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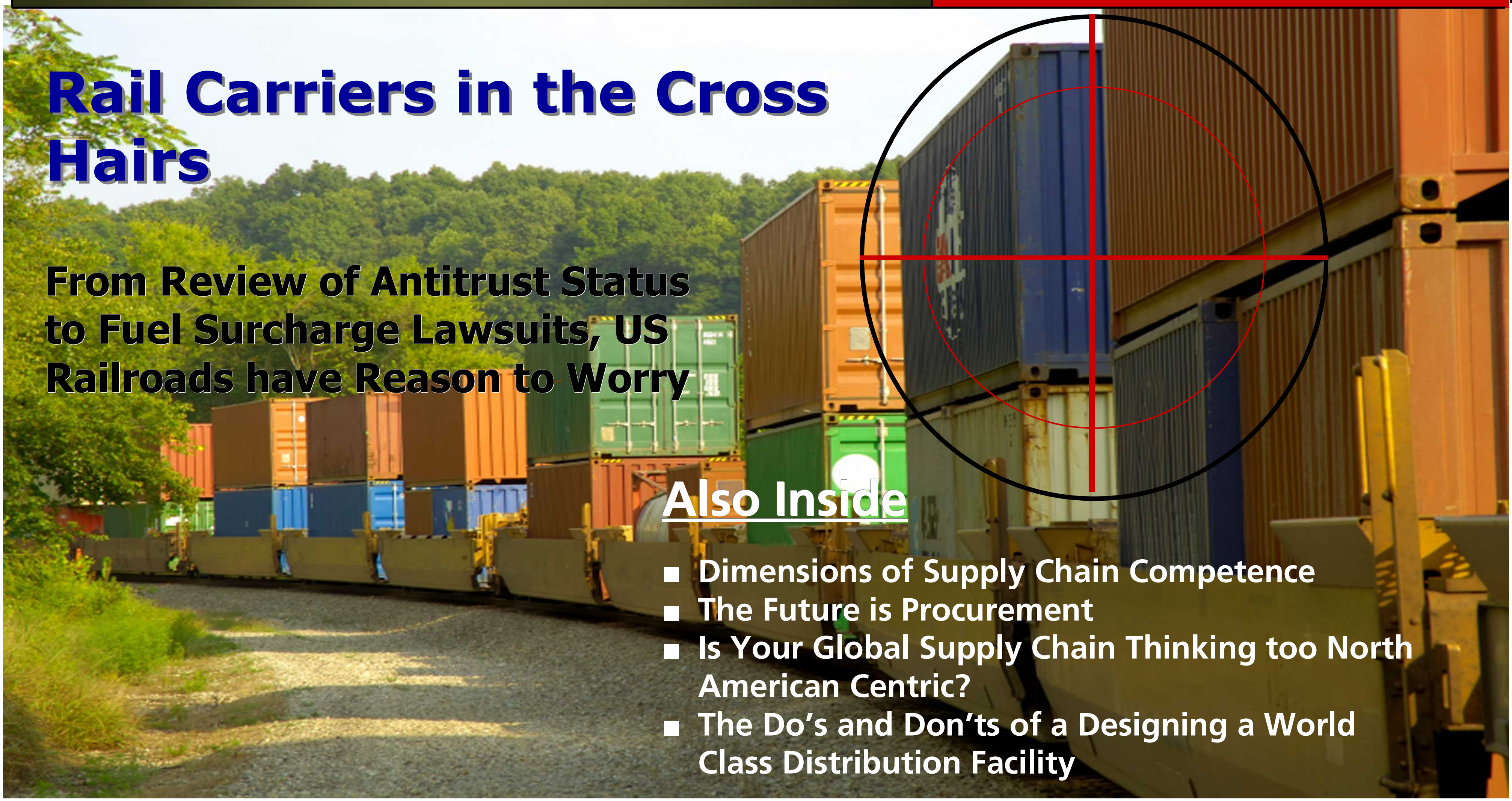
• *On-Target* Print Issue •

October 9, 2007

After Mattel, will Manufacturers Re-think Risk – in Product Design?

