



PROCUREMENT BULLETIN

May 2016 Issue

In this issue of Premium Procurement Bulletin...

- [Case Study] The Consequences of VW's Compliance Scandal
- Does the Food and Beverage Industry Have a Place in E-Commerce?
- [Case Study] Bitcoin: A Look at Why It Is Failing
- Ransomware: The Threat for Supply Chains

[Case Study] The Consequences of VW's Compliance Scandal

In September 2015 the news broke that Volkswagen was cheating on emissions tests for diesel engines by writing faulty software code. VW is now facing major backlash. Take a closer look at the consequence of VW's compliance scandal.

Situation: VW Cheats on Emissions Tests



Image via [Flickr](#) by BKM_BR

For years now, VW has claimed its diesel technology to be cleaner than its competitors. The automaker also insisted that VW drivers could enjoy better performance and improved fuel economy while also making an environmentally friendly vehicle choice. Unfortunately, it turns out that these claims weren't true. VW's software was programmed to switch to low emissions during inspections and emissions tests and then return to its normal emissions levels during standard driving conditions. The company did this so that customers would not lose any power or the performance they expected due to lowered emissions.



PROCUREMENT BULLETIN

May 2016 Issue

The software code was used to defeat emission requirements for diesel engines established by the Environmental Protection Agency (EPA). The scandal reveals a significant flaw in the resources available to the EPA for monitoring industry compliance. Currently, American automakers conduct emissions tests on their own and then submit the results to the government. Automakers in Europe and elsewhere around the world can choose who conducts their emissions tests. Reports show that some VW diesel engine models emitted nitrogen oxide levels [over 40 times the legal limit](#).

Approach: U.S. Files Lawsuit Against VW

In January 2016 the U.S. Department of Justice filed a civil complaint on behalf of the EPA against VW. The complaint [accused VW of installing illegal software](#) on 580,000 cars, which violated the Clean Air Act. The EPA lawsuit didn't list a total penalty amount, but it estimated that VW was liable for between \$32,500 to \$37,500 per vehicle. That could add up to \$18 billion in fines, although it's unlikely that the U.S. government would demand that amount. The goal of the civil complaint is to pressure on VW to fix the problem.

Since then the Federal Trade Commission (FTC) has filed a suit of its own, claiming that VW provided misleading information to its customers. This raises the penalty much higher than \$18 billion. FTC Chairwoman [Edith Ramirez](#) explained, "For years Volkswagen's ads touted the company's 'clean diesel' cars even though it now appears Volkswagen rigged the cars with devices designed to defeat emissions tests. Our lawsuit seeks compensation for the consumers who bought affected cars based on Volkswagen's deceptive and unfair practices."

Impact and Advantage: VW Promises to Make Things Right

VW has admitted wrongdoing and has demonstrated willingness to work with the EPA to fix the issue. Chief Executive Martin Winterkorn resigned in September 2015, and nine other managers were suspended during the investigation. VW states that only a small number of employees made the decision to use the fraudulent emissions software code. The automaker has indicated that going forward it will rely on a third party to ensure that its emissions tests are fair and accurate.

Other automakers can learn a lot from VW. Customers won't stand for misleading information, and publicizing fraudulent results doesn't pay.



PROCUREMENT BULLETIN

May 2016 Issue

Does the Food and Beverage Industry Have a Place in E-commerce?



Image via [Flickr](#) by superstrikertwo

Online grocery shopping is not a new thing — shoppers place their orders, and then someone physically shops and delivers the goods. However, several businesses have popped up that offer meals in a box. These businesses do not use local fulfillment. This raises concerns because of supply chain restraints in terms of keeping food good during delivery. It really makes you wonder if the food and beverage industry has a place in ecommerce.

Ecommerce Shopping Trends

Ecommerce is still a growing industry. The [Census Bureau of the Department of Commerce](#) shows a steady rise in online shopping sales since 2005. However, people have been slow to adopt food and beverage purchases on the Internet until recently. Many consumers are trying businesses, such as Blue Apron, to purchase food and beverage products in the form of complete meals in boxes.

Consumers are trending towards fresh and organic food. They don't want to eat products that use preservatives or other chemicals that are potentially hazardous when consumed. Consumers are also willing to pay more money for these products and purchase them online. The problem is that these food and beverage purchases offer major challenges for logistics. They require special attention because of their high risk of loss during transit.

Logistics Problems with Perishables

When [shipping perishables](#), you always have to plan for the worst. Plus, not all perishables can be shipped the same way. For instance, bananas have a very short shelf life and they can't be frozen. That means they must get to customers very quickly. That means businesses do not see a high profit margin when shipping perishables because they must opt for express shipping.



PROCUREMENT BULLETIN

May 2016 Issue

Additionally, different temperatures and humidity levels are required for certain food and beverage products during shipping. Without the proper temperatures, some products can spoil before reaching the customer. These precautions cost additional money that cuts into profits. For instance, many pharmaceutical products must be kept at a certain temperature for the entire distribution process. So, temperature-controlled trucks and other modes of transportation are necessary.

After all of the difficult logistics considerations, food and beverage distributors must also make sure that they comply with government regulations. This adds another level of stress for the food and beverage industry in ecommerce. That's why it's taken so long for both consumers and businesses to adapt.

So, Is there a Place for the Food and Beverage Industry in Ecommerce?

In general, it's not fair to say that the food and beverage industry does not belong in ecommerce because if there are customers, then there is a need. However, the logistics of shipping these products is more difficult, more expensive, and has lots of risk. It is possible for businesses to be profitable, but it is going to take a lot of supply chain planning and consumers must be willing to pay more money to [make food and beverage purchases online](#). With the right technology and a lot more experimenting, these type of purchases will become commonplace.



