Need to know the best way to manage risk? Negotiate contracts? Standardize fuel surcharges? Gain visibility? Develop infrastructure?

HELP IS ON THE WAY!

The day-to-day rigors and routines of operating in an increasingly global world bring to bear the importance of fine-tuning supply chain processes and strategies at home and abroad. To help readers take their businesses to new levels of success, *Inbound Logistics* is incrementally building a library of industry best practices that addresses logistics, transportation, supply chain management, and related technology challenges.

The next seven installments appear on the following pages:

You'll also find these articles on our Web site: **inboundlogistics.com/how** and in digital format: **inboundlogistics.com/digital**.

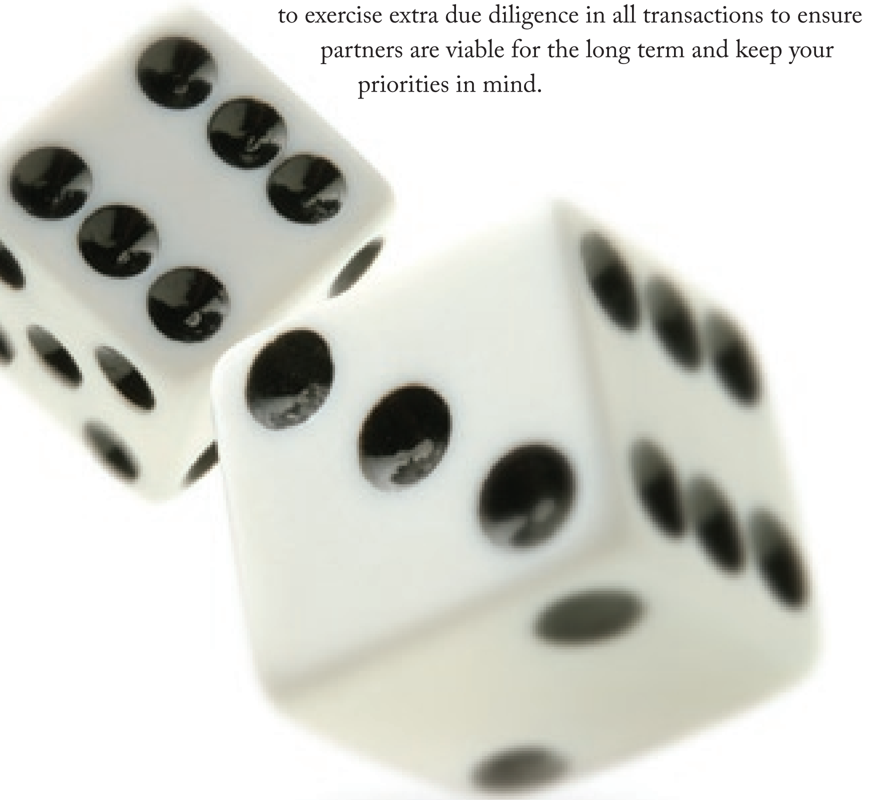
What specific "how-to" would you like us to cover? Let us know: **editor@inboundlogistics.com**.

How to Manage Risk Among Logistics Partners

Businesses face their own unique challenges in today's waffling economy, with credit largely frozen, consumerism measured, supply lines lengthening, and transportation-related costs reaching record thresholds. Aside from these internal and market-driven obstacles, companies also encounter considerable risk partnering with carriers, forwarders, and third-party logistics providers laying down their own odds to deliver competitive value and service in a soft market.

High fuel costs and diminishing freight volumes have forced industry contraction. Carrier bankruptcies are on the rise and players of significant size are either choosing, or being forced, to leave the business. Others will do whatever it takes to secure shipper business, even if it means taking short cuts, skimping on service, or subcontracting with less reliable companies. Market fluctuations and pricing pressures create bad behavior.

As a result, scamming activities, negligent hiring, service and security oversights, fraudulent cash advances, and general malfeasance such as holding a load "hostage" to force a shipper's hand, have become familiar occurrences. Placing customer expectations, and your respective reputations, in the hands of third-party providers forces businesses to exercise extra due diligence in all transactions to ensure partners are viable for the long term and keep your priorities in mind.