RFID: The Revenge of "Closed Loop"



Rail Carriers in the Cross Hairs

From Review of Antitrust Status to Fuel Surcharge Lawsuits, US Railroads have Reason to Worry

Also Inside

- Dimensions of Supply Chain Competence
- The Future is Procurement
- Is Your Global Supply Chain Thinking too North American Centric?
- The Do's and Don'ts of a Designing a World Class Distribution Facility

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Rail Carriers in the Cross Hairs

From Review of Antitrust Status to Fuel Surcharge Lawsuits, US Railroads have Reason to Worry

The past few years have been good times for US railroads. Surging volumes, driven by double digit annual growth in imports. A strong pricing environment. Rising profits and stock prices. Earlier this year, rail companies saw another boost to stock prices, as legendary investor Warren Buffet took significant stakes in three major carriers. Buffet is known to prefer investing in companies and industries that he believes have strong pricing power.

In the short term, like other areas of the transportation industry, rail carriers are being affected by a slowdown in economic activity, as flattening import volumes and the housing industry depression have combined to reduce demand and open up some capacity on the rail system. But in general, the slow down in volume growth has had only a marginal impact on rates, which are still rising, although at a somewhat lower level than the past few years, according to most reports.

For example, Ed Wolfe, a transportation industry analyst at Bear Sterns, recently spoke to one building products industry shipper who said that despite lower demand for rail carriage, he expects rate increases of 3-5 percent in Q1 2008, and he "has no alternative but to pay the increase while complainstudy was published that, "This is the greatest train robbery of the 21st century."

Were Profits based more on Surcharges than Operations?

To put the ACC report (actually developed by research company Snavely King) in perspective, Burlington Northern Santa Fe reported profits in 2006 of about $1.87 billion dollars. The Snavely King report estimates that BNSF "over recovered" $925 million in fuel surcharges that year – which if true would means more than half of BNSF's profits came not from operations but surcharges (the railroads dispute these overcharge claims).

Below is a chart showing the ACCC/Snavely King estimates of excess fuel surcharges and reported carrier profits for 2006 (the highest year of estimated over-recovery, according to the ACC study):

Percent of 2006 Rail Profits as from Alleged Fuel Surcharge Over-Recovery

Carrier	2006 Profit	Alleged Fuel Surcharge Over-Recovery	Percent of 2006 Profits from Alleged Over-Recovery
Burlington Northern	$1.87 billion	$925 million	49%
CSX	$1.31 billion	$842 million	64%
Norfolk Southern	$1.48 billion	$890 million	60%
Union Pacific	$1.6 billion	$1.169 billion	73%
Kansas City Southern	$108 million	$79 million	73%

ing to local politicians and regulators."

So while things in general things still looked fairly rosy for the rail carriers, two recent developments could put a bit of a cloud on the rail carriers' position.

Fuel Surcharge Suit Could Take a Big Bite

A somewhat obscure law suit earlier this year by an even more obscure and dubious plaintiff charged the rail industry with illegally benefiting from fuel surcharges. That suit was given a boost this month when a study commissioned by the American Chemistry Council estimated that railroads had conservatively overcharged shippers on fuel surcharges by $6.5 billion from 2003 thru Q1 2007 (see **American Chemistry Council Report Charges Railroads With Overcharging on Fuel Surcharges to the Tune of $6.5 Billion Since 2003**).

If the ACC allegations are even remotely accurate, it means rail profits (and stock price) were tremendously inflated by fuel surcharge profits – with as much as 73% of profits coming from surcharges in 2006 for some carriers.

The original suit, filed by was filed by a small, closely held company named Dust Pro (Phoenix, AZ), which ceased operations of the relevant business in late 2005. Finding information on the company via web searches is difficult.

The suit had the characteristics of an action filed on behalf of one dubious victim with the intent of dragging other shippers in later in a class action status. Some observers doubted the attorneys for DustPro would succeed in gaining class action status, or that major shippers would join the action even if it did. But the research from the Chemistry Council, and aggressive language from its leadership, makes it seem likely that industry's shippers and those from other sectors will take legal action.

Jack Gerard, president and chief executive of the ACC, said after the

If the ACC allegations are even remotely accurate, it means rail profits (and stock price) were tremendously inflated by fuel surcharge profits – with as much as 73% of profits coming from surcharges in 2006 for some carriers. It also means that success of the current or future law suits over the surcharges would have a huge impact on rail carrier financial results.

