

Improving Supply Chain Efficiency Logistics Providers Nudge Shippers to Streamline Data

Industry carriers and other logistics service providers say they are raising fees to offset costs and nudge shippers to streamline and standardize supply chain data, such as bids and tenders as well as orders. Some firms are also considering dropping customers that do not contribute to the providers' profitability, are difficult to serve, or are "bad matches," service providers told *CW* at the Land Logistics Road Show, sponsored by online hub Elemica and held last month in Houston.

"We will do what the customer wants us to do," John Mahon, director/business development at Kinder Morgan Terminals (Houston), told conference attendees. "There was a time when we would tuck added costs into the rate. Now we are going to make it easy for logistics managers at chemical makers to go back to management and show them how much it costs for all added services."

Full cost accounting would help move the process of standardization and automation of the supply chain, Mahon says. "If we have to re-enter order data manually, then the shipper is going to have a specific cost for that on the invoice," he says.

"There is value in the work process and the quality of data streamlining," said Richard Lay, manager/information systems for Dow Chemical. "We want to make the supply chain stronger and simpler." Dow is a partner in Elemica.

Lay cited information technology as the most important value driver across the whole supply chain. Other important drivers include taking advantage of global best practices, as well as enhancing security, time to market, integration, and implementation, Lay says. He acknowledges that Dow "is a bit behind" where it would like to be in automating its supply chain data, but says that all load tenders and bids to and from motor carriers will be handled exclusively through Elemica's automated hub as of next year.

"The goal of automation is to eliminate dual entry and concentrate time on exception resolution, rather than on normal operations," Lay says. "We tend to over-engineer

things in this business. The supply chain should be simple: see, pay, get. Driving down the unit cost of information exchange, will drive down transaction costs and thus supply chain costs."

"Standardization is for everyone to know what they are supposed to do and when they are supposed to do it," says Bill Holdsworth, responsible for business solutions analysis



Holdsworth: Shippers will see gains.

and training at BASF, another Elemica partner. BASF has been developing an integrated system of order management for road carriers. "We have two sites implemented so far. The company plans to have implemented the system with about 50 third-party providers and packagers by mid-July, Holdsworth says. "By the end of September, we plan to have more than 150 sites implemented."

The BASF initiative will cover 400,000 road shipments including bulk, truckload, less-than-truckload, and intermodal, Holdsworth says. "This roll out will continue through 2009," he says. "Beyond that, we have a program planned for ocean containers, and are considering programs for North American marine and rail, as well as slot booking for our European Union road traffic. The North American rail will be with another provider than Elemica; some of the others may be as well." He did not specify the other provider.

BASF further divides supply chain automation between bulk and packaged goods. "On the packaged side, standardized language is well-developed in ordering and tendering. On the bulk side, the industry is not there yet. One major complication is accessorial—connection types, vapor-recovery systems, and purging can be different by company, site, even rack," Holdsworth says.

Despite such challenges, Holdsworth is confident that chemical shippers will see significant gains in supply chain automation soon. "It may not be tomorrow or next month, but in the next year or two we are all going to be automated," he says. "Shippers and carriers

will be able to work together on exceptions. The focus will be on activity-based costs."

Dow's long-term goals include eliminating invoices and pay-on-order delivery, Lay says. "But that will be difficult," he says. "The industry is not ready for that and the technology is not ready for that. What we have accomplished so far is to cut our transaction costs in half."

Kinder Morgan says the first step for shippers to improve supply chain efficiency is for shippers to specify their objective. "First we need to know what the shipper is looking for," Mahon says. "Do you want cost savings? Do you want to reduce headcount? Do you want to increase inventory velocity? Do you want to increase outsourcing? Once we know what you want, we can work toward a system solution."

Meanwhile, the drive among carriers and service providers to reduce costs is also causing an as yet subtle shift in the way they are evaluating customers. "We are at the point where service providers can start to select customers, based on who is easiest to do business with," Mahon says. "This is anecdotal, not a tidal wave yet, but I have seen shippers maneuver themselves into second place as preferred customers because they are just too expensive or not a good fit."

Separately, a new study by AMR Research (Boston) on supply chain cost reduction and containment strategies shows that the top supply chain risks are price volatility and supplier failure, including failure to meet capacity and time commitments. The study's suggestions include the creation of a "realistic" shipper cost baseline that involves plotting future direction, including plans for current costs and expected increases, against an established baseline. This measurement, known as the purchase price variance, is used as an indicator of

cost reductions or increases for many firms, it says. "Granted, planning for the unexpected is never easy, but knowing the baseline takes the guesswork out of cost containment and allows a company to plot out various contingency plans, from the conservative to the crazy," the study says. —GREGORY DL MORRIS in Houston

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