FREIGHT TO FINANCE:

How Proactive Leadership Fulfills the Supply Chain

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LOGISTICS SERVICES

Transportation and supply chain costs significantly impact a company's financial performance. CFOs rely on logistics, purchasing and supply chain professionals to cut expenses and enhance efficiency. A well-organized supply chain has the power to increase income while lowering operating costs and capital applications.

THERE ARE MANY PROFITABLE CHANGES that can be implemented with a CFOs leadership influence and financial expertise

CFOs and supply chain professionals view transportation and its associated costs differently. CFOs cite cutting costs and improving efficiency as their number one priority, while supply chain leaders want to focus on improving product and/or service quality. If communication among departments and leadership is unsuccessful, a CFO cannot fully know the financial impact of the supply chain.

CFOs can develop and apply transportation strategies where decision making is reinforced through insights and analysis. That way, there are opportunities to identify and manage risks to optimize performance. Transportation is a big element in logistics costs, so efforts between a CFO and logistics professionals can deliver significant financial savings.

CFOs are aware that supply chain management effects the bottom line. Concerns like decentralized management, poor visibility, misguided inventory stock and underutilized technology could be improved in most companies.

The bottom line will increase when leadership collaborates on supply chain initiatives. CFOs have an opportunity to become heavily influential on supply chain decision making if they aren't involved already. There are many profitable changes that can be implemented with a CFOs leadership influence and financial expertise.

INTERNAL AND EXTERNAL COLLABORATION MATTERS

When CFOs and logistics leaders work together they can mitigate supply chain disruptions and will see the benefits of improved speed, service and customer satisfaction.

Internal business collaboration is dependent upon tactical and professional elements. Filling the gaps in communication among business leaders allows for higher performance and ultimately, core capability. As business models continue to evolve, managers and executives must communicate and utilize data in order to make sound business decisions. When there is strength in the financial state of the supply chain, more business divisions can thrive.

One of the main goals of collaboration is convergence. The flow of information among internal and external forces should create one strategy across the entire enterprise, enable the best outcomes and identify inconsistencies to improve and maximize the job function. It's more than focusing on relationships, it's about collaborating to achieve desired results and exchanging data in order to eliminate complications and improve productivity.

Increased collaboration between freight and finance will likely involve new metrics and standards for evaluating operational decisions. If you're not measuring it, you cannot control it. As one CFO put it, "without transparency to the total cost, it's difficult to uncover the best opportunities to save."

Once a business has achieved a considerable amount of convergence, they can effectively collaborate with outside companies like a manufacturer or supplier. Supply chain collaboration isn't fast or simple, but there's a potential for huge return on investment if done properly. Many businesses today have supply chain partners who have overcome many of the same obstacles and can provide valuable insights.

57%

of companies use a formal supplier relationship management strategy

49%

believe it is very or extremely effective

At the heart of these obstacles is support from company leadership. A CFO who is heavily involved in supply chain decisions should easily be able to develop, monitor, and grow business partnerships while leading the supplier relationship management strategy. According to a recent study from Peerless Research Group (PRG), 57% of companies use a formal supplier relationship management strategy, and 49% believe it is very or extremely effective. Many arrangements fail due to a lack of support and resources from leadership, but having a formal plan can prioritize business partnerships. Supply chain collaboration requires a large investment of work and capital. If a company doesn't put their full effort towards a partnership it will fail.

Another common obstacle to successful supply chain collaboration is trust. If two companies don't trust each other, there's no point in forming a partnership. The key to a trustful, beneficial relationship is to utilize each organization's strongest assets toward the collaboration, rather than try to fill holes in their own supply chain strategies. That way, two companies who have differing strengths can combine for results like improved speed, service and customer satisfaction all while reducing costs.

Ultimately, convergence of information within a company, along with information-sharing in supply chain collaboration, can lead to visibility outside a company's own four walls. Many businesses plan to broaden visibility outside of their own walls, but supply chain and supplier partners aren't sharing important information, like inbound shipment data. This type of information can significantly increase efficiencies and reduce costs in the supply chain.

SUPPLY CHAIN VISIBILITY IS KEY

The biggest obstacle most organizations face when trying to optimize their supply chain is end-to-end visibility, yet it is often cited as the most important aspect. Visibility in the supply chain gives a company better knowledge on orders and goods in real time, which leads to smarter, more informed financial decisions and better customer service.

Visibility offers a real chance to reduce the uncertainty that increases safety stock. Companies with poor visibility will not have a good idea of how much safety stock they should have. When supply chain managers have access to accurate, real-time information, interruptions or glitches within the supply chain can be responded to quickly, which keeps the buying cycle and business schedule moving forward. This reduces wasteful buffers of safety stock. Unfortunately, CFOs do not typically have visibility into transportation decisions. Therefore, it is difficult to estimate cost control, budget and cost allocation.