With major investments needed for rail infrastructure, this issue makes understanding rail carrier economics much more difficult than before. Rail carriers have traditionally had among the lowest returns on invested capital of any industry – one reason why infrastructure developments were slow to come. Lately, investment plans have been accelerated, based on rising demand and improving returns, but perhaps the real returns were masked by surcharge profits.

Anti-trust Exemption under Attack

US rail carriers are among the handful of industries (such as Major League Baseball) that enjoy anti-trust protection for monopolistic conditions. Many rail routes are served by only a single carrier, and rarely is a route served by more than two.

Last week, the Senate Judiciary Committee held hearings to discuss "The Railroad Antitrust Enforcement Act of 2007," which would repeal to the rail carriers' anti-trust exemption in an effort to increase competition. There is a similar bill being developed in the House.

The bill would allow suits against railroads for anti-competitive conduct – for which they have been immune for decades.

Railroad groups argue that the effort to remove the anti-trust exemptions is unneeded – in part because most areas that fall with anti-trust exemptions are subject to regulation by the Surface Transportation Board (STB).

A statement from the Association of American Railroads says, "Freight railroads are subject to most anti-trust laws, including those that prohibit agreements among railroads to set rates, allocate markets, or unreasonably restrain trade. The few, very limited anti-trust exemptions applicable to railroads pertain only to conduct for which the Surface Transportation Board has regulatory authority over the railroads."

From our view, an end to the anti-trust exemption would mean little to shippers directly – the facts of the rail infrastructure mean that real competition in the sense of say the trucking market just isn't realistic. STB does regulate the rails, and much of the calls for the end to the anti-trust protection are coming from quarters simply unhappy with STB policies.

If that exemption were to be eliminated, most of any resulting changes in the rail industry would come as the result of a slew of lawsuits suddenly targeted against the industry. Whether that is in fact good for shippers in the end is far from clear. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

Would elimination of rail carriers anti-trust exemptions really help shippers?

Will Mattel Incidents Be Catalyzing Event in how Manufacturers think about Risk – in Product Design?

China as Scapegoat? As Mattel Apologizes to China, Attention to Supply Chain Risk Shouldn't Obscure Key Issues around Product Design; Even Toyota had Issues

A growing number of companies, especially manufacturers, have placed significant emphasis on supply chain risk management. ***Focus on Risk Management*** was in fact one of the 10 Supply Chain Megatrends SCDigest identified earlier this year, as the impact of Supply Chain disruptions on brand equity and shareholder value become better understood (See [**Supply Chain Megatrends, Part 2**]).

But the seemingly endless saga of the Mattel toy recalls is likely to drive the issue even more deeply into corporate psyche. But it's important that manufacturers don't look and invest too much in reducing the risk of offshore supply relationships (as needed as that is) and short their investment and attention to improving the safety of product design.

Mattel Apologizes for Product Design Lapse

While most of the attention on Mattel has focused on the use of lead paint by a supplier's supplier, it turns out that the vast majority of the recalled toys were the result of the potential for batteries to fall out and children then swallowing them. 17.4 millions toys were recalled for the battery issues, versus just 2.2 million for the faulty paint jobs.

Mattel's Thomas A. Debrowski, executive vice president for worldwide operations, was in Beijing recently to repeat what the company had already said elsewhere: that it was sorry for the recall of millions of toys, and that it was doing all it could to prevent further problems.

China's official news agency jumped on that news, writing that "apologized personally Friday to a senior Chinese official for the massive recall of Made-in-China toys due to design flaws committed by itself." Other Chinese media sources said Debrowski apologized for harming the reputation of Chinese firms.

Mattel subsequently said some reports of its meeting with Chinese product safety chief Li Changjiang had been "mischaracterized," but it is now becoming clear that the vast majority of the suspect toys were recalled from basic design issues, not problems with manufacturing in China.

It seems design issues in fact are the overwhelming cause of product recalls. According to the US Consumer Products Safety Commission, of the 10 recalls of products manufactured in China over a 2-week period in late July to early August, only one, the Mattel lead paint issue, was clearly due to manufacturing deficiencies.

While the nine others could be manufacturing deficiencies, they appear to be more related to product design issues.

