

## **Make transportation a visible part of the supply chain**

By Brian Milligan -- 10/7/1999

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Somebody from production calls for an emergency order. The purchasing manager scurries around and the necessary supplies are shipped in.

A few days later, the order goes out again. And after a month, someone from accounting wants to know why the purchasing manager is spending money on transportation so erratically.

"People fly into the office and say, 'I need this tomorrow,'" says Bill Davies, purchasing manager for the Pennsylvania-based Victoria Vogue Inc., a producer of cosmetics. "What they're not saying is, 'To hell with the freight costs.'"

That's the frustrating scenario being voiced by many purchasing pros today. Managers say transportation is often an afterthought--if it's a thought at all--and nobody worries about it until costs start mounting up.

### **A fatalistic attitude**

Some purchasing managers who have experienced this overlooking of transportation costs say they are taking an almost fatalistic attitude about the whole thing. They say problems like this are inevitable, given purchasing's placement in the supply chain and transportation's position as a necessary evil. To get the parts, corporations must have them shipped. And someone has to pay shipping costs.

"It's all directly relative to the supply chain," says Brian Murphy, materials manager for Vermont-based Vermont Machine Tool. "We are the last stop in the chain. We are the end guy, the guy who is going to absorb all the transportation costs."

But Mike Ledyard, principal in supply chain practices for the California-based Computer Sciences Corp., says that there are solutions to this problem.

Ledyard recently co-wrote a book titled *Keeping Score: Measuring the Business Value of Logistics in the Supply Chain*. While researching the book, Ledyard says he and his co-workers observed that sourcing and procurement functions were two of the least integrated sections of the supply chain. The lack of integration led to breakdowns in communication. This led in turn to problems such as inventories not being created and used efficiently, or non-consolidated orders leading to high costs.

"In many cases they (purchasing) were out of the loop," says Ledyard. "They're kind of at the other end of the supply chain, with manufacturing between them and the whole distribution chain."

### **Misguided beliefs**

And Ledyard saw other problems too. He says transportation can be invisible to the point where not even purchasing managers recognize its costs. These are the managers who, like a purchasing pro at an envelope producer, believe the freight costs always are taken care of when supplies are ordered.

"We don't pay for anything that is coming in, because it is already included in the price for whatever I buy," he says. "I buy all big ticket items, and I don't arrange transportation."

But Ledyard says this is a mistake, and that the attitude that transportation costs are invisible is causing a lot of the confusion. The simple truth is, obviously, that transportation is not free. Those who believe that the cost is not there are simply allowing someone else to determine how much their company will spend, and how often.

"An awful lot of purchasing people out there don't pay attention to freight," Ledyard says. "They say freight is free. Because it's included in the price, it doesn't cost him anything. We're just now starting to see people unbundle the freight cost from the material cost and look at the total cost of acquisition."

Murphy of Vermont Machine Tool is inclined to agree with Ledyard. He says he too once took transportation costs for granted. The costs were simply factored into the supplies he ordered, and he didn't worry about them.

But doing a little arithmetic one day helped him get a better understanding and appreciation of the costs.

"We didn't pay attention to it because we thought that normally it's not a big part of the price," he says. "But then I took a look at the total costs, broke out the cost of shipping, and I was left with a real sizable number. I said, 'Wait a minute.'"

"It's forcing us to take a good, hard look at how we can control this," he continues.

### **Regretful practice**

Purchasing managers are starting to agree that the company that treats transportation as if it were invisible can come to regret it. They say that by not taking a firm grip on transportation orders, choices, and schedules, companies can easily watch their costs spiral.

"The disadvantage is that the person who is doing this writes down only the purchase price and doesn't include the price of getting the product to the site," says Tom Bistayi, purchasing agent for The Andersons Inc. in Ohio. "Then there are the intangibles. Did you quote it to the proper companies, your preferred vendors? Does the supplier choose the freight company? If so, is that advantageous to them and not to you because your company has negotiated rates with different carriers?"

