

# Customized Solutions

**The big difference in logistics providers is the 'value add' of specialized supply chain capability.**

BY JEREMY N. SMITH



‘The best solution’—that’s how top-tier logistics providers compete for customers these days. Access to assets and modes is, more or less, the given that gets providers into play. The big differentiator is the ‘soft’ side of the equation, how they analyze their customer’s problem (with both logarithms and human beings) and execute to plan.

*World Trade* decided to see how different experts and providers would respond to the same situation. We asked the lead partner in the worldwide supply chain practice of the respected PRTM consultancy, Shoshanah Cohen, and her colleagues to develop a ‘hypothetical case study.’ Contributing editor Jeremy Smith then surveyed a representative sample from the sector to learn their recommendations.

### **TechBrilliance: A case study in inadequate supply chain visibility and unexpected transportation costs.**

TechBrilliance (TB), a leading developer of consumer electronics, made the strategic decision to move the majority of its manufacturing operations to low-cost countries. As part of this strategy, it established relationships with two major contract manufacturers, as well as several original design manufacturers, both with operations in Asia and Eastern Europe.

TechBrilliance maintained tight control over several key commodities, defining and implementing sourcing strategies to ensure that global spending would be routinely consolidated, all to the gain the greatest value from its new suppliers. It also established a contract with a major international logistics service provider for transportation of finished products from several factories in China and Hungary to TechBrilliance distribution centers in Singapore, the Netherlands, and Memphis.

Two of the major factors in TechBrilliance’s selection of its logistics partner were the negotiated freight rates and the promise of product visibility as it moved between the manufacturing location and the selected distribution center.

Now, this promised visibility has been slow to materialize.

TechBrilliance planners complain that they lose track of inventory once it leaves the factory and are forced to make decisions based on the expected transit lead-time, rather than a firm date from the logistics partner.

“We’ve learned that we can’t use the scheduled delivery date to make customer commitments because they’re routinely off by as much

as two weeks,” explains Allan George, TechBrilliance chief executive officer. “Sometimes we get notification that a shipment is in transit and then we find out from someone on the ground in China that the container is still sitting in the port. And, sometimes we know it’s arrived in the U.S., and we don’t actually see the product in Memphis until ten days later. When we try to find out what’s really going on, we get totally inconsistent responses.”

The management team is also concerned that invoices contain little detail about specific shipments.

“We can see the total bill for a week, but we can’t see details about what was in each shipment,” says Bill Jones, TechBrilliance senior vice president, purchasing. “That makes it very difficult to allocate costs to a specific product.”

The company’s biggest question: how now to proceed?

“I see the negotiated freight costs—and they look pretty good—but I wonder if we’re really saving any money overall,” Jones says. “We seem to get hit constantly with handling fees, such as charges for less-than-full containers, that weren’t in our initial contract. We also pay a lot to expedite shipments by air. Sometimes we’re forced to air-ship something because a scheduled delivery hasn’t arrived and we can’t see where it is—and then, more often than not, within a day of receiving the product by air, the sea shipment arrives. We’re also paying way more in taxes and duties than we did in the past. I have to wonder if all these charges are legitimate.”



**Shoshanah Cohen**  
Co-Author, *Strategic Supply Chain Management* and Lead partner, worldwide supply chain practice, PRTM.

# Refining the issues



**Brooks A. Bentz**  
Partner, Supply Chain  
Management  
Accenture LLP

**TechBrilliance is**, in a manner of speaking, in the same boat with many other companies that source products overseas. They have forecasted significant benefits from the lower manufacturing costs associated with producing in low-cost countries, but at the same time they have both substantially lengthened their supply chains.

The number of trading partners in a domestic supply chain, in most instances, is probably two: producer and transporter. The number of trading partners in an international supply chain can be many more.

Visibility is a critical component of managing the supply chain on the international stage. In the domestic environment, visibility is simplistic: pick up the freight, haul the freight, deliver the freight; with all this taking place over a day or two, or in rare instances a week. International shipments can easily consume 20–30 days, or more and with the significantly greater number of hand-offs, there is much greater propensity for delays and errors.

Visibility is, in theory, a way to track specific shipments, down to the SKU level from origin to destination, which on the face of it, solves all of the conundrums facing TB.

