



SUPPLY CHAIN  EDGE

Direct Marketing CEO Seminar “Supply Chain Perspective”

Cost Savings and Process Improvement Accelerators

Discussion Content

- Transportation Landscape
- Sustainable Supply Chain Productivity



Cost Savings and Process Improvement Accelerators

US Transportation Landscape

- Shift in dynamics in the marketplace
 - 2005-2006 tight capacity
 - Infrastructures being sold off
 - No current capacity concerns (yet)
- Fuel is the highest MC cost driver
 - Current @ \$2.64 and heading back up

US Transportation Landscape

- Consolidation in LTL sector
(YRC, FedEx, Watkins, Jevic)
- Keep eyes on YRC
- Strategy: Regional/National balance
- Strongest buyer's market Q2 '08 – current
- MC shutdowns and layoffs continue at record pace

US Transportation Landscape

- Hours of service—lobbying efforts with US Congress for shorter HOS (less productivity/increased road assets)
- Driver shortage continues, not as evident due to soft economy
- Parcel carriers rewriting the rules in their favor (density)
 - DHL US shutdown

Sustainable Supply Chain Productivity

- Larry Bossidy:

“Don’t bother to show up if you don’t have 5-6% year-over-year productivity.”



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Sustainable Productivity

- Accenture, IBM, and McKinsey:

Supply Chain Executives have identified sustainable cost reductions as a (or the) primary concern in designing effective supply chain strategies going forward.



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Why Does this Happen?

- Most companies have a variety of conflicting cost reduction programs ongoing at any one time
- Built into annual performance goals
- CFO's force implementation when times get tough
- Suppliers/Customers squeeze when they can
- Managers face numerous, and sometimes conflicting, programs aimed at cutting costs (RIF, committed cost reduction projects, systems/people shortfall to implement)



Constant Cost Creep

- Vendor rates, fees, seasonal charges, accessorials...
- Charges for changes in shipment routing, excess inventory in a supplier facility, fuel cost increases, product costs...

Overriding Company Policies

- Decisions by Sales, Marketing, Manufacturing, and Purchasing are often made without input from Supply Chain Management

Factors that can derail sustainable cost reductions...



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Increasing Product/Service Complexity

- Product introductions across/from more geographies
- Different shipping requirements, not in AOP
- New geographies may require additional logistics infrastructure (not in capital budget)

Lack of Performance Metrics & Monitoring

- Many cost initiatives are “one time”, not imbedded in best practice guidelines and do not have on-going monitoring to insure costs remain in benchmark range

Lags in Supply Chain Strategy— Relative to Corporate Strategy

- Conflict between “nimble operations to handle numerous contingencies” without “major cost implications”
- Most supply chains hardwired not easily adaptable to changing priorities

Poor Coordination of Sales & Operations Planning (S&OP) Work

- Most SC managers have “observer” status
- Changes between meetings not communicated
- Leads to unanticipated cost increases

How can we deliver sustained productivity?



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Make People, not Programs, Responsible for Cost Control

- Programs are not the cornerstone of year-over-year supply chain productivity
- Deliverables must be built into performance objectives (right incentives built into fundamental business processes)

Implement the “Right” Supply Chain Technology

- Software designed to monitor and report discrepancies in supply chain operations
- Newer technologies deliver faster identification of cost creep problems (opportunity to correct early)



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Integrate Supply Chain into New Product/Service¹⁹ and S&OP Decision Making

- Many initial design/sourcing processes exclude SC cost implications
- Best-in-class companies engage SC planners in new product/service design and rollout (built in simplicity upfront)

Tighter Contracting and Management of Suppliers

- Ability to monitor supplier performance throughout their and your supply chains
- Cannot manage what you cannot measure
- Supplier performance monitoring process



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Use of Benchmark Data to Set Cost Standards

- Best in class do this
- SCOR (Supply Chain Operations Reference Model)

Outsource Non-Core Activities

- Sustainable cost reductions through performance-based contracts



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Path Forward

- Make sustainable productivity a priority in day-to-day leadership discussions, operating reviews, and S&OP processes



Cost Savings and Process Improvement Accelerators

Contact Information



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