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How to Separate Savings from Risks

For years, cost savings has dominated the minds and activities of procurement professionals. [State of Flux](#) issues studies and reports on trends in the procurement industry. Cost savings consistently reigns in terms of importance. However, for the first time ever, this study revealed that risk management is now the number one driver in procurement, indicating that supply chain managers are realizing how much risk management means to the bottom line of their businesses.

Realizing the Importance of Risk Management



Image via [Flickr](#) by New York District, U.S. Army Corps of Engineers

Supply chain managers focus on cutting costs here and there, and might fail to realize that one mishandled risk can undo months or years of cost savings instantly. For example, selecting a cheaper supplier in a region susceptible to earthquakes, tsunamis, or social and political turmoil might save money for a time. However, as soon as natural or social issues derail the supplier's operations or their ability to ship products out to your manufacturing facilities, all of those savings go out of the window, as your operations shut down and customers go to someone else for their products. Of course, these extreme examples are not the only things that can delay or derail your profits, but any time you cut costs by assuming more risks, well, you're taking a huge risk with profits.

Realizing the Place of Cost Savings



Image via [Flickr](#) by New York District, U.S. Army Corps of Engineers

That is not to say that any expenditure to reduce risk is worth the cost. Today's economic client benefits the lean, strong companies and punishes those with bloated budgets. Thorough risk assessment needs to be done before any decision is made. The point is not to underestimate what those risks could potentially cost if the worst happens. Supply chain managers have historically been [confined to back room operations](#), a mere subset of the company's broad picture. However, times are changing, and supply chain professionals are now being realized as the backbone of manufacturing operations. Frankly, without good decisions on their part, the rest of the company need not bother trying. [Five considerations](#) should always go into any risk assessment:

1. What is the worst that could happen?
2. If it does happen, what will the cost be?
3. Can the company justify the cost savings in light of the risk?
4. How can risks be minimized while cost savings are maximized?
5. Is there a less risky way to achieve the same cost savings?

Balancing Between Risk and Savings



Image via [Flickr](#) by New York District, U.S. Army Corps of Engineers

Often, there are ways to save the same amount of money without assuming risks, especially when it comes to over dependence on outside suppliers. For example, workload automation can drastically cut labor costs within your own facilities without assuming the risk associated with an outside supplier. However, suppliers are usually a necessity at some level. Modern supply chain professionals are looking toward [establishing stronger relationships with lower tier suppliers](#) to help access and offset these liabilities.

How Supplier Relations Minimize Risk



Image via [Flickr](#) by New York District, U.S. Army Corps of Engineers

Getting to know the suppliers is one of the newest and most profitable [trends in supply chain management](#). By building a relationship with second, third, and lower tier suppliers, companies are more aware of what materials and products are available to them and less dependent on second-hand information offered by their direct suppliers. Building relationships with lower tier suppliers is but one way to balance risk and savings, but if leveraged correctly, it can be among the most powerful.

Find new ways to lower costs within your company while refusing to assume to accept risks that sink lesser competitors.

[Case Study] Glidewell Distributing Steps Up to Provide Better Customer Service and Order Accuracy

Glidewell Distributing began as a single truck delivery company in 1946. It specializes in large and small ticket consumables, including food, tobacco products, and other convenience store type items. Owned and operated by J.W. Glidewell in Fort Smith, Arkansas, the company continued to grow and expand over the years.

In October of 2005, Glidewell acquired Southern Wholesale. Along with the increased business and more employees, the company was charged with managing 2,000 accounts across Arkansas and Oklahoma. Managing 6,500 SKUs, filling 800 orders per day, and operating 14 different trucking routes became difficult on the old, outdated warehouse management system that Glidewell had in place.