So while Western manufacturers will rightly increase their scrutiny of potential Chinese and other offshore suppliers and set up more rigorous testing and monitoring processes as a result of these high publicity incidents, it's important they don't overlook putting the most emphasis up front – on product designs and design for manufacturing that simply do not pose these fundamental risks.

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Rapid Product Lifecycles Play a Role

From electronics to toys, product lifecycles are contracting enormously. This puts tremendous pressure on both product design and the supply chain – and clearly leads to addition supply chain risk.

Designers pressured to meet market schedules and compete in the global marketplace means it's much harder to put enough effort into designing for safety and safe manufacturing than in the days of slower product lifecycles.

Even Toyota, a paragon of manufacturing quality, said earlier this year that its rising level of quality issues and product recalls were in large part the result of speed-to-market pressures that led designers to take short cuts.

The net result is that manufacturers need to look at quality and supply chain risk not in isolated pieces, but holistically – and not let the current focus on offshoring and China divert attention from the larger risks lurking in product design and cycle time pressure. ■

Do you agree or disagree? Share your perspective by emailing us at feedback@scdigest.com

Is Product Design the Real Issue in Recalls?

U.S. recalls of Chinese-manufactured products from July 18–August 3, 2007

Importer	Product	Number Re-called*	Reason for Recall
Raleigh America	Bicycles	1,200	Forks can break
Mattel (Fisher-Price division)	Toys	967,000	Lead paint
Springs Window Fashions	Window blinds	140,000	Strangulation hazard
Orvis	Toys	1,520	Choking hazard
Estes-Cox	Remote-control airplanes	21,000	Explosion risk
Black & Decker	Trimmer edgers	202,000	Hazard from projectiles
Yotrio International	Lounge chairs	15,000	Collapsing hazard
CVS/pharmacy	Sippy cups	84,000	Choking hazard
Hasbro (Easy-Bake division)	Toy ovens	1 million	Entrapment and burn hazards
Atico International USA	Coffeemakers	392,000	Fire hazard

Source: U.S. Consumer Product Safety Commission

Logistics News: The Do’s and Don’ts of a Designing a World Class Distribution Facility

What you need to know to complete a successful design

By Jim Barnes
President, EnVista

Before you embark on designing World Class facility it is important to clearly define your strategy. While a strategic design should evaluate the business trends and growth in your business five to seven years into the future, the reality is that few companies can really forecast and predict their annual sales revenue five years in the future.

There lies the first don’t: DON’T swag at a sales numbers. Rather, DO take the time to work with your sales and marketing team and understand what the sales trends really are. In addition, consider any potential changes in your sales strategy. For example, is your company planning to use new sales channels (e-commerce or catalogue), or more importantly is your product mix going to change in terms of cube (cubic feet per case) and selling unit of measure?

These above mention factors can impact your facility layout and space requirements considerably. The next “DO” in starting a project is to identify the resources that will be involved in the project and identify their specific roles. The team members should be kept informed of the project status at regular intervals. By keeping everyone informed you will not only ensure that all key strategic decisions are common knowledge, but when it comes to addressing any potential issue

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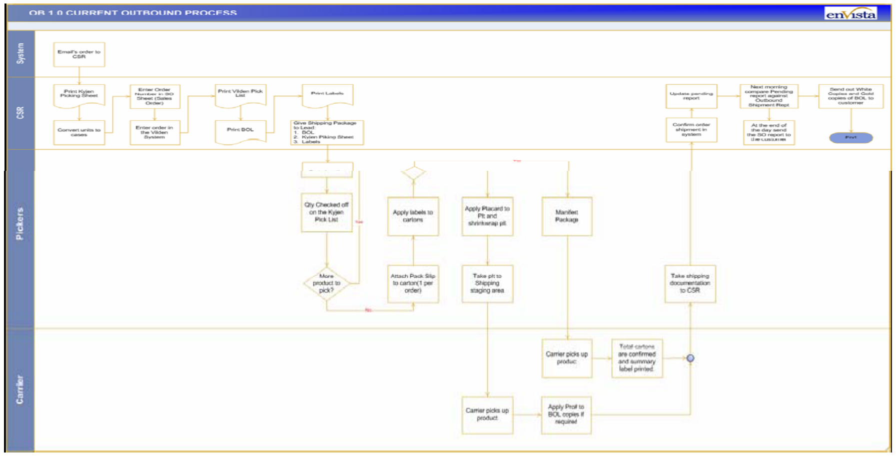
on the back end of the project, you will work as a team to come up with a solution instead of pointing fingers and blaming one another for the failure.