SAFEGUARDING AGAINST RISKY BUSINESS

Here are four steps to hedge your bets when vetting and contracting with logistics partners:

STEP 1. Review all procedures for qualifying and contracting with third-party logistics providers and carriers. Ensure the basics are documented – obtain a copy of the applicable Motor Carrier ("MC") license, operating authority, current insurance certificate, and latest safety rating. Also evaluate practices for issuing cash advances and confirming driver identity. Some companies prohibit advances after standard business hours to mitigate the risk of fraudulent activity.

STEP 2. Research 3PL or carrier business viability through Dun & Bradstreet, Hoover's, or other Web-based services. Look for company name and address modifications or changes in ownership that may indicate a high-risk business model. If the company has a Web site, make sure information is up to date. Ask for customer references to get a firsthand account of its service commitment and capabilities.

STEP 3. Subscribe to online services that provide ongoing monitoring of carrier safety, fraud alerts, changes in authority, and reports of incidents or questionable business activities. The Safety and Fitness Electronic Records (SAFER) System provides public access to records maintained by the Federal Motor Carrier Safety Administration. Commercial and subscription-based options are available from companies such as Carrier411 and Internet Truckstop. These services can integrate with transportation management systems to ensure updated information is placed in the hands of those managing transactions in real time. Some services also include blog-type capabilities where scams, threats, and other questionable business practices are reported.

STEP 4. Pay close attention to dates. When was authority initially granted? How long has the provider been in business? Have there been lags in insurance coverage? If an unsatisfactory safety rating was obtained, what was the time frame before a satisfactory rating was issued?

The success of your organization rests on the ability to meet customer expectations with reliable service providers. Of the many pieces in the logistics puzzle, you should be confident that the carrier qualification processes used by your transportation management partner are above reproach. As you focus on acquiring market share with innovative products and services, be certain that the experts at BNSF Logistics verify each carrier's viability, proactively monitoring and reporting changes in operating capabilities to mitigate your risk of a critical service failure or cargo loss.

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How to Negotiate Ocean Carrier Contracts

WHAT YOU PUT INTO CONTRACT NEGOTIATIONS DICTATES WHAT YOU GET IN RETURN. So begin by putting together a prospectus of your industry and your company and where it is moving—with input from all departments and levels of management within the extended enterprise.

Assess and understand where business is growing or slowing—where supply bases are migrating and where your key consumer markets are located. Shifting U.S. demographics and consumption, and associated transportation costs, may direct where your company is locating distribution facilities, and therefore, proximity to certain ports.

At the same time, sourcing strategies may similarly impact what ports you are bringing product into. For example, pushing manufacturing further inland in China may warrant consideration of Suez Canal routings via the U.S. East Coast versus Pacific transits to the West Coast—and carriers serving those areas.

Having a firm direction of corporate growth strategies and transportation requirements will give you a better idea of what lanes you will be looking to fill.

WHEN YOU APPROACH THE TABLE

IDENTIFY YOUR NEEDS. Before you identify potential carriers, determine your requirements. Is demand consistent all year round or is it seasonal? Are you looking for basic services and port-to-port rates or will you need dedicated space and specific visibility requirements?

If corporate strategies are in flux, long-term demand is not clear, or you're looking for spot capacity, consider a single-year contract instead of a multi-year contract. If you are looking to grow a partnership with a carrier, your growth expectations are aligned, and you would like to lock in capacity long term, consider the latter. Make sure you clearly outline your expectations, in terms of service, ethics, and security, so carriers know where you're coming from.

SHARE INFORMATION. The more information you can share with potential partners, the more detailed terms and targeted rates you will receive in return. Provide a candid assessment of lane forecasts and where you see your business moving.

If you are looking to seal a partnership for the future, consider your value to the carrier. Why should they want your business? Are you a good fit? What are your required container turn times? What type of equipment will you need? What are your customer service and technology needs?

Sell your business. Prepare data on potential facility expansions, recent or pending acquisitions, and process improvements in your own ocean carrier management operations. Look to drive value rather than a bargain because ultimately you will get what you pay for.