The fact is, and will—at least in short run—remain, that there are holes in the system. Cost is generally a key driver in this sort of supply chain decision. The third-party service provider is under price pressure to offer its services and as a result

deals with an array of contract carriers that are also expected to be highly competitive. But, the only way these annoying holes get filled is by having at least a minimal level of connectivity so that each link and node in the supply chain is an accurately and timely recorded event.

The next big step is in predictive monitoring. This means, for example, a report advising the shipment from the plant is late getting to the consolidator. This information is best BEFORE the event occurs, rather than—as TB discovered—after the fact, when options are foreclosed and only emergency expediting will suffice.

In the final analysis, the key advice for TB is embodied in a few key points:

Conduct a full review of the existing 3PL contract provisions and identify the gaps between promises and expectations;

Convene a summit meeting with the key 3PL senior executives to discuss the gaps identified and develop a plan to address them; and

Of course, there's a chance the 3PL will not be able to meet the necessary objectives, in which case TB will need to go through the process of finding a replacement. ■



**Rick Blasgen**  
President and CEO  
The Council of Supply Chain  
Management Professionals

**First, TechBrilliance must** understand the concept “lowest delivered total cost.”

All too often, decisions are made based upon one particular supply chain cost bucket at the expense of total cost and service implications.

For example, if a million dollars is saved in manufacturing/procurement expenses through “new” negotiated supplier arrangements, yet inventory levels/carrying costs/transportation expenses skyrocket due to extending the supply chain, the impact on the total enterprise can be negative.

There is also a significant cash flow impact as well—one dollar added to inventory is a dollar reduction in cash flow.

So, what to do? TechBrilliance should get back to the table with its suppliers, revisit the initial reasons for its supply chain alterations, and create a joint plan to deliver common, measurable goals among key participants.

Detailed measures, like what's really meant by on-time delivery, need to be spelled out and committed to by the service providers. TechBrilliance must also develop contingency plans for the inevitable failure given the extended supply chain.

TechBrilliance's key employees should also attend “cultural training” with primary suppliers. ■



**Karen Butner**  
Supply Chain Management  
Lead, IBM Institute for  
Business Value

**How agile is** the TechBrilliance supply chain? Do they have the right key performance indicators? Can their organization measure the quality of decision-making over time? Do their metrics provide a perspective on where they can gain greater visibility in their business?

If the answers to these questions are “not very,” and “no,” then we believe the solution lies in “services,” the fundamental building blocks for SOA, or

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service-oriented architecture. Services are pieces of application functionality that represent a repeatable, categorically containable business task.

The service is only built and maintained in one place. Other applications can access this service and incorporate it into their own functionality. For example, the more complex applications of "order management" or "shipping and delivery fulfillment" must both utilize a function to update a customer's information. In this case, both the order and shipping application would call upon the same "customer information" service to complete the task. The benefit of this is that the common function only needs to be built once, maintenance of the service does not need to be duplicated, and when the service is upgraded, all user applications and systems receive the upgrade. This usage is considered service orientation.

Why go through all this trouble? Service-oriented architecture can enable companies to more rapidly respond to market and operational impetus.

Real-time visibility of supply chain transactional event information allows rapid identification of root causes of issues. Proactively monitoring ongoing supply chain information and events can advise managers of potential "out of tolerance" situations before they occur. ■



**Steve Lyman**  
Partner, Business Advisory Services, Grant Thornton LLP

**Never underestimate** the importance of rigorous due diligence when selecting a logistics partner! It appears that TechBrilliance focused more on the actual freight rates rather than looking at the total cost of ownership ("TCO"). Due to the poor service from their LSP, the TCO must now also include expenses to expedite shipments, labor expenses

for tracking down inventory, and the potential cost of losing customers.

What should TechBrilliance do to rectify this code-red situation?

The highest priority should be to satisfy customer needs and make the issues as transparent as possible while they are being resolved. They are expediting shipments via air to meet customer demands, which is necessary, but this is expensive and will quickly lead to inventory problems. To prevent the situation from further ballooning out of control, work closely with its current LSP to resolve the issues.

TechBrilliance should consider a contingency plan if they are unable to resolve issues with their current LSP. Their evaluation should include an analysis of the total cost of ownership and an understanding of all potential charges TechBrilliance needs to evaluate the potential LSP's use of technology as part of their overall solution. Defined service level agreements with penalties should be established.

And get tax help! The arena where TechBrilliance operates has an abundance of tax complexities and opportunities.