Future sales trends (percentage increase or decrease over the previous year) are typically used as a basis for SKU growth, inventory, purchase order and sales order trends. Our next "DO" is to document your design assumptions, who made the assumption and what the logic was behind the assumption.

Perhaps the most critical step in designing a facility is to document your current operational functions. A "DO" is to use cross functional process flow techniques that capture the interdependencies between systems, processes and people (see reference illustration nearby).

A major "DON'T" is to only interview management during this task. You need to complete the three actuals: (1) visit the actual place, (2) watch the actual process and (3) speak to the actual people that perform the task. Use the management team in conjunction with the associates to validate the process flow charts. We are often surprised by the disconnect between how management believes an operation is executed versus the actual process. Also, there are some aspects of the process that the operators might not be aware of that the management team is aware of. Therefore, it is important to match both the



Formally documenting process is key to getting DC design right

management's version of the process with the operator's version of the process and fill the missing gaps. The next "DO" is to have your management sign off on the flow charts and potentially use them as training documentation.

After the steps of understanding expected sales volumes and mapping current processes, you are ready to mathematically analyze your DC activities. We'll cover that process in detail in part 2 of this column.

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

About the Author

Jim Barnes is president of EnVista, a leader in providing logistics and transportation cost management services. The company enables mid-market to Fortune 5000 companies to reduce operating costs, improve customer service and enhance profitability. He can be reached at:

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Dimensions of Supply Chain Competence

Data from Annual Report on SCM Progress from CSC and Michigan State provides Mixed Data, but Framework is Useful; We Summarize Key Findings

Last week saw the release of The Annual Global Survey of Supply Chain Progress from Computer Sciences Corporation (CSC) and Michigan State University. The fifth such report, the effort as the name implies tries to gauge how much progress the industry is making.

That's actually quite a hard task, and it's hard to get a clear view from the data from this year's report, released last week. The full report is available from the CSC web site: **The Annual Global Survey of Supply Chain Progress 2007**.

We summarize key findings below.

Dimensions of Competence

The study provides a framework for thinking about supply chain competence that may be of interest for companies evaluating their own supply chain strategies and capabilities. The eight dimensions considered are:

- SCM Alignment with Business Strategy
- Strategic Customer Integration
- Strategic Supplier Integration
- Cross-Functional Internal Integration
- Supply Chain Responsiveness
- Planning and Execution Process and Technology
- Supply Chain Rationalization/Segmentation
- Risk Management

This is a pretty good model for thinking about a company's supply chain capabilities and maturity. We'd like to see a more defined list of attributes for leaders, followers and laggards for each dimension, but it's as good as any place to start for analyzing your own supply chain.

Key 2007 Report Findings

From our view, important or most interesting findings from the report include:

- 38% of respondents said their organizations had a chief supply chain officer or similar single executive in charge of the supply chain.
- Those with Chief Supply Chain Officers reported stronger supply chain results, but whether creating a CSCO role leads to the improved results, or companies with a strong supply chain orientation and performance are more likely to create such a role, is unclear.
- Not surprisingly, forecast accuracy continues to be a big supply chain concern. About 78% of respondents rate themselves in the bottom two-thirds of performance in terms of accuracy – a reversal of the usual over-rating of themselves most companies do, and probably just reflects how difficult forecasting is.
- 56% of companies review and update supply chain strategies only on a perceived "as needed" basis, rather than formally doing so on say an annual cycle.
- Internal collaboration across functions, not surprisingly, needs work in many companies. For example, only 39% of respondents agreed or strongly agreed that procurement decisions were based on consensus plans and forecasts. Only 36% of respondents rated their firm "high" in terms of using common product roadmaps and other procedures to guide product launches.
- Just 45% of respondents said their companies had a good feedback

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The report notes, "Most companies simply do not put the amount of effort into the planning area to truly match supply with demand. Rather, the focus is on supply chain efficiency in terms of cost, and planning is expected to follow in step with emphasis on throughput and efficiency."

loop between supply chain plans and execution to identify the causes of variance to plan.