UNDERSTAND THE CARRIER'S POSITION. Try and assess carriers' key drivers for pricing strategies. Knowing current market conditions, and how they may influence a carrier's volume cycles, will impact their willingness to negotiate and provide you with a better strategy for negotiations.

What and where are their strengths? What ports are they serving? Where are they growing their services? Do they own their own terminals? Are there labor, congestion, or capacity concerns at these ports that might be problematic for your own speed- and cost-to-market needs?

ANTICIPATE RESPONSE. Having assessed your needs and those of the carriers, role-play the negotiations and consider what your response may be. Have a plan to account for all possible objections. What terms are required and what can you do without? Bring a list of concessions to the table so that you have some wiggle room when you begin.

PERFORM POST CONTRACT DUE DILIGENCE. Following a successful negotiation, record what went well and what can be improved. Use this historical analysis when you begin your next negotiation.

Also, if warranted, consider opportunities where you may begin planning out long-term growth initiatives with your carrier. For example, if a carrier is investing heavily in certain lanes or ports, identify ways your business might leverage these investments.

COSCO Delivers

2 Weekly Sailings to Prince Rupert

COSCO is the first carrier to provide two sailings weekly from China and Yokohama to Prince Rupert. COSCO has listened to the market feedback and based on the success of one weekly service, COSCO has introduced a second weekly service. COSCO will now ship Hong Kong, South China, East China and North China cargoes, including Yokohama to North America via Prince Rupert.

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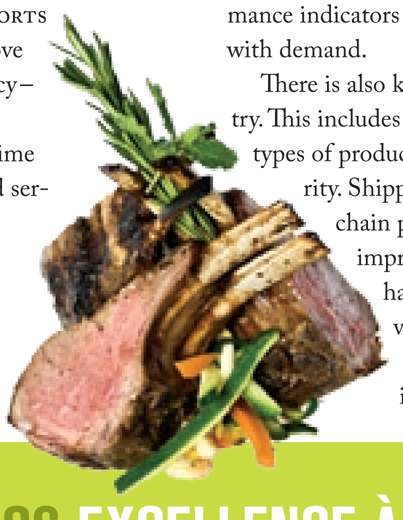
How to Drive Excellence in Food Service

Concerns over food product safety and integrity have ramped up efforts in the food supply chain to improve service, efficiency, and transparency–despite already robust regulatory oversight.

Picking up and delivering shipments on time with no claims is the expectation among food service companies. Service is for all intents and purposes "guaranteed," given the shelf life of many products. Consignees, shippers, and service providers driven to reduce inventories and operate just in time can optimize performance by closely gathering and analyzing key performance indicators and driving visibility to better match supply with demand.



There is also knowledge capital inherent to the food industry. This includes sensitivity to handling and caring for certain types of products, as well as food chain safety and security. Shippers and consignees should make sure supply chain partners are properly maintaining equipment, improving processes, and training drivers and handlers in industry best practices. Food service companies and supply chains that excel in the marketplace pay attention to details to improve the whole.

FOOD LOGISTICS EXCELLENCE À LA CARTE

QUALITY. Food service shippers and their service providers rely on each other's standard operating procedures and input to make sure quality expectations are aligned. Given the importance, quality discussions should involve upper level management and carry through the extended enterprise.

As far as standards, industry safety and temperature guidelines are enforced at a very base level. Beyond that, food shippers need to engage all their supply chain partners–from producer to wholesaler and retailer–to set and commit to on-time delivery, as well as measure and maintain the product and equipment quality.

COST. Delivering on promise is critical to driving economy. Given the perishable nature of many foodstuffs, and time sensitivity in transport, any delay can have considerable cost impacts downstream.

Consequently, there is a premium placed on scheduling, as companies need to make sure labor is available to facilitate proper loading and unloading at key interchanges. From a consignee perspective, the greatest challenge is keeping carriers in line with expected delivery windows, and making sure they communicate when shipments will be late.