**Adrian Gonzalez**  
Director, Logistics Executive Council, ARC Advisory Group

As TechBrilliance is discovering, globalization and outsourcing come with a price. Simply put, TechBrilliance is no longer the master of its own destiny; it depends on its suppliers, logistics service providers, and other trading partners for success.

If it's any consolation, TechBrilliance's visibility problems are not uncommon. One contributing factor is the lack of electronic communication in developing countries. Implementing a "visibility" software

solution is the easy part; getting the data, from the multitude of parties involved in a global shipment, is the real challenge.

So, where to begin? TechBrilliance should "staple itself to an order," as Benson Shapiro et al. advocate in their famous Harvard Business Review article. In other words, the company should map its entire order-to-cash process to obtain a detailed understanding of all the information, physical, and financial flows involved. Who are all the parties in the supply chain? What data and documents need to be exchanged? How are the products routed from origin to final destination? You'd be surprised how many companies cannot answer these questions.

TechBrilliance should work collaboratively with its strategic vendors, as well as its Logistics Service Provider (LSP), to map the value chain of their key products. The team should apply Lean and Six Sigma principles to streamline processes, eliminate waste, and reduce process "defects" and variability. Then clearly define and communicate its information requirements to all parties; it should then establish metrics to ensure compliance. Finally, TechBrilliance should evaluate its current software capabilities and determine if additional investment is required to manage this process. ■



**Valerie Bonebrake**  
Executive Vice President, Chief Logistics Officer  
YRC Logistics

**The first step in getting** the most out of your supply chain is to take a step back and look at your supply chain strategically. There should be a clear alignment of the logistics goals and objectives with the company's business model.

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**Never underestimate the importance of rigorous due diligence when selecting a logistics partner!**  
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To drive goal alignment, you must both gain a clear understanding of your customers and evaluate the growth and profit drivers of the company. What are your customer types and their respective distribution channels, buying behaviors, and satisfaction drivers? What are your company's short-term and long-term growth initiatives? What are your new product and new markets, their respective revenue and profit ratios, and their competitive environments?

Getting the most out of the supply chain means collaboration on an even broader level than ever before, both internally and externally. More and more often, collaboration is necessary not only between the company and a single provider or supplier, but across the providers and suppliers.

This is a new dynamic for many organizations. Companies that may have leveraged the competitive nature of their suppliers are now asking those same suppliers to collaborate. And those suppliers must now be comfortable working together when they previously may have only viewed themselves as competitors. Internal collaboration can include but is not exclusive to executives, finance, sales, marketing, engineering, product development, IT, purchasing, production, and customer service. Some logistics teams may more naturally align and collaborate with certain functional areas. But it's oftentimes the other functional team collaborations that will provide new insights.

The first key to success is setting standards across both internal and external teams. Questions that should be addressed include: What are the changes that are going to take place? What are the expectations of the changes? What are the roles and responsibilities of the stakeholders? What are the measurables? What are the contingencies?

The second key to success is clear, consistent communication to stakeholders throughout the process. Good communication will both educate and motivate teams as change is taking place. If a logistics service provider has to satisfy "one-off" exceptions, there's the risk value will be lost. Having a steering committee and logistics council to represent stakeholders can help mitigate this risk. ■

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**Scott A. Dille**  
Senior Marketing Manager  
OOCL Logistics, USA Inc.

Logistics service and technology have evolved to address increasingly demand-driven global supply-chain networks. If the most important fundamentals of global supply chain management are not taken into account, however, the value of the most sophisticated techniques can be missed or rendered ineffective.

OOCL Logistics begins by looking at our customer's purchase order information and shipment status visibility, applying the various elements of our technology suite to provide monitoring from creation of purchase order to shipment delivery. Part of the purchase order and shipment status process includes managing issues with shipments departing and arriving outside of designated shipping "windows." OOCL Logistics's Internet-based IT package exception manages bookings, routings, as well as container sizes, shipping windows, and load factors. Properly handling these events and hitting these important milestones matter most in reducing costs and improving visibility.

Also fundamental is improving control and accuracy of shipment-related documents. OOCL Logistics uses e-documents to streamline document distribution. Often the issues most difficult to correct arise from overseas vendor management. Proper communication reduces costs throughout the supply chain—from manufacture to store shelf. Our IT suite and professional staff coordinate shipment preparation at origin and offer direct vendor contact assistance.