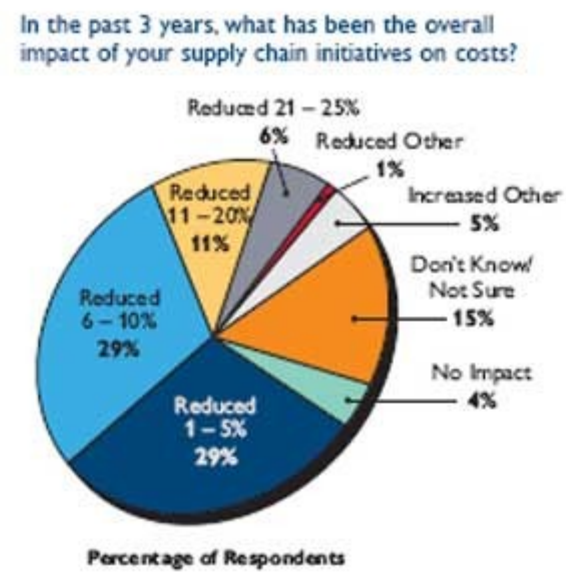
- 11% of respondents said that supply chain initiatives had reduced supply chain costs by 11-20% in the past three years. 6% claimed an amazing 21-25% cost reduction. 58% said costs had been reduced between 1 and 10%. The challenge, of course, in any such survey is getting the frame of reference. Is the cost reduction in absolute terms, or in reference to what would have been the results with the status quo? We suspect most answered from the latter perspective, which is more subjective.

The report notes accurately that "Most companies simply do not put the amount of effort into the planning area to truly match supply with demand. Rather, the focus is on supply chain efficiency in terms of cost, and planning is expected to follow in step with emphasis on throughput and efficiency."

Leveraging Financial Data

The reports conclusions include a valuable point – that better integration of the supply chain with financial information and analysis can lead to much better decisions.

"There is a large opportunity for financial officers to be more involved in supply chain efforts, particularly drawing attention to the actual improvements that can be made to financial performance," the report observes. "The leaders' use of costing and financial information to impact strategy and tactics is evidence that a closer relationship can be beneficial."



Source: The Annual Global Survey of Supply Chain Progress 2007

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

Is Your Global Supply Chain Thinking too North American Centric?

International Supply Chain and Logistics Groups often feel Second Class – and have much to Offer

Do North American companies, and their European counterparts, often fail to fully embrace the needs and insights of their supply chain and logistics peers in other parts of the globe?

The answer is definitely Yes, says Supply Chain Digest editor **Dan Gilmore**.

"I have attended global supply chain or logistics meetings at several companies this year, and found one recurring theme – many managers in global locations, especially in developing countries, feel like somewhat second class citizens," Gilmore says.

It's natural for companies to have a supply chain orientation that springs from their headquarters or primary market perspective, but if carried too far that can really hurt global supply chain effectiveness and limit valuable input that can drive improvements.

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Common issues companies face in this area include:

- Supply chain or logistics processes and "best practices" that are developed from an overly North American perspective. What works here is rarely optimal for Eastern Europe or South America, for example.
- Similar problems with supply chain software development: requirements are developed from a home country perspective, and the real needs of international units that will ultimately also re-

ceive the software are not well gathered or considered.

- Slow software rollouts: international units receive new software deployments sometimes years after the home market, so that global supply chain technology is always out of sync.
- Failure to really understand the unique operating requirements of different regions. Home country managers often hear but don't really listen to international challenges and constraints.
- "Not invented here syndrome" – home country managers often don't take advantage of the supply chain and logistics insight their international peers can offer in what should for most companies be a truly global supply chain orientation.

"Once a year we come to a global logistics meeting, but the dialog is way too one-sided," a logistics manager from a large industrial equipment maker located in Eastern Europe recently told SCDigest. "We really come to hear what the US is doing and what technology they are going to give us when, not to really collaborate on the most effective ideas."

Gene Tyndall, SCDigest contributing editor who has worked with hundreds of companies on global supply chain issues, agrees many companies could do a better job of including the needs and input of global managers.

"This issue has intensified in recent times as companies have become

"We really come to hear what the US is doing and what technology they are going to give us when, not to really collaborate on the most effective ideas," said one supply chain manager from Eastern Europe.

more "lean" and have reduced international travel for training, meetings, and team-building programs," Tyndall said, "Headquarters people have less opportunity to learn and understand other cultures and markets, and e-mails, conference calls, and video conferences are inadequate for this purpose.