For truckload shipments (one pick up, one stop), delays are easier to manage. But tardy LTL shipments have a domino impact throughout the delivery schedule. Food service companies need to understand the premium placed on timeliness, be agile enough to respond to consignee requirements, and create contingency plans when exceptions occur.

VELOCITY. Beyond managing exceptions and expediting shipments where product perishability dictates, speed and velocity are relative to how well shippers and their service providers manage information and forecast demand. With regards to establishing shipment schedules, data is king. The more data and historical information shippers and consignees can share with their service providers, the better. There should also be a matrix to measure and communicate performance in a timely fashion.

Companies that accurately forecast and capture demand can optimize their shipping schedules, rationalize speed requirements, and reduce costs, moving from daily to weekly schedules for example. This becomes important when capacity is tight and shippers, carriers, and third-party logistics providers need to find more creative ways to utilize assets.

TECHNOLOGY. An abundance of technology–including warehouse management, labor management, and transportation management systems–is available to help food companies manage their supply chains more efficiently and economically. Often there is little need for a company to buy into all these integrated technologies when it can partner with a 3PL that has a robust IT platform to manage its supply chain.

How to Capitalize on Importer Security Filing (10+2)

Sometimes opportunities present themselves in the unlikeliest places—in the bureaucracy of Customs compliance, for example. When U.S. Customs and Border Protection (CBP) introduced the idea of Importer Security Filing (10+2) early in 2008, many global shippers and consignees greeted the proposal with reservations.

The mandate requires importers to electronically submit a security filing specifying 10 data elements plus an additional two carrier requirements before cargo is permitted entry into the United States by vessel. The filing tasks consignees and carriers with collecting and conveying necessary shipment information to CBP 24 hours prior to loading at a foreign port.

Unlike other CBP directives such as Customs-Trade Partnership Against Terrorism (C-TPAT), shippers don't have a choice whether or not to comply with 10+2. They do have a choice in how they embrace change.

Security regulations are increasing the complexity of supply chain management. Much of this enforcement is driven by perceived or real threats, and efforts to improve cargo security abroad and at home continue to grow in importance.

Businesses that resist change and continue to look at increased regulation as a challenge will struggle with integration and compliance. For others, 10+2 is an opportunity to drive business process improvement.

MAKE 10+2 WORK FOR YOU

Here are five ways you can leverage 10+2 to improve the way you do business.

- **GAIN BETTER INSIGHT INTO YOUR SUPPLY CHAIN.** Before companies commit to any strategic undertaking, they should review supplier networks. A proactive approach allows businesses to align upstream processes and reconsider offshore business models with the new security filing in mind. If nothing else, businesses should embrace 10+2 as a mandatory opportunity to reconnect the dots at the point of origin.
- **IMPROVE SUPPLY CHAIN VELOCITY.** To properly gather and communicate shipment data to CBP 24 hours prior to loading, shippers and consignees have to be more diligent in holding vendors and carriers to cut-off times. The threat of demurrage charges, penalties, and costly shipment delays warrants better processes for capturing demand signals, linking them to suppliers, and holding all parties accountable. 10+2 requires information speed, which can have a ripple impact downstream.
- **INTEGRATE IT SYSTEMS, DRIVE VISIBILITY.** Technology is critical to gathering and communicating shipment data among intermediaries, carriers, vendors, and CBP. Many third-party companies offer electronic solutions tailored to 10+2 and can merge, manage, and convey proprietary information quickly and securely. This centralized data empowers shippers and consignees to drive visibility elsewhere in the supply chain.
- **STRENGTHEN SUPPLY CHAIN PARTNERSHIPS.** 10+2 is all about communication. Once processes and technology are in place, businesses will have much better connectivity to their extended supply chain partners. Tearing down functional and cultural silos invites opportunities to find synergies, drive greater transparency, and create better partnerships.
- **REDUCE COSTS, INCREASE REVENUE.** While there will be upfront costs in driving compliance, businesses that meet CBP's requirements in the most effective manner will improve supply chain velocity, visibility, and capacity utilization. This creates competitive advantage in speeding inventory cycles, reducing static inventory, and transporting product to market.