Situation

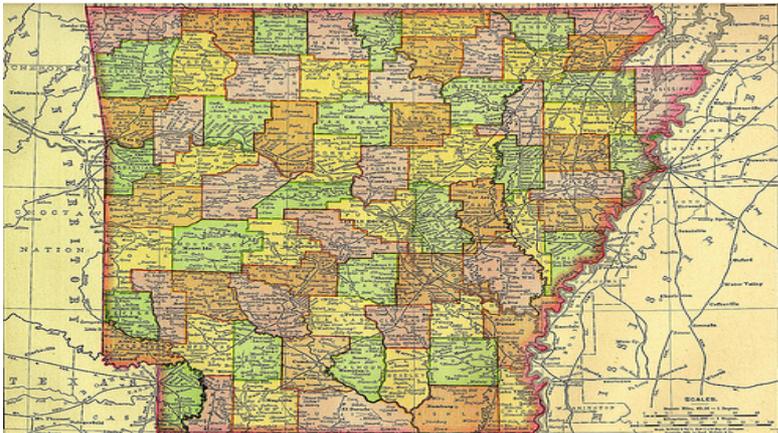


Image via [Flickr](#) by BrianSwan

When Glidewell acquired Southern Wholesale, the company was using manual paper based picking methods to fulfill customer orders. These methods were time-consuming, prone to errors, and involved a complicated system requiring up to two days of employee training to master when new employees were hired. Since the family owned and operated business' primary selling point was customer service, the system was causing customer orders to be short and service levels to be substandard, which was unacceptable according to their company standards.

Approach



Image via [Flickr](#) by toolstop

Glidewell approached Speech Interface Design (SID) and Vocollect Voice for a solution. Vocollect established a voice directed warehouse management system (WHS), which allowed employees and managers to get real-time accurate data about orders as they were being filled. The system manages all aspects of the warehouse operations, from order entry to print out of the order lists, invoicing, and other tasks.

It allows the managers to reorder the assignments, raise the priority of a given assignment, suspend an assignment, or cancel it altogether. The system has eliminated the error prone and cumbersome paper management system for a higher level of customer satisfaction, as well as a higher level of employee job satisfaction. Supervisors are able to see if an order is short within seconds of the error and correct the problem. This makes it easier to load trucks efficiently and assure that orders are delivered on time and complete.

Impact



Image via [Flickr](#) by Reuse Warehouse Huston

Glidewell achieved a full payback on the system in less than nine months. The new system improved order accuracy to 99.66 percent, while increasing worker productivity for a total of \$84,240 in yearly labor savings. Four order checker jobs were eliminated due to the accuracy of the new system, which brought the total annual labor savings to \$184,080. Since customer order shortages were all but eliminated, store credit savings amount to \$89,752 per year. This brings the total annual savings attributed to the new system to \$273,832.

Furthermore, the distribution company was able to reduce the time it takes to train new employees from one to two days down to about one hour. Glidewell was so satisfied with the new voice system that they plan to install a similar system to manage their receiving and put away tasks. Employees enjoy working with the new system, according to Nick Glidewell, and would never consider going back to the old way of doing things.

Real News or Just Another Publicity Stunt? A Look at Amazon's Drone Program

Nov. 29, 2013 was a busy news day. When news analysts weren't weighing in (and duking it out) over Obamacare, reporters across the nation were running spots on long shopping lines, customers who camped for days in frigid temperatures to get the best deals, and even a few skirmishes over the best merchandise in brick and mortar stores. How can a poor little online shopping site compete in the fray? Well, Amazon captured a fair share of media attention with a news story of its own, claiming they're working on a [drone aircraft](#) which could make unmanned deliveries within 30 minutes of order placement to homes sometime in the future.

The Timing of the Announcement



Image via [Flickr](#) by Alan Cleaver

Nothing about this story screams, "publicity stunt," louder than the day chosen for the announcement. After all, this drone program is [years away from reality](#), and there are reasons to believe the entire operation is impractical and impossible upon conception. What was Amazon's real reason for the Black Friday announcement?

Brick and mortar stores aren't bringing in the holiday shoppers like they used to. Between the sluggish economy and the convenience of online shopping, most shoppers are opting for [online gift ordering](#) unless they just want the experience of camping out in freezing weather, getting into fistfights over a discounted Blu-Ray, and possibly getting to be on the evening news.