We provide sophisticated, easy-to-use, on-line automated reporting capabilities, linking every client with standard, company-wide or customized reports regarding purchase orders and shipments status; these allow every client to analyze and measure shipment-related activities

and performance—and provides valuable guidance for import network improvements, including ocean carrier contracts, as well as, trucking and warehouse negotiations. ■



**Doug Hayden-Luck**  
Sales Director, International  
Intermodal, CN and the Port of  
Prince Rupert

The new Prince Rupert Fairview terminal opens up a new gateway for Asia-North America trade. It is the first new gateway opened to this trade lane in the last 100 years. The new terminal has the advantage of being located on the great circle route from Asia, which cuts ocean shipping distance by over 1000 nautical miles.

CN has a long history in serving Prince Rupert. Exports and imports through this port include coal, grain, and forest products. We have a high-capacity rail line built to handle these extremely heavy commodities. The line is currently underutilized and has sufficient capacity to handle not only the first phase of Prince Rupert rated for 500,000 TEUs, but also a Phase 2 expansion rated at 2 million TEUs.

The first train of imports will leave Prince Rupert and be in Chicago on the fifth morning and Memphis on the sixth morning. With this fast and reliable transit time, coupled with the ocean sailing advantage, retailers and manufacturers will lower inventory carrying costs and improve overall supply chain economics.

What will shippers value about the new Prince Rupert Gateway? First, expedited routing from Asia to Continental North America. Second, the ability to circumvent terminal and rail infrastructure problems in the United States. Third, cranes and berth to handle 13,000-TEU ships at the deepest natural harbor in North America. Fourth, efficient elec-

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tronic data interchange from ocean manifest to ocean terminal, ocean terminal to rail, and rail to Canadian and U.S. customs.

To directly support the Prince Rupert terminal, CN is investing \$25 million in the terminal's rail-related infrastructure, \$5 million in tunnel and bridge upgrades, \$24 million in new intermodal terminals in Prince George and Edmonton, and \$100 million for new locomotives for just Prince Rupert service. ■



**Kurt Pruitt**  
 Vice President, Integrated Solutions, Maersk Logistics USA Inc.

The ink is still dry on the multi-year contract you have signed with your global logistics provider, and already the boss is asking you to produce evidence of the savings and benefits—but where to start? The greatest source of advice will in fact come from the provider with whom you have just partnered. You don't need to go it alone. Utilize your 3PL.

In our experience, the following steps will assist you in capturing the benefits of your service provider.

Help your service provider fully understand your overall business strategy. The logistics function is critical; it facilitates the sourcing and movement of goods, information and financial transactions—and your 3PL must understand the necessary collaboration among internal departments.

Share your company's global sourcing strategy with your service provider. Your 3PL can provide key insight into local in-country issues, which could impact your sourcing decisions. Such issues range from infrastructure to political stability, raw materials supply, and customs developments. These issues can impact the predict-

ability of inbound product and the corresponding safety-stock levels.

The major underlying client benefits of a 3PL include a single point of contact, an existing global infrastructure to leverage and the availability of local expertise.

Additionally, 3PLs provide sophisticated IT systems, which can provide solid business intelligence to manage a global supply chain.

A leading 3PL should also be able to benchmark your current supply chain performance against others in your industry.

A 3PL can help effectively integrate your domestic infrastructure with your international logistics platform. Questions such as which ports of entry, how information is exchanged with warehouses, and how product is merged for final delivery can best be resolved with your service provider. ■



**Tom Jones**  
 Senior Vice President and General Manager of Supply Chain Solutions  
 Ryder

When we look at a customer, the first thing we do is form a virtual picture of their entire supply chain. Your purchasing department may have data on your suppliers, your sales department may have your customer database, but often they're not interfaced together for meeting total requirements on shipping. That's still a struggle for many companies.

It used to be, you said, "I need a truck from Chicago to St. Louis." Now, if you're shipping product from China to Chicago, it goes inland from Shanghai to the port; it gets containerized and goes across ocean on a ship; it goes from dock to warehouse to truck to distribution center to final desti-

nation. It's a much longer chain.

You have to have the supply chain "brain" that distributes the commands to the physical supply chain muscle: trucking, shipping, distribution, and so on. You've got to have a thought process and you've got to transmit that thought process to the muscles—the physical supply chain—that can carry it out.