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HELP ON THE WAY

How to Standardize Fuel Surcharges

A wise person once stated that if you have two watches, you never know what time it is. When considering the effects of fuel surcharges on line-haul rates, this analogy is appropriate. If both are allowed to fluctuate, making sense of total freight spend and the intrinsic value of carrier relationships can be nearly impossible.

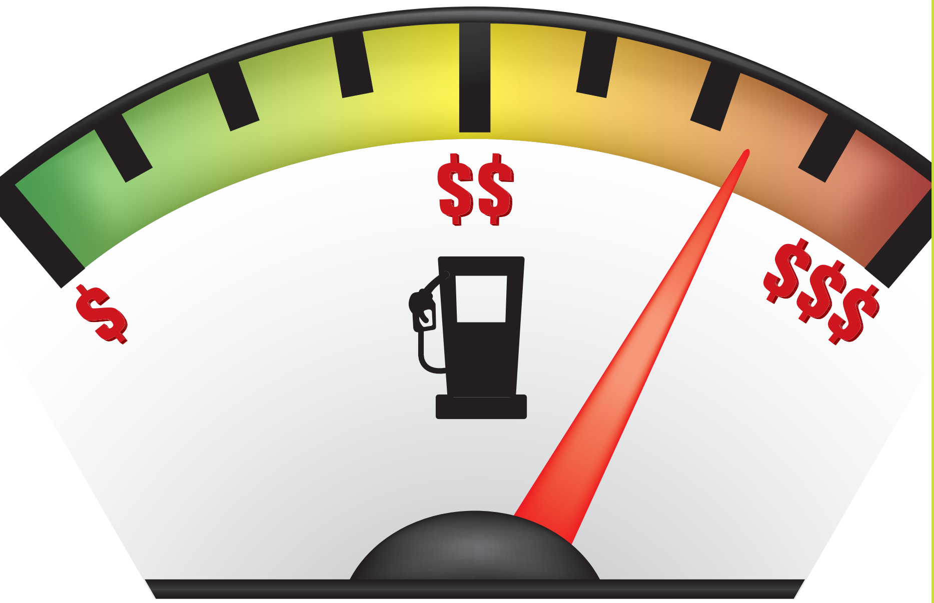
Leveraging freight spend in the carrier market is a common practice. Carriers that perform well want additional opportunities with desirable shippers to expand their fleets and improve operating models.

Over time, changes in both shipper and carrier flows improve procurement opportunities because carriers are looking for efficient freight. Visibility into an entire network creates better alignment opportunities.

Disparate fuel surcharges buried in contracts, however, are often difficult to manage for a few reasons:

- Freight rates are hard to compare internally because line-haul rates are not apples to apples.
- Freight rates are almost impossible to benchmark externally because there is no standard way to separate the influence of a fuel surcharge.
- Automated auditing ability is nearly impossible.

Shippers that have annual freight spend categories greater than $10 million may significantly benefit from standardized fuel surcharges. But they need a centralized procurement event and execution monitoring to level the playing field. This can be a daunting task if the overlying assumption is that fuel surcharges are individually negotiated to their lowest levels.



DRILLING DOWN FREIGHT SPEND

Here are four steps to help standardize fuel surcharges.

STEP 1. Determine if freight spend warrants standardization: 1. What is the concentration ratio of freight spend relative to carriers used within your network? 2. Differentiate freight hauled by primary and non-primary carriers. 3. Are national versus regional carriers considered as a focused strategy? 4. Do carriers reject freight in periods of tight/abundant capacity? 5. Do carriers always accept freight?

STEP 2. Determine the range of fuel surcharges and the impact on line-haul: 1. How much variation exists? 2. Can fuel surcharges be adapted to show differences in line-haul rates? 3. How does total cost measure against carrier performance and acceptance ratios? 4. Attempt to audit a subset of lanes for total costs against internal and external benchmark sources.