The Reality of U.S. Unmanned Aircraft Regulations



Image via [Flickr](#) by Powellizer

The laws governing unmanned flying machines in the United States are relatively strict and unyielding. In fact, the laws are so tight that Amazon had to [film their promotional video](#) for the announcement elsewhere. That's right, it wasn't even legal to film the promo here, so there are some obvious problems when it comes to allowing these craft to run at large in heavily populated urban environments, especially with lots of glass windows to break, traffic signals to knock over, and birds to spook. The entire program may be impossible to implement legally, even if it works in practice, which is also doubtful.

The Practicality of Unmanned Flying Delivery Drones



Image via [Flickr](#) by vaugeonthehow

Aside from the legal problems, the drones have some practical issues to overcome. For instance, how is an unmanned craft going to deliver packages to an apartment in a six-story walk up in Manhattan? Delivery drivers can park on the street and walk up; drones can't. There are many such considerations that would make drone deliveries [impractical or even impossible](#) when

actually put into practice. Navigating in nasty weather, difficult urban terrain, and drones' inability to ring up to your apartment are just a few obstacles to consider.

What You Can Take from Amazon's Publicity Stunt



Image via [Flickr](#) by melenita2012

Amazon may have pulled our legs a little in favor of some experimental fun on Black Friday. What's the point? [The point](#) is that while shoppers booted up computers, tablets, and smartphones to shop on Black Friday and Cyber Monday, Amazon was on their minds. You heard their name on the TV and radio, and likely saw them in more than a few online news posts or blogs. You paid more attention, because these were real news stories, not just advertisements that you've learned to tune out. It was an effective marketing technique, but don't look for your new smartphone to arrive at your via an unmanned flying craft anytime soon.

[Case Study] What Made AkzoNobel Such A Success?

AkzoNobel is a company based in the Netherlands that develops, manufactures, and distributes a variety of paints, specialty paints, coatings, and DIY products, including home maintenance paints and coatings, as well as coatings and paints for the automotive industry, shipping industry, and aircraft industry. In business since the 1770s, AkzoNobel operates in more than 80 countries, and employs over 50,000 workers. Among their brand names are Dulux, Sikkens, and Eka.

Situation



Image via [Flickr](#) by DennisM2

During the 1990s, the construction industry and its suppliers fell under intense scrutiny from government agencies as well as environmental groups. These groups demanded that companies work toward producing products and alternatives that were better for the environment, producing less pollution and waste while being more sustainable over time.

In the UK, a Construction Task Force was assigned to study this industry. It filed a report in 1998 entitled the Egan Report, which concluded that the industry was under achieving in a number of areas, including in its efforts toward the environment. Additionally, the Local Government Act was passed, which among other things, promoted home improvement products which would last longer and perform better, as well as be less maintenance intense and healthier for the environment.

Approach



Image via [Flickr](#) by p_x_g

In response to the political and social pressure, AkzoNobel realized that their wood treatment products were a more viable solution for the environment than the commonly used PVC-u synthetic replacement windows so common at the time. In fact, the environmental activist group Greenpeace had launched attacks specifically on the harmful and less durable PVC-u window products.

When properly treated with the right products developed by AkzoNobel, wood windows would last longer than the PVC-u, and would be healthier for the environment by producing less toxins during manufacturing, causing less waste in landfills, and using the alternative of wood, which is renewable and sustainable, unlike the plastic products. AkzoNobel's Woodcare Division used the concept of SWOT to identify their internal strengths and weaknesses, and to come up with a plan to promote these sustainable products.

Impact



Image via [Flickr](#) by Axel-D

The result was a commitment by the company to educate and communicate the benefits of wood windows and home construction and improvement features. They touted the quality craftsmanship involved in wood products, inherent in the architecture of the UK, which has survived for hundreds of years. This durability is impossible with the lesser quality plastic products common in today's construction and replacement products.

AkzoNobel developed and marketed a complete line of wood care products to meet the needs of their customers. They committed to communicating the qualities and benefits of wood, and helped the industry gain acceptance by being transparent about operations from inception through completion. As a result, the company has successfully changed the attitudes and behaviors of the entire construction industry. Architects, government authorities, housing associations, and contractors are all better educated about sustainable wood construction due to the communication efforts of AkzoNobel. Additionally, the company was able to broaden and strengthen the distribution base for their products, which directly improved their bottom line.