



Best Practices Journal...

March - April 2008, 36th Edition

Over 10,000 Supply Chain Leaders Now Receive This Bi-Monthly Journal. Please feel free to forward it to a colleague, or have them join the distribution below.

Strategic Procurement Solutions, LLC is a niche professional services firm dedicated only to the advance practice of Supply Management. Key Services include...

- Staff Augmentation (Temporary, Project, Contingency Search)
- Online Supply Management Skills Diagnostics
- Professional Development Services (Training, Coaching, Org Development)
- Expertise in Strategic Sourcing of High ROI Spend Categories
- P2P Efficiency Enhancements, and
- Outsourcing Project Expertise (LCC & BPO).

Strategic Procurement Solutions' clients range from Fortune 100 to Russell 2000 in size; and include numerous Global enterprises as well. We also work with leading Public Sector supply chain groups.

New articles in this Edition:

- **Taking "Intelligent" Supply Management Risks** - by Mark Trowbridge, C.P.M.
- **Hidden Costs in Freight** - by Robert Dunn, M.B.A.

Taking "Intelligent" Supply Management Risks - by Mark Trowbridge, C.P.M., Principal

In one of my early corporate positions, the executive to whom I reported gave me an interesting objective in my written job description. From that year onward, along with other measurements, this executive evaluated me upon my willingness/ability to take "**Intelligent Risks**".

Over several years, that executive's mentoring made a great difference in my career, as I learned ways to execute well-researched business plans while properly managing risk. That executive reminded me of something hockey great Wayne Gretzky once said, "**You'll always miss 100% of the shots you don't take**".

Unfortunately, some business leaders haven't yet learned that taking reasonable risk is "intelligent". Fear of failure often causes business people...

- To delay making difficult decisions;
- To fail to acknowledge/confront problems; or
- To increase costs by trying to eliminate every conceivable chance of failure.

So how does taking *intelligent risk* pertain to *Best Practices in Supply Management*? Aren't we supposed to **eliminate all supply chain and legal risk** for our employers? The answer is "No". Because the only way to truly eliminate risk would be never to conduct acquisition activities at all.

Instead, the objective of Supply Management professionals should be to create a secure

supply chain. One in which risk can be minimized, but value-added business relationships can flourish.

Strategic Procurement Solutions now is in the midst of three consecutive projects to revise or create pro-forma contract templates for major procurement organizations and their legal departments (this is one of our specialty services). Simplifying the contracting process is a trend with many leading procurement groups as they've realized the *significant cost* of negotiating old-style contracts which are "onerous" (i.e. written in legal prose, lengthy, difficult to understand, one-sided protections, etc).

Procurement contract portfolios are a great example of how "legal risk" can outweigh "business balance" and affect the contracting cycle time (and procurement efficiency).

Other examples of "risk-averse" procurement actions might include:

- Cumbersome or overly-restrictive approval processes;
- Unwillingness to identify or "try" new suppliers, no matter how well-qualified;
- Failure to empower user departments with "user-friendly" methods of ordering products and services;
- Insistence upon excessive procurement involvement in low-dollar/risk transactions;
- Holding of excessive inventory levels for "safety" reasons; or
- Failure to secure best pricing due to unwillingness to make long-term volume commitments...

To take "Intelligent Risks" doesn't mean we shouldn't research our supply chain decisions carefully. But there is a big difference between "Ready-Aim-Fire", "Ready-Fire-Aim", and "Ready...Ready...Ready...".

John A. Shedd said this: "A ship in harbor is safe - but that is not what ships are for". The same is true in Supply Management. If we don't take a few intelligent risks, we're never going to provide maximum value to our employers.

Please contact us at Info@StrategicProcurementSolutions.com if we can assist your organization with Supply Chain Risk Analysis (part of our 360^o Supply Management Efficiency Analysis) or Procurement Contract Portfolio Enhancement services.

The Hidden Cost of Freight...by Robert Dunn M.B.A., Principal

Mastering transportation expenses can add value to a company (and gain credibility for the Supply Management organization), because these expenses have a very real impact on the bottom-line.

On *inbound* shipments of goods, the cost of transportation can range up to 40% of the product unit price. Obviously this is a higher factor for smaller shipments versus bulk/expensive, but should never be underestimated.

Profits can be enhanced by careful management of transportation costs in many ways, including...

- **Improved Carrier Performance**
- **Lower Total Cost**
- **Enhanced Transportation Options**
- **Reduced Administrative Costs**

- **Reduced Risk**

Strategic Procurement Solutions often reviews client organization's freight programs, both from a rate and utilization viewpoint. Not only do we frequently help clients "source" better freight deals, but often are able to help them identify additional benefits in existing carrier programs. A frequent finding we see in the review of transportation programs is less-than-optimal selection of Freight Terms. **A general principle is, "If the supplier makes transportation decisions, there is no guarantee that the choices made will be the most cost-effective".**

Example – Strategic Procurement Solutions was asked to "source" freight for a nationwide distributor, along with several other spend categories. **The problem?** A Big 5 consulting firm had already "sourced" freight for this client just two years previously and since that time fuel costs had steadily increased. And while spending nine months on the sourcing project, the Big 5 consultancy had helped the client install a multi-million dollar "traffic management" technology system which supposedly drove every shipment to the low-cost carrier for the route. *So the opportunity for us to find "Low Hanging Fruit" through sourcing wasn't too good.*

But Strategic Procurement Solutions' freight expert is quite creative at finding savings in freight and logistics. His background in the transportation industry spans more than two decades, and he consistently is able to look at an organization's carrier rate programs and find additional advantages.

In our review of this client's shipping patterns and carrier rates, we found that their buyers were consistently selecting "*Freight Prepaid and Added*" as the freight terms for inbound shipments from their suppliers (meaning that products were shipped to the company using the suppliers' carriers, and the resulting shipping expense was added to the product invoice).

But our firm's survey review of several thousand invoices found that the average shipping expense was close to 40% greater than it would have been using the client's own freight agreements. **Through this, and other findings, we were able to save the client more than \$2 Million annually above what the Big 5 consultancy had been able to achieve.**

For organizations having good freight programs already in place with qualified carriers, the most-advantageous freight terms for a domestic purchase can often be "**FOB Destination, Freight Collect via Buyer's Carrier**". Under these terms, the risk of loss does not pass from the Buyer to the Seller until delivery is completed. Shipment is made via the Buyer's discounted rates with an optimal freight carrier, thus allowing the Buyer's own sourcing efforts to work to its own advantage. Complicating factors can be the Buyer's ability to correctly link the freight costs to the shipments, etc. But it's certainly worth the effort to research and implement if at all possible.

A side note here is that the expression "FOB Destination" has nothing to do with which party pays the freight bill. This term only indicates where title transfer and/or risk of loss passes from one party to the other. More information about freight terms can be found in a previous journal article titled "**Myths About F.O.B. Destination**" (which can be downloaded from the "Publications" web page at www.StrategicProcurementSolutions.com).

Feel free to contact us if we may be of assistance in reducing the costs of your

organization's transportation program.

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