


5 Ways to Face Uncertainty



These pointers will help you pay closer attention to your transportation spend and adopt a leaner approach to other budget categories so you can protect your company from the unknown.

By John Haber

These are unprecedented and volatile times for shippers. Since the beginning of 2011, one major event after another—natural disasters, political tensions abroad, economic concerns and transportation industry struggles—have dealt blows to shippers' budgets.

Of course, it's not the first time American companies have been forced to deal with high fuel costs and unplanned events. But what makes the current situation so dangerous is the sheer volume of events combined with the current economic vulnerabilities facing American businesses. Just as the health of today's supply chains seemed well-positioned for a rebound, the unpredictable still threatens to bring progress to a standstill—if not throw the entire situation into reverse.

The dynamic forces shaping today's shipping landscape include:

Mideast Tensions & Rising Fuel Costs: The ripple effect of Mideast tensions across the supply chain has left many manufacturers, suppliers and distributors in the lurch as the price of fuel remains volatile and high. To protect profits against high carrier surcharges, many large suppliers and manufacturers are instituting their own "emergency fuel surcharges." Others are raising the cost of goods and services, thereby creating a domino effect that could impact end-consumer demand. Those companies that can't pass this cost onto their customers are already feeling a significant impact to their bottom line.

Natural Disasters: Natural disasters have disrupted today's supply chains. Companies like Toyota, Sony and Toshiba were forced to halt production following March's tragic earthquake in western Japan. Many U.S. companies lost access to critical suppliers and trade routes in a historic tornado season that swept through the southeast and mid-western regions of the country. As we approach hurricane

MOVE



interlake



We
Manufacture
Automated Solutions



www.interlakemecalux.com

For information, circle 129 or go to
www.mhlnews.hotims.com/35027-129

season, there is mounting concern about how American supply chains will fare.

Rail Concerns: With fuel costs at an all-time high, many shippers are turning to railroad companies to move their goods across the supply chain. However, container shortages threaten many of the efficiencies offered by rail. Rail container production has been lagging, resulting in constrained capacity. This may drive the cost of railroad shipping upwards.

Carrier Legal Troubles: The transportation industry is under close scrutiny from the U.S. Department of Justice and its European Union counterparts. The DOJ has begun an investigation into alleged collusion practices by UPS and FedEx. The two companies are also defendants in a lawsuit for practices intended to prevent shippers from enlisting outside expertise in contract negotiations. In May, five of the world's largest ocean carriers were investigated by the E.U. for price fixing.

U.S. Economic Concerns: Lastly, but certainly not least, the domestic economy has left many supply chain professionals nervous about the immediate and long-term health of their businesses. In April, Standard & Poors downgraded its outlook on the U.S. government's debt to "negative" from "stable." A weak dollar has compounded concerns as consumers and businesses fear a prolonged economic recovery.

Minimizing Uncertainty's Impact

Unfortunately, it will be virtually impossible for shippers to fully negate the impact of these grim market forces. But, there are several things shippers can do to lessen their effect:

1. Understand what you're paying for fuel and make sure you're paying a fair price. Even in the best of circumstances, most shippers overpay for fuel in their carrier agreements. Now, as price volatility grows, achieving fair pricing

is fundamental to keeping transportation costs under control regardless of the political landscape.

2. Consolidate shipments, switch modes. If you can consolidate the number of shipments and recalibrate recipient expectations, the savings will be powerful. Explore different mode alternatives and the cost breaks associated with switching.

3. Understand the services you're utilizing. Companies often rush to ship a package via next-day air, when it can get there via next-day ground at half the cost. By better understanding the services you're using, you may uncover cost reduction opportunities that have minimal or no impact on delivery times.

4. Keep an eye on carrier capacity. Within 60 days, NPI predicts carrier capacity will increase as shipment volumes decrease. When this happens, companies should renegotiate their carrier contracts, which were quoted when capacity was low.

5. Offset price increases outside of transportation. Effective transportation spend management can reduce costs by 15-20 percent for the average shipper. But, shipping isn't the only area rife with cost reduction opportunity. Companies can offset cost increases in transportation by reducing costs in other complex spending categories. These categories, which are characterized by low pricing visibility and dynamic vendor landscapes, include technology, telecommunications and energy. Improved spend management and pricing visibility in these areas can limit the impact of rising transportation costs without negatively impacting your business. **MH&L**



John Haber is executive vice president of transportation services for NPI (www.npifinancial.com), a supply chain spend management advisory firm that works with manufacturers, suppliers, distributors and retailers across the globe.