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CANADA'S SUPPLY CHAIN LINK

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Outside the Box

Tax on, tax off

The Canadian trucking industry, for one, has made its position on the federal election pretty clear. The Canadian Trucking Alliance (CTA) issued a press release praising the Tory announcement of a 50 percent reduction in the excise tax and another one critiquing the Liberal party's revision of the Green Shift plan to include a \$250 million green technology fund.

Predictably, the CTA supports the idea of cutting the fuel excise taxes from four cents to two cents a litre. The reduction would mean significant savings for the transportation industry across the board, with the greatest savings being realized by truckers. (See article below: [Tory pledge on excise tax draws praise.](#))

By contrast, the CTA comes down hard on the Liberals, noting that the Green Shift plan would result in a fuel tax increase of seven cents a litre, amounting to an extra \$500 million being paid each year by the trucking industry.

The CTA raises a valid point about the Liberal policy. Since the trucking industry is already investing heavily in environmentally friendly smog-reduction technology like new engines and fuels, what it needs is a rebate plan to accelerate investment in new technologies. But with the new so-called 'carbon tax' tax amounting to \$500 million a year in outlays and only \$62.5 million a year in the fund (which is being divided between the transportation and fisheries sectors), there wouldn't be much to go around for Canadian truckers. They will still end up being penalized, not helped.

It's an incontrovertible fact that Canada needs its trucking industry. It forms the backbone of our distribution system for industrial and retail goods alike. If the Liberals want to boost the economy they should follow the Tory lead and consider a tax cut, not a new tax for our transport sector.



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Strategy in Practice

A brief guide to transportation spend management

With transportation accounting for nearly half of an average company's logistics costs and transportation's proportion of cost of sales rising, corporate financial managers need to understand how to manage transportation spending.

According to a recent briefing by Adrian Gonzalez of the ARC Advisory Group, it's smart to start by asking your senior transportation executive to answer these questions:

- Are we leveraging our total transportation spend when negotiating with carriers, or is our spend fragmented across departments, business units or logistics service providers?
- Are we engaged with the right set of carriers, or are there other carriers that can meet our service level expectations at a lower cost?
- Are we consistently using contracted carriers and paying contracted rates, or is there a lot of "maverick" spending taking place?
- Are we being invoiced correctly, or are we paying too much? What's the cost of our freight settlement process and can we streamline it?
- Are our transportation costs aligned with the rest of the market, or are we paying more or less than other companies?

In addition to these questions, Gonzalez offers the following tips for getting the most out of your transportation dollars.

In order to get the answers to the five questions you must have a system for measuring key performance indicators that are aligned with the organization's objectives. You must begin by establishing a baseline against which to measure future performance.

When requesting carriers to bid on your business it's important to include not only those carriers with whom you have a relationship; you also need to weed out or add depending on factors such as their financial stability, capacity, IT capabilities, insurance coverage and safety record.

Provide carriers with detailed information about your network. You cannot get an accurate quote with inaccurate data on routes and volumes. Include data such as volume by lane by month, seasonal factors, detailed equipment requirements, accessorial needs and lead times.

Use business intelligence and analytics tools like performance dashboards, ad hoc reporting and statistical tools to gain more timely insights into performance metrics. You should be able to prevent negative trends from wasting the company's cash.



You Should Know

What's good for Gander...

Gander International Airport (CYQX) claims it is North America's first carbon-neutral airport.

The Gander International Airport Authority (GIAA) and its tenant companies are implementing a carbon emissions reduction program that includes infrastructure improvements and employee initiatives. The remaining emissions have been reduced by the purchase of carbon offsets. The GIAA has invested in green energy projects in Europe and Asia.

Gary Vey, the airport's president and CEO, explained that the airport has set a goal of reducing its carbon emissions by 33 percent by 2020.

"The bulk of the airport's emissions are from fossil fuels used to power our facilities and mobile vehicle fleet," Vey explained. "We are working to identify an alternative system which meets our needs and budget."

An employee committee is also looking at options such as reducing paper consumption, a procurement policy that gives preference to green vendors, reducing electricity use, more comprehensive recycling, anti-idling policies and energy retrofits.

Gander International Airport is among airports around the world that are signatories to the 2008 Aviation and Environment Summit Declaration, which commits to carbon-neutral growth and a carbon-free future.

Aviation is responsible for an estimated two percent of global carbon dioxide emissions.

Extending the accelerated capital cost allowance

Extending the accelerated capital cost allowance (CCA) for Canadian manufacturers would be a mistake, according to researchers at the Conference Board of Canada.

The accelerated capital cost allowance was introduced in the 2007 federal budget and was extended for a third year in the 2008 budget. The Conference Board argues that tax refinements—such as an accelerated CCA—that are specifically targeted towards encouraging investment "generate a high payoff in improved productivity and economic growth".

However, as a permanent measure, the accelerated CCA could actually lower productivity. According to the Conference Board, making the tax relief permanent could encourage resources to move into or stay in the manufacturing sector at the expense of other sectors.

It advises the government to extend the accelerated CCA for one more year, in light of the volatile dollar and tighter credit. One extra year would give Canadian companies time to adapt to the changing business environment and would demonstrate the government's commitment to helping business adjust to specific shocks.