The key takeaway: take a look at your supply chain processes design, technology strategy, meeting agendas and other components that drive supply chain strategy to ensure the needs of global operating units are adequately considered, and that there are defined mechanisms to acquire and utilize feedback from international managers on requirements and ideas for improvement. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

The Issue:

North American and European companies sometimes don't fully integrated supply chain and logistics operations in other global regions.

Recommendations:

- Formally document how global, regional requirements will be considered in process and technology strategies.
- Set up a consistent "listening" mechanism for global operations: your supply chain will absolutely benefit as a result.

RFID Compliance in Retail Supply Chain Follows Bar Code Trajectory of 15 Years Ago

Hugely Optimistic Projections almost Always Fail to Materialize; Steady rather then Exponential Adoption is the Rule

RFID technology has been around for decades. Earlier in this decade, the Auto ID Center at MIT, and its rebirth in 2003 as EPC Global, changed the game significantly by re-focusing RFID tag design on simple, lower cost tags that had the potential to be widely adopted across the consumer goods to retail supply chain, and many others industries.

This EPC movement clearly energized hundreds of companies, government agencies and other organizations to start looking at potential uses for RFID, and spawned the Wal-Mart and US Department of Defense compliance programs, as well as programs in Europe by retailers Tesco and Metro stores, to name the most prominent initiatives.

The EPC vision included an end-to-end ability for trading partners to use the same tags and share supply chain information as products, for example, move from manufacturing to store shelf. The vision was for "open systems" that not only used standards-based RFID tags and readers, but was driven by information that could be leveraged by multiple players in the supply chain.

RFID technology really began, however with so-called "closed-loop" systems. The term denotes a system that is under control of a single company or organization for its own interest and benefit. In a closed loop system, a company deploying RFID typically doesn't have to worry about making the RFID data available to other trading partners.

Examples of closed-loop RFID systems might be the tracking of work-in-process inventory in a manufacturing environment, or the DoD's current system for tracking containers sent across the globe.

Closed- Loop Makes a Comeback

To a great degree, closed-loop systems took a back seat in terms of market attention and user focus since the Wal-Mart and DoD mandates and the broad EPC vision. But the payback from closed-loop systems was always there. Closed loop systems can still be deployed using standards-based technology, though many non-standards based applications are also being effectively implemented.

In a 2005 interview, John Hill of ESYNC told SCDigest that "companies should not let all the attention focused on Wal-Mart's mandates to obscure the outstanding opportunities for closed-loop systems in manufacturing."

That comment looks especially prescient today.

Slowly but steadily, closed loop systems are making a comeback. A manager at RFID solution provider Intermec recently told SCDigest that of the more than 260 RFID projects the company had active, the vast majority were for closed-loop applications.

Now comes news that Alien Technology, long considered a leader in EPC-based systems and the Wal-Mart and DoD programs, is releasing new products more aimed at the closed-loop market.

The key factor: the very slow to develop consumer goods to retail and DoD RFID markets.

"We're looking at where the market will be in the next 12 to 18 months, knowing that the mandate market will take a little bit longer than expected," Ronny Haraldsvik, VP of marketing at Alien, told eWeek. "We've seen a dramatic shift from the mandate market to close-looped systems, where [businesses] in many varieties of industries are adopting RFID on their own terms and not necessarily for the supply chain."

John Hill

"Companies should not let all the attention focused on Wal-Mart's mandates to obscure the outstanding opportunities for closed-loop systems in manufacturing," John Hill presciently told SCDigest in 2005.

While the new Alien products, such as the **ALR-9650 Smart Antenna**, still have EPC Gen 2 standards as their foundation, the form factors, functionality and price points have been tweaked to appeal to new applications beyond the needs of Wal-Mart and large consumer goods manufacturers.

As always, the driver of all this is ROI. Closed loop systems are adopted only because they provide justification in terms of costs savings, improved decision-making or other benefit. As RFID technology has improved, and price points for tags and equipment decline, the opportunity to use RFID profitably in manufacturing, asset tracking or other applications versus other auto ID technologies increases.