Analysts say companies can cut down on costs--and frustrations--if they simply take a new approach to the way they do business. The bottom line: Take control of the procurement process. Don't let it control you.

### **Communication needs**

Ledyard says communication, fostered with reasonable schedules that call for controlled supply inventory, are what is needed in many cases. Such consolidated orders show an intelligent, organized approach to the supply chain, and cut down on costly, knee-jerk decisions. In a scenario like this, production departments don't work on their own, and purchasing departments are not kept in the dark about what will be needed and when. In such ideal situations, purchasing managers have more control, and often sit in on meetings where needs are addressed and strategies are planned.

"We think in terms of the total cost of acquisition, [purchasing departments] are way down on the top side of the curve. There are a lot of dollars on the table, but it will take looking at business in a different way, a different internal process," he says.

### **Decision-making**

Ledyard says a simple solution is to bring purchasing more into the decision-making process at companies. These companies, he says, need to have purchasing managers become a bigger part of the supply procurement process and plan out just how supplies are ordered and when.

"Hopefully we will be able to move purchasing managers into a more strategic mind-set," he says. "Instead of fighting fires, there should be improvement of the whole function in the corporation."

"Purchasing has got to be in the loop," he continues. "Look at the large picture, rather than the phone call at the end of the day, saying, 'I need this in the morning.' One way or another you must replace the cost of inventory with information, and allow yourself to order things in the right quantities, far enough in advance."

### **Greater responsibility**

Ledyard says it's time purchasing managers were given greater responsibility, including the ability to play an overall more important role in the corporation.

"Hopefully, we will be able to move purchasing into a more strategic mind-set instead of just fighting fires," he says. "There has to be an improvement in their whole function in the corporation."

Jeff Wincel, vice president of procurement and materials for the Michigan-based Donnelly Corp., agrees that it's time for the purchasing manager's job to evolve. He says purchasers must work more closely with logistics managers to come up with information bases and make more sensible logistics acquisition decisions.

"They must become more of a materials manager," he says. "They can't only think about simply buying the parts, but the total value chain."

This won't happen overnight. Kevin Keegan, a director in the supply chain practice of management consultants for the Waltham-based prtm, says this attitude about purchasing's role is widespread. He says it is natural for companies to focus on the manufactured cost of an item. Companies often don't pay enough attention to the total delivered cost, he says.

"Logistics need to be a part of the core business case for bringing a product to market," he says. "At key design junctures, logistic considerations need to be brought into play."

### **Getting respect**

But before the purchasing manager's job can evolve, some purchasing pros say the present job must be given more respect.

Victoria Vogue's Davies says he has worked for several companies where the purchasing manager's job was the first to be cut during a downsizing. He described this as "myopic," a move that obviously displays a lack of understanding of the importance of the job.

Davies says that unless companies give purchasing more respect--and understand the importance of its role in determining total cost--things will not get better. Until this happens, he says, there will be a continuing vicious circle of parts ordered at the last minute and transportation costs spiraling upward. "It's, 'We need the damn thing right now. Fly it in,'" he says.

### **Impact of requests**

At least at Victoria Vogue, Davies says there is ample communication between purchasing and production. But all production departments, he says, need to understand the impact of their requests. Responsible departments, he believes, will hold themselves accountable to purchase price variances when quick demands are made for supplies.

"If there is a rush for logistical concerns, those who initiate them should be accountable," he says. "It should be pointed out that a large part of this is freight cost."

Some purchasing managers, like John Kuta, say they are overcoming the problem by holding ritualized meetings with purchasing managers and others. Kuta, who works for Illinois-based National Cycle Inc., says his company schedules daily production meetings with team leaders. The planning sessions allow other departments to forecast what they will need in terms of supplies. Such planning helps the purchasing department be aware of supply needs and consolidate shipments when possible. As demands are forecast for stampings or machine parts, attempts are made to coordinate with the supplier, shipping, delivery, turnaround, and transportation.

"They plan, 'This is what we need to have done for Wednesday,'" he says. "And you could pre-plan ahead of that."