80%

of supply chain professionals say centralized management is very or extremely important for supply chain visibility

Developing better cost control, budgeting and distributing is dependent on centralized management and merged technology. In the PRG study, 80% of supply chain professionals say centralized management is very or extremely important for supply chain visibility. This is because many, almost two-thirds of those in the survey, have found that a lack of cohesion in supply chain decisions comes from organizational structure. Responsibilities are broken up between business units which makes the flow of information and the decision making process slower. These “silos” of information and power are what supply chain technology aims to fix.

System integration is the biggest hurdle in achieving full visibility. It is not simple to integrate systems, since entering data or sharing files is sensitive to business, but it is necessary for full supply chain visibility. Many companies use supply chain visibility systems, warehouse management systems (WMS), and transportation management systems (TMS) to achieve visibility. However, 58% of companies say their software systems are not well integrated, and 77% cited this as the most important or one of the most important factors in a supply chain with good visibility. Well-integrated software is fundamental to achieving visibility and being able to make quick, accurate supply chain decisions.

TRANSPORTATION MANAGEMENT SYSTEMS (TMS) ARE A MUST

Incorporating a TMS is one way a company can gain control over transportation decisions and costs. With this technology a business can effectively optimize moves to ensure consolidation and routing and decide on the best mode for shipping goods. Visibility gained through supply

30%

potential transportation cost savings from using a TMS

67%

of companies saw significant customer satisfaction improvements after implementing a TMS

chain software, like a TMS, will strategically reduce supply chain costs.

The logistics involved in shipping materials is complex. Managing outbound and inbound loads is demanding. Most companies use a TMS or a third party logistics company (3PL) for these tasks. According to HighJump Software, a TMS can save a company up to 30% on its transportation costs.

Operating with a TMS in place offers a monetary competitive advantage. Using this transportation technology shows bids from a network of carriers as well as prices, lanes and more. Take advantage of the selections; find routes and prices that best fit your needs. Instead of being complacent with a given carrier, look at what the competition can offer. Through a TMS, final decisions are supported by analytics and data, showcasing the most cost-effective conveyance to inform basic transportation choices.

A TMS can drive savings other than finding best lanes and modes. A study from ARC Advisory Group showed that around 67% of companies saw significant customer satisfaction improvements after implementing a TMS. Businesses also saw improvements in warehouse efficiencies, delivery capabilities, cash flow improvements, and inventory reductions.

A TMS can also improve supply chain functions other than reducing costs. In the ARC study, participants cited the following non-monetary TMS benefits:

Better understanding of the cost to serve customers or better cost allocation at the product level

- Smaller transportation department
- Improved sustainability
- Access to more carriers and better long term planning
- Fewer warehouses
- Better compliance to health, safety and environmental programs related to transportation

A TMS gives your company data and visibility to make smarter transportation and supply chain decisions. Most systems are able to be fully integrated with other supply chain visibility software, making a TMS just one piece of the puzzle.

Great strides have been made in transportation management technology. However, running a system inhouse puts your company in the software maintenance and training business. This usually involves an upfront investment in integration and implementation, as well as commitment to a technology that might not fully fit the evolving needs of your company. With the help of a 3PL, a company can see significant cost savings when choosing the best transportation mode and analyzing the decisions on a TMS.

THE VALUE OF INVENTORY MANAGEMENT

Inventory levels drive supply chain costs.

Excess inventory can be wasteful and lean inventory can negatively impact operating margins; each resulting in added costs. With an overstocked inventory, you are susceptible to higher carrying costs with the need for more capacity and a less desirable product. Using a lean inventory approach could result in situations where you are forced to deal with issues like poor customer service, out-of-stock products and expedited shipping expenses. Balanced inventory valuation positively impacts business' bottom line. So, the key to proper inventory levels that maintain or reduce overall costs and budgets is discovering a balance between supply and demand.

When a company optimizes inventory, reduces excess stock and earns a better cash flow,

FISCAL BENEFITS FOLLOW

Generally, inventory is given value at the price paid and market value. Inventories are typically the largest current asset of a business, and measuring properly assures accurate financial reporting

To find the right balance, focus on metrics at the most functional level and continue searching for improvements. When a company optimizes inventory, reduces excess stock and earns a better cash flow, fiscal benefits follow.

From a financial perspective, inventory is an element of working capital. Drops in working capital related to inventory carrying costs may cause higher freight charges and lower customer satisfaction.

Current events are responsible for supply chain interruptions and challenge inventory levels. Because of unexpected disruptions, many companies have safety stock. It is vital for organizations to find the right balance between having too much and too little safety stock. Too much can cause high holding costs of inventory and may cause some products to spoil or expire while in the warehouse. Too little stock can cause a loss of sales and customer satisfaction.

Matching supply to demand is an essential element in eliminating unnecessary costs. Work together to minimize inventory throughout your supply chain and drive waste out.