As has been well chronicled, most suppliers facing Wal-Mart mandates have been hard pressed to find similar returns. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com

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The Issue:

- So-called "closed-loop" RFID systems are making a market comeback, after taking a backseat for the past few years to EPC and Wal-Mart programs

Worth Noting:

- Intermec says the majority of its RFID projects are closed loop systems
- Alien Technology, long associated with EPC and Wal-Mart and DoD programs, is releasing new products more geared to the faster growing closed loop market
- Closed-loop systems can still use standards-based technology such as EPC or ISO

The Future is Procurement

Outsourcing, Commodity Prices, Make Sourcing Execs a Hot Commodity Themselves

Procurement and sourcing managers find themselves under a lot of pressure today, given the seemingly relentless drive to reduce costs, the complexity of global supply sourcing, balancing lean inventories with reducing risk and other factors.

The good news: it is the very scope of managing those challenges that are remaking the role procurement managers and executives. Once sometimes an outpost for managers who didn't make it elsewhere, procurement is emerging as one of the most important jobs in many companies.

As these fundamental supply chain trends are likely to continue for the long term, the future isn't plastics, to put a spin on Dustin Hoffman's line from The Graduate several decades ago, but procurement.

Rising Commodity Costs get Exec Attention

There are a number of factors behind this growing stature for procurement.

One key factor has been the huge rise in commodity prices over the past few years. As the prices for oil, metals, and now agricultural products have soared, costs for manufacturers procuring these commodity or derivative products, such as plastic resin made largely from oil, have also skyrocketed, and led many corporations to cite commodity prices as to blame for earnings shortfalls.

Rising commodity prices have therefore generated board-level attention at many companies, especially as automation, outsourcing and other manufacturing techniques have reduced labor costs as a percent of total manufacturing cost dramatically. Materials make up a larger and larger percent of standard cost for most companies – and skill in driving these costs down or reducing variability through sophisticated sourcing and contracting strategies in critical. Many companies, for example, have been locking in commodity suppliers and prices through very long term contracts that would not have been considered in a different commodity environment. (See **Supply Management: The Return of Vertical Integration?**.)

The complexity of global sourcing itself is also a huge factor. Procurement managers need to have a new set of skills to identified, qualify and manage potential suppliers literally across the entire world.

A recent article in the Wall Street Journal recently talked about this "new breed of purchasing gurus who have become a hot commodity in recent years. As more companies globalize and outsource production, they need a top-level point person who can manage these complex relationships, navigate various foreign cultures and be willing to travel constantly."

Risk Ads another Dimension

In addition to these pressures, procurement managers must also deal with a whole new set of risks and executive focus on minimizing supply chain disruptions. The recent Mattel toy recalls provide an obvious, high profile of example of the risks. But procurement managers must somehow reduce the risk while still helping operations run increasingly lean supply chains.

As these skills sets expand and the recognition of their value becomes obvious to CEOs, more and more companies are creating the role of Chief Procurement Officer (CPO). And it's about time, says Dave MacEachern, head of the supply chain and logistics practice at executive recruiters Spencer Stuart.

The only thing surprising about the emergence of the CPO function is that it has taken so long to for companies to embrace. It should be a no brainer and is very often the first step toward an end-to-end supply chain strategy. A good CPO will pay for himself in weeks in many cases," says Spencer Stuart's Dave MacEachern.

"The only thing surprising about the emergence of the CPO function is that it has taken so long to for companies to embrace," MacEachern told SCDigest. "It should be a no brainer and is very often the first step toward an end-to-end supply chain strategy. A good CPO will pay for himself in weeks in many cases."

MacEachern also is seeing many service organizations creating the CPO office.

"There is a lot of money sitting in the indirect world of IT, travel, marketing, real estate, professional services etc and any savings go straight to bottom line," he added. "I know of a $10 billion information services company that just hired the number 2 procurement executive from one of the major computer manufacturers. Just think of the impact she will have that company short, medium and long term? It will be huge."

CPO's often need to be well rounded supply chain executives, MacEachern noted.

"Its not all about price; it is about total landed cost, managing inventory levels, logistics, customer sevice, supplier quality, etc., and the CPO role is in the middle of these decisions or often making them," he said. ■

Do you agree or disagree? Share your perspective by emailing us a feedback@scdigest.com