US retail container traffic set to drop

Cargo volume at major US retail container ports is now expected to decline six percent in 2008 compared with 2007 as the slow economy forces merchants to watch inventory levels.

Volume is projected to total 15.5 million TEUs for the year, compared with 16.5 million TEUs in 2007. The estimate is down from the 15.8 million projected in August, which would have been a four percent decline from 2007. Cargo volume each month this year has been below the same month last year, and is expected to continue to be below last year's levels in each remaining month. Year-over-year increases previously expected in October and December are no longer anticipated.

"Retailers are tightening up their inventories to reflect what they expect to be able to sell during the

holiday season,” said the US National Retail Federation's vice-president for supply chain and customs policy, Jonathan Gold. “We still expect to see an increase in sales this year, but the economy is clearly challenging and our industry is trying to hit the balance point between supply and demand as closely as [it] can.”

US ports surveyed handled 1.32 million TEUs in July, the most recent month for which actual numbers are available. That's up 2.6 percent from June but down 8.3 percent from July 2007.

The numbers are released monthly in the Port Tracker report prepared by the National Retail Federation and Global Insight.

Tory pledge on excise tax draws praise

Transportation associations across the country came out in favour of the federal Conservative party's pledge to reduce excise taxes on fuel if they are elected in the October 14th election.

The Railway Association of Canada, the Canadian Trucking Alliance (CTA) and the Air Transport Association of Canada (ATAC) all issued statements supporting the Tory election promise.

For the aviation industry, ATAC estimates that the savings from the tax reduction from four cents to two cents per litre would amount to \$50 million a year. For the trucking industry, the CTA projects savings of \$140 million or about \$1,600 to \$1,800 for each typical long-haul trucker.

The Canadian excise tax was imposed in 1985 and has never been reduced. The US abolished its fuel excise tax in January 2007.

Sun shines on FedEx Freight

FedEx Corp and BP Solar have completed a second solar system for a FedEx Freight distribution centre. The system was installed at a facility in Fontana, California. The first joint system was inaugurated on Earth Day 2008 at FedEx Freight's facility in Whittier, California.

The 1,377 solar modules on the Fontana facility's roof can generate approximately 54 percent of the facility's needs. The 282kW system in Whittier is capable of providing almost 40 percent of that facility's annual energy needs. The two projects are expected to eliminate the release of more than 610 tonnes of greenhouse-gas-causing emissions.



Think Tank

Supply chain growing pains

A new study has identified the areas that are keeping health care supply chain practitioners up at night.

Costs were the top-ranked supply chain concern for health care companies, with 60 percent saying they were very or extremely concerned about the effect of costs on their business.

Twenty-five percent said managing supply chain costs was the issue they have been most successful at addressing. Among the companies with more than US\$1 billion in revenue, 74 percent said that costs related to product expirations, returns and recalls amounted to hundreds of thousands to millions of dollars every year.

The vast majority of survey respondents planned to make changes to their supply chain models in

the near future. These immediate changes include expanding their distribution channels, outsourcing more supply chain functions, working with third-party logistics companies and increasing their supply chain spending.

Ninety percent of respondents expect to make changes to their distribution channels within the next two years. Forty percent of all industry experts and more than half of the pharma industry (55 percent) said they expect to begin working with third-party logistics providers. A majority, 61 percent, plan to implement a direct-to-consumer channel strategy in the next one to two years while 55 percent are planning to initiate a direct-to-wholesaler strategy.

For companies with \$1 billion and higher revenues, 46 percent reported they are planning to change their distribution channel/go-to-market strategy. Nearly half (46 percent) of these larger companies also plan to increase the amount they outsource in the next one to two years. The same percentage planned to work with third-party logistics providers in the near future.

Despite concerns about managing supply chain costs, another trend is an increase in supply chain spending. In the next 18 months, 60 percent expect supply chain spending as a percentage of total sales to increase by 23 percent. Among the companies with \$1 billion and higher revenues, 42 percent expect increases in their supply chain spending over the same time period.

The study was commissioned by UPS and included both large and small- to mid-market companies in the pharmaceutical, medical devices and biotech industries.

Inventory tracking practices

Keeping track of inventory is one of the most important practice areas for supply chain managers. And with the economy slowing down, it has become an even greater priority to ensure that stocks are meeting demand but not piling up in the warehouse.

Recent survey research has revealed some of the current inventory management habits of logistics professionals.

A majority of logistics pros are keeping track of inventory through carrier websites. More than 50 percent have automatic processes to monitor order quantities, shipment dates and order commitments. However, 46 percent of firms polled were not automatically checking on these indicators.

Of those who do check, the majority (64 percent) check daily, while 21 percent check only weekly and seven percent get their data fix twice a day.

About 33 percent of firms do collaborative planning or have vendor-managed inventory programs (VMI) in place. Most work with suppliers (84 percent) but 50 percent are also involved in VMI with customers.

The most common VMI programs include inventory control, stock management, supplier performance tracing and just-in-time delivery.

About 80 percent of companies said that inventory visibility is critical. But only a third of businesses said their own reporting system is top-flight, and 25 percent says their system is lacking. Visibility is most frequently lost, respondents said, in transit. But 25 percent also said they lose track during manufacturing.

The survey was conducted in August with 423 logistics professionals. It was sponsored by Sterling Commerce.