OMNI-CHANNEL SUPPLY CHAIN CHALLENGES AND OPPORTUNITIES

The omni-channel supply chain is becoming increasingly important for retailers. According to a recent study by eMarketer, e-retail sales totaled $40 billion in 2013 and continue to grow quickly. Customers are interacting with brands through a variety of channels and want more control over delivery dates and returns processes.

Consumer demands are driving changes in the supply chain. Keeping up with current trends could require partnering with new carriers, gaining visibility into new divisions of business and making adjustments to inbound and outbound shipment management processes.

For example, having a click and collect strategy has become very important since typically more items are available online than in retail stores. In fact, a Pew survey found 72% of smartphone users use their device in store to compare prices, view product options and look up product reviews. This completely changes how a company values their store, where they ship products, and how they ship them.

$40B

total e-retail sales in 2013 and it continues to grow rapidly

The omni-channel experience strives for the best customer experience across every channel. Supply chain strategy and technology implementation must focus on optimizing the customer experience and buying cycle. In a recent survey from Kewill, 29% of customers will stop shopping with a retailer if their order is incorrect, and 62% of customers are much less or less likely to shop with a retailer if their order is delivered late. An inefficient omni-channel strategy will lose customers, damage the brand, and quickly decrease the bottom line.

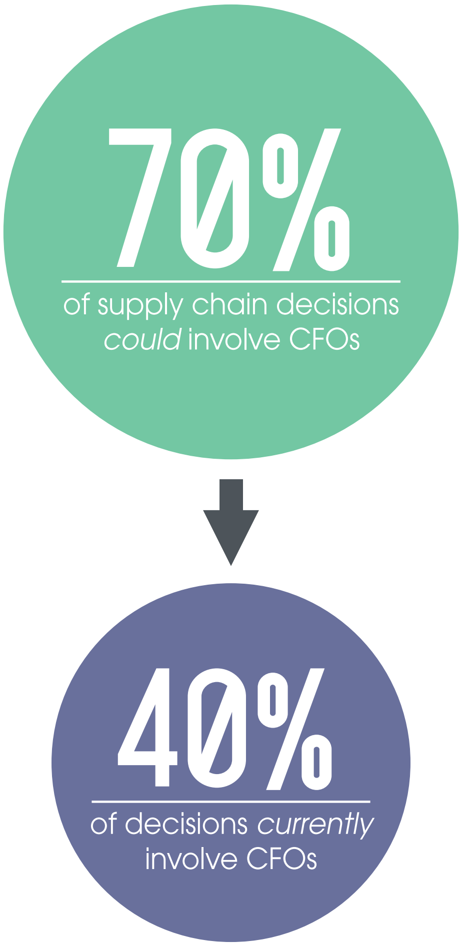
Speed of delivery is one of the most important components for organizations to fulfill in the omni-channel experience. E-Retail shoppers won’t wait a couple of weeks for their items anymore; customers want their items for next-day or same-day delivery, which can strain a company’s supply chain. Retail Systems Research (RSR) conducted a survey of companies with successful supply chains and 54% said the ideal strategy would be to fulfill demand for any channel from any distribution center, however, only 24% of those surveyed said they can actually do this.

44%

of companies still manually enter data for their shipments

Automating processes is a good way to improve efficiency. In the Kewill survey, 44% of companies still manually enter data for all of their shipments. This increases errors, staffing, and slows overall productivity. Using a TMS, if not a full range of supply chain visibility software, is necessary for omni-channel operations. The Kewill survey found that omni-channel supply chains usually fail due to slow order processing, poor visibility, lack of carrier intelligence, or a bad returns process. All of these can be addressed by automating processes.

Returns processes are important in the omni-channel supply chain. For most retailers, customer returns are a nightmare, eating profits and ruining customer satisfaction. The returns process can be a competitive differentiator if it is organized properly. Many customers now want to order several items online and return the ones that don't fit or aren't the right color. If this process is easy for them and for the retailer, the customer experience will be good, the brand will be promoted positively, and a company will have saved money from automating and streamlining the returns process. Once again, omni-channel fulfillment is all about the customer experience.



The problem with many supply chains is the decision making power is too divided. There needs to be more influence from financial leaders to organize a supply chain that can handle omni-channel demands. In the RSR survey, CFO's said they may influence about 40% of decisions in supply chain design, even though they have the potential to be involved in 70% of the decisions.

The future of commerce is omni-channel and many have already adapted to the method. Each channel has unique demands. In the retail experience, shoppers look for a combination of online and in-store experiences. They shop on their phones during the day and on their tablets at night; shipping costs and return policies are critical components of the process.

WE HAVE EXPERTISE

Supply chain management should improve customer satisfaction and reduce operational challenges. When looking for savings and more productivity in the supply chain, contact an expert to maximize opportunities and visibility.

At PLS, our team of experts can be as involved with your supply chain initiatives as you'd like them to be. Whether we advise you on different carrier options or fully implement centralized technology, we are here to make your business more successful. Our goal is to identify cost savings, create better labor practices and increase overall revenue through a better customer service experience.