST clearly spell out the complete requirements of the business to be tendered and must also ensure that every party invited to bid is EQUALLY qualified to provide the service. Can this really be done? Can every player be put on a level playing field? What does a competitive bid package say to a service provider that has been the incumbent for many years? Was there really a true partnership there before? Can there be one in the future? These are all very critical questions that must be answered honestly and with a jaundiced eye.

Create Equal Partnerships:

You never want to create a vendor/customer relationship. If I am the customer, I am always right! Right? I should get the pricing advantage I need to make the deal worth while and if I do not, I will shop around until I get the best price. As you can see from this point of view, the customer will always look to beat down the vendor on price, but what else really matters? In this environment, the vendor must be able to draw a line in the sand and create an environment where the service or product cannot be commoditized. There has to be a clear differentiator between vendors that does not just involve price. If price becomes the only differentiator there really is no partnership.

Always look out for the interests of the other party. If you were a joint owner of a business you would not think about allowing one partner to gain an unfair advantage over the other partner. So why allow it to happen in any true equal partner relationship?

Challenge each other to go beyond what is expected. Raise the bar to ensure a long and mutually beneficial business relationship that will provide positive results for both parties and at the same time last for many years to come. Remember, if one party wins, one party loses!

Develop Long Term Relationships:

How many times do you want to re-invent the wheel? Many executives are working long hours with short staffs to accomplish the tasks they are assigned by management. Many do not think about the long term effects of the agreements they are negotiating and how to ensure that they work positively for the long term.

To develop and nurture these relationships both parties must be willing to drive out costs in the process that will benefit both sides. Both parties need and must share financial information openly and honestly. Holding back key financial information will create distrust, weaken and perhaps destroy the relationship altogether. Both sides must clearly explain their needs so that each party has a clear understanding of each partner's needs.

Don't assume ANYTHING! Remember, no one knows more than you do, so make sure your knowledge is shared and leave no stones unturned. Each party has an obligation to ensure that there is clearly a fit for each partner before you enter into any contract negotiations.

Measure, Measure, Measure:

We hear it over and over again. "You cannot manage what you cannot measure". But, how do you measure what needs to be managed? Both parties will need to constantly evaluate the metrics they use to ensure complete success of the relationship. If the measuring tools no longer work, change them. It is a constant work in progress. And most important to the measurement process is to make sure the results are positive. And remember, the results must be positive for both parties!

In next month's issue of Logistics Strategies, we will explain how to negotiate Win-Win-Win contracts. Yes, we said Win-Win-Win contract negotiations. These are contract negotiations that provide complete satisfaction of all parties involved in the negotiation process, the service provider, the shipper or party requiring the service and most of all, the customers they both serve. So stay tuned!

THE U. S. POSTAL SERVICE RATE CASE TAKES HOLD

Well, the Postal Gods have been talking about it for a long time and have given us considerable advance warning, but now reality has set in. Effective May 14th, the United States Postal Service has put into effect a whole new set of rates and charges for envelopes and packages shipped via First Class Mail and Parcel Post. We've been here before and we will be here in the future. So what's so special about these changes?

For one thing, not only have the base rates increased, but the USPS has also made changes that vary based on the weight of the individual package, the service provided by the Postal Service, the distance the package actually travels, and the package size. Now, shippers have a lot more to evaluate when they rate shop between the USPS, Federal

Express, UPS and other parcel carriers.

Priority Mail service, which has always been a good alternative to overnight to three day air service will be impacted in a number of different ways. The Postal Service has modified the rates in the following areas:

1. The price for First Class Mail may increase or decrease depending on the weight of the package and the distance the package travels.
2. The former "local zones" will now be split into a separate zone for zone 3 from the former local zones.
3. If you're shipping to zones 5 through 8, there is now a dimensional weight pricing that may apply.
4. In the size does matter category, there is an increase in the oversize charge when shipping to zones 1 through 4.
5. Now, there will be a permanent pricing structure for Flat Rate Boxes regardless of the zone or weight of the package. If it fits in the box, the flat rate will apply.

It is important to point out that the price changes for Priority Mail are based not only on the package weight, but also on the distance the package travels. Depending on the size and distance the package is delivered to, shippers can expect to see a reduction of as much as 20% to an increase of as much as 24%.

Parcel Post rate changes also vary by zone and distance with additional charges for oversize packages. For example, packages with an overall length and girth measurement of 84" to 108" will see the oversize package charge increase from a 15 pound package charge to a 20 pound package charge, resulting in increases of between 20 and 30%.

For complete details on these new postal rates visit www.usps.gov and read all about it!