STEP 3. Run a standardized procurement event with a shipper-mandated fuel surcharge program: 1. Put in place a reasonable market fuel surcharge program – third parties are excellent sources for this information because they typically deploy many programs. 2. Ensure that other areas on non-standard rates are fixed, including accessorials. 3. Make sure incumbents understand the business reasons for standardization. 4. Demonstrate to incumbents strong discipline in the procurement process by limiting communication that devalues competitive environment. 5. Don't allow incumbents to respond with old line-haul rates and make adjustments to the new fuel surcharge program. 6. Ensure non-incumbents understand all cost and service elements of the new business. 7. Meet face-to-face with key respondents. 8. Provide information to all parties and allow sufficient time for a competitive response.

STEP 4. Establish awards and measure performance: 1. Be ready for post-implementation adjustments with good negotiating and "Plan B" carriers. 2. Reward performing carriers with more freight as appropriate. 3. Perform all the tests in Step 1 to measure degree of success. 4. Establish carrier scorecarding with semi-annual reviews.

How to Gain Supply Chain Visibility

If there is one buzzword that continues to define supply chain management, it's visibility. Everyone wants it but few seem to ever approach true nirvana. Part of the difficulty in this endless search for total insight and control is that companies have different interpretations of what visibility means, and these interpretations continue to evolve with varying business demands and globalization trends.

Visibility is knowing where inventory is at any moment. But it is also actionable information that can help support customers and be applied to myriad touch points along the supply chain—from supplier to service provider to end customer—to remove redundancies and improve processes.

Because businesses often focus on capitalizing core growth initiatives, many do not have the internal IT infrastructure to support dynamic supply chains. Collecting and identifying data that is important, validating this information, and communicating it in a way that lets others leverage this visibility remains a critical challenge for companies large and small.

6 STEPS TO SUPPLY CHAIN ENLIGHTENMENT

STEP 1. Open lines of communication among all parties involved. Visibility means different things to different companies. So you have to define what your enterprise is looking for, as well as what visibility, and how much, is important to the customer.

Is it visibility into freight capacity? Is it mode-specific, domestic, or international? Is it exception-based or 24/7/365?

Companies often don't know where they need to be, or where they can go, so it is important to work collaboratively with supply chain partners to set expectations and progress accordingly. All stakeholders, including different levels of operations and executive management, and silo functions within the company and throughout the extended enterprise must be involved.

STEP 2. Trust your partners. Visibility is built on sharing information and trusting service providers with that information. Identify the role a 3PL, forwarder, or carrier will play, and trust it knows what it's doing. If you have built a relationship, established benchmarks, and aligned expectations, everyone knows what they are accountable for. Misaligned goals, or a failure to trust supply chain partners with vital data, planning, and execution, will ultimately leave all parties disappointed.

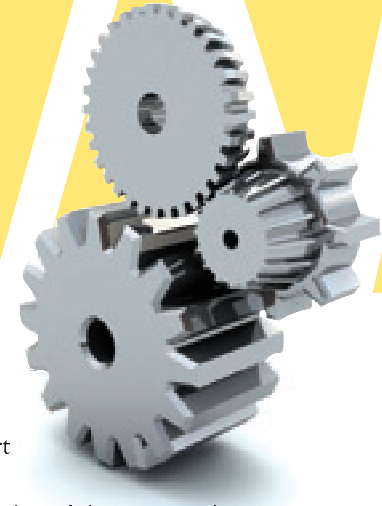
STEP 3. Invest in technology. The only way to drive better visibility is to invest in the technology infrastructure and resources to gather and act on necessary information. End users can either partner with a service provider that has the technology and resources to execute, or find a stable of partners—and build relationships with each one—to ensure expectations are paired.

STEP 4. Set your key performance indicators. If you need 90 percent international tracking online by next quarter, set that as your goal. Be clear and concise in defining your expectations, then diligent in setting measurable benchmarks to ensure you progress toward those goals.

STEP 5. Know your customers. Enhanced visibility penetrates supply chains in many ways, so it is important to identify all stakeholders in any business process improvement effort. Be sure the decisions you make and the partners you work with understand the impact on all parties involved and that they are working to support these respective interests.