Supply chain management isn't just a cost reduction activity. It's a revenue enhancing activity. You're meeting the needs of your customers. You're getting the product on your shelf when your customers want it. What differentiates most products? Not price or capability, but being there. If your product is stuck in the port or someplace else, you're going to lose revenue. ■



**Jeannie S. Jump**  
 Corporate Communications Coordinator  
 Saia, Inc.

As one of the nation's most successful less-than-truckload carriers, our mission is to fulfill our customer's shipping needs and improve their chain of supply.

Each month we track, measure, evaluate and publish our performance in the areas of on-time delivery, pickup performance, claims-free service, proof of delivery, claims settled within 30 days, and invoicing accuracy for every customer. They're important to the customer because they measure the quality of the service we provide them. They're important to us because they tell us how well we are performing.

There are several standard performance metrics carriers should be monitoring and sharing with their customers. For instance, performance

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reports track on-time pick up and delivery. These can be further segregated to show the performance in a particular lane or state. By doing this, customers can identify problem areas. Through claims reporting and settlement reports, customers can monitor the number of claims they have against their total number of shipments.

Our research has shown that customers want details concerning their shipments—quickly and accurately. That’s what we provide through our Web site. All the data, reports, and notifications we provide are accessible to anyone. No platform or software is needed to implement our value-added programs.

We also offer dynamic transit times that we continuously monitor and, if necessary, adjust to meet customer needs. Most of our shipments are delivered in one and two-day lanes.

We encourage our customers to be proactive. As a best-in-class carrier, we try to anticipate customer questions and proactively provide information in a timely and effective manner. ■



**Greg Lehmkuhl**  
 Vice President, Global Automotive  
 Menlo Worldwide

**Between 3PLs and customers**, the kind of contract we’re seeing more and more, is a strategic relationship, or 4PL. How you move material and how you move information throughout the organization and supply chain is the nature of strategic supply chain management. When a customer is ready to align with a 3PL at that high and broad a level, it’s a serious commitment.

What drives a customer to do that?

First, functional silos within their organization are driving value stream inefficiencies. For example, purchasing isn’t working well with manufacturing, or manufacturing isn’t coupled with distribution. Companies looking to source globally may not have the expertise to do it or do it well.

Next comes cost pressure or lack of internal supply chain knowledge. The overall value chain may be too expensive to allow a company to continue to compete in the global marketplace. As inventory goes down, customer requirements are increasing. The need for supply chain knowledge in an organization is extremely high and it’s hard for companies to acquire and retain that expertise internally.

Now, what does Menlo need from customers to be successful?

The beginning of any relationship is identifying the needs of the customer. You need to be able to give your 3PL time with key leaders to get alignment on vision, mission and goals. Next, customers must commit to using the rela-

tionship with the 3PL to fundamentally change their company. If you really want to advance your supply chain, it's going to touch every aspect of operations: purchasing, sales, finance, engineering, IT, manufacturing, and so on.

Once you have a clear alignment on the vision and the mission, you then need to assign dedicated functional support. ■

**Howard Finkel**  
**Executive Vice President,**  
**Trade Division, COSCO**  
**Container Lines Americas**

The term "partnership" is an over-used cliché in the shipping industry; however, in today's sophisticated and fast moving supply chain, a true partnership mentality will go a long way in making sure a shipper gets the most out of a carrier's service.

Prior to signing a service contract, I would hope the shipper has established a good relationship with their sales rep and is familiar with who at the carrier are their "Go-To" people when a problem arises. Some carriers are far too reliant



on automated phone services to provide the bulk of their customer service. These systems, while extremely helpful in providing info for tracking and tracing, may fall way short on info when a problem arises that cannot be automated (e.g., U.S. Customs has called for an exam on a shipper's box and the shipper wants to know what's happening and what the procedures are).

Negotiating weekly volumes in your service contract is another extremely important factor in what kind of service you will get from your carrier. Just stating an annual MQC in your contract

does little to help the carrier to plan if a shipper has certain heavy seasons where they will book large volumes and somewhere there volume will drop off. If the carrier knows when the heavy periods are along with the lulls, they can plan for equipment needs and try to match back volumes so they can have a more balanced operation.

An increasing amount of cargo today is offered on an intermodal basis. Does your carrier have a large enough staff to handle their intermodal operations? Remember: the carriers for the most part don't control these intermodal services, so they need to have a good staff watching this business carefully.

Make sure your carriers have a broad range of ports both on the West and East Coasts along with the Gulf. If there is congestion or a problem with a particular port, your carrier should be able to quickly come up with a contingency plan. ■

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