STEP 6. Identify cost savings and business process improvements. As stated in Step 1, understanding each supply chain stakeholder's visibility needs will help optimize processes, reduce inefficiencies, and drive out costs on the back end. Again, it is important to open up avenues of communication among all parties to discuss how better managed information and insight into inventory management can be optimized individually to improve the whole. Identify how much time different partners are spending to gather necessary visibility without getting what they need. Then consider where gaps exist and explore synergies.

How to Develop Infrastructure to Support Mission-Critical Logistics



There are critical logistics requirements and then there are mission-critical demands. The difference is end-user impact: a lost customer because of a late shipment, or a lost product line—and countless lost customers—because a critical part can't be replaced in time.

When companies move high-value shipments critical to business process continuity, time is money and service is golden. Whether it's a machine replacement for an automotive assembly line or a network router for a brokerage house, the immediacy and unexpectedness of demand warrants a reliable strategy for placing "just-in-case" parts inventory in various locations around the world, then seamless execution in delivering shipments to support end-user replenishment needs.

It makes no difference whether it's business-to-business or business-to-customer, working within a one-hour delivery window or next-day defined service, replenishing a critical component or routine after-midnight maintenance. Mission critical logistics is a 24/7/365 commitment.

Having resources, infrastructure, and inventory in place are key factors to mission-critical success.

STEPS TO ACHIEVING MISSION CONTROL

ASSESS CRITICAL NEEDS. Analyze the installation base and explore where strategic stocking locations (SSLs) exist and where parts need to be. At the same time, understand your service level agreements, as well as the pre-determined/contracted delivery times and performance metrics. Can you fulfill expected time-to-market demands from these current SSLs or do you need to put parts in additional locations?

When looking to locate a new SSL, consider these questions:

- Is there sufficient demand to warrant another SSL given the demand and failure history of the installed base you are servicing?
- Do you have a field engineering force or are you outsourcing that function?
- How are you placing demand? Do you have a central call center to place demand or do you rely on field engineers, third-party logistics providers, or suppliers?
- Do you need IT integration?

ENSURE CONSISTENCY AND DEVELOP SOLUTIONS ACROSS MULTIPLE REGIONS. Perform a hard analysis of consistency across operating regions, looking specifically at local limitations or anomalies. Go through a needs analysis for each region and assess issues such as local stocking facilities, transportation and delivery services, inventory dispatch services, and real-time inventory management control. Operate globally, but think locally.

STREAMLINE PROCESSES ACROSS GLOBAL IT PLATFORMS. Having an established IT backbone to support data-sharing is the glue that holds mission-critical processes in place. A single platform provides seamlessness in plugging in new locations and expanding SSL networks. Without an integrated technology platform, varying service levels and communication disconnects invite critical failures.

A seamless technology platform enables real-time inventory visibility. Because mission-critical logistics goes beyond simple shipment delivery, this comprehensive data and feedback facilitates inventory tracking, ensures accurate replenishment, and reduces capital expenditures. Historical reporting also helps companies benchmark service performance.

THINK IN REVERSE. While much attention is placed on the immediate goal of meeting customers' replenishment needs, there are internal savings to be achieved in quickly recouping used parts as well. There are considerable cash-plus opportunities and cost savings attached to bringing defective products back into the pipeline to be recycled, fixed, or scrapped. If infrastructure and processes are in place to capture demand signals and push product out, consider leveraging this same control to pull high-value materials back into the supply chain.

CONSIDER OUTSOURCING. Given the IT sophistication and breadth of resources required to manage mission-critical moves, partnering with a third-party logistics provider that has global SSLs in place, and necessary connectivity, can be a critical success factor.

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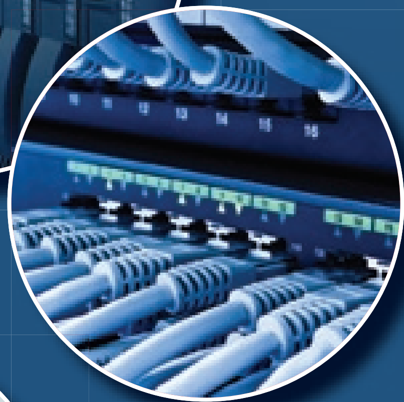

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