PROCUREMENT BULLETIN

May 2016 Issue

[Case Study] Bitcoin: A Look at Why It Is Failing

Bitcoin really is a brilliant idea. It is essentially a peer-to-peer currency system that allows people to transfer money to each other without the middle men of banks. Plus, there are no transaction fees, the currency can be used anywhere in the world, and anonymity is allowed. However, bitcoin has had a rough year and the future doesn't look too bright. So, why is bitcoin failing?

Bitcoin in 2015



Image via [Flickr](#) by Whitez

Bitcoin is failing because of two inherent problems — hoarding and attrition. The designer of bitcoin decided that [no more than 21 million bitcoin](#) will ever be created. The reason for this was to prevent people from diluting the value of bitcoin by adding more to the system. In theory it is a good idea, but it also means that someday bitcoin will be a collector's item, which sets it up for hoarding and attrition.

It makes sense that people are hoarding bitcoin because the value will skyrocket once no more is being mined. In March 2015, the average value of one bitcoin was \$245. That one bitcoin coin could easily go up in value 100 times when no more bitcoin is being added to the system. Right now, more than a third of the available bitcoin has already been mined. So, it doesn't make sense to spend bitcoins when their value is sure to go up.

The majority of bitcoin owners are already hoarding to ensure their future wealth. The others are new users testing out the system or scammers trying to make a quick buck. After some time, it becomes apparent that the best strategy in bitcoin is to hoard and people will stop spending their bitcoin altogether. No spending is bad for the economy, and then the bitcoin system will fail.



PROCUREMENT BULLETIN

May 2016 Issue

The Future of Bitcoin



Image via [Flickr](#) by Francis Storr

Despite the inherent problems with bitcoin, people who use it are still very optimistic about its future. They are urging companies to accept the digital currency, but only a few have jumped on. Until it is just as easy to pay with bitcoin as it is to use a credit card, widespread use will not occur. Bitcoin will probably fail as a currency system before it has a chance to catch on everywhere.

On top of hoarding and attrition problems, bitcoin is very volatile, and it's hard for users to predict the value from day to day. For instance, in 2013 [bitcoin peaked](#) at a value of \$1,147. Then, there was speculation that the government would step in with regulations. People got scared and the value of bitcoin quickly dropped by more than 50 percent. That's a scary thought for investors.

Bitcoin has real potential as a currency system if some of the kinks are worked out. For instance, the government has talked about sister systems with bitcoin that allow for unlimited mining. However, nothing has been set in place and users are very resistant to the government getting involved. That's why it's best to be cautious when investing in bitcoin. It's failing, and there are too many problems for it to truly succeed



PROCUREMENT BULLETIN

May 2016 Issue

Ransomware: The Threat for Supply Chains

Ransomware is a dangerous computer virus that can wreak havoc on businesses and their operations. To deploy ransomware, hackers use encryption code to lock up targeted computer data and hold it for ransom. If victims want to regain access to the data, they typically have to pay a large sum of money. Learn how harmful ransomware can pose a substantial threat to supply chains.

Supply Chain Managers Beware



Image via [Flickr](#) by christiaan_008

Supply chain managers around the world are on the lookout for ransomware within their database systems. This type of virus can cause serious delays in fulfilling customer orders, as well as a whole slew of other operational problems. For instance, a ransomware virus could take over an inventory file, render a business' entire website unusable, or prevent a transportation company from accessing routing information. No business or industry is immune to ransomware.

Ransomware typically spreads through malicious websites and phishing emails, and anti-virus software isn't always 100 percent effective at detecting these threats. The most harmful form of ransomware, however, comes from an employee planting a virus in a company's computer network. This situation is nearly impossible to prevent and can be crippling to operations, especially if the business doesn't have the funds to pay the ransom.



PROCUREMENT BULLETIN

May 2016 Issue

Options for Dealing with Ransomware



Image via [Flickr](#) by GotCredit

The best line of defense against ransomware is a combination of effective anti-virus software and a data recovery plan. With these in place, your business can access data regardless of a ransomware attack. You'll need to take additional action, however, if the affected data contains sensitive customer information like billing information and addresses.

It's also important to limit employee data access to an as-needed basis. Restricted access makes it harder for hackers to get to your data, too.

In most cases, it's best not to give into ransomware demands because this further enables and incentivizes hackers to create more ransomware. You should only consider [paying the ransom if you have no other choice](#) and have already consulted with the FBI.

What to Learn from Previous Ransomware Attacks

One of the biggest ransomware scams to date happened between September 2013 and June 2014. During that time, more than 500,000 computers were infected with a virus called [CryptoLocker](#), which extorted an estimated \$3 million from victims. Even NASA reported that two of its computers were infected by CryptoLocker.

The FBI reported that between 2014 and 2015 businesses and individuals saw a loss of more than \$18 million due to ransomware attacks. Cybercriminals are constantly looking for ways to stay ahead of anti-virus software. This means that businesses and supply chain managers must have a plan in place to handle ransomware. For instance, it's important to create backup copies of all data on a regularly scheduled basis. Also, employees should be trained to [be on the lookout for suspicious files](#) and not download anything that is not critical to business operations. So far, 2016 shows signs of continued ransomware attacks. This dangerous threat is something that all supply chain managers should vigilantly watch and prepare for.



PROCUREMENT BULLETIN

May 2016 Issue

Related Procurement Events

Certified International Procurement Professional (CIPP)

- 25-27 July 2016-London, UK
- 15-17 August 2016-Singapore
- 26-28 September 2016-Jakarta, Indonesia
- 24-26 October 2016-London,UK
- 13-15 November 2016-Dubai, UAE
- 28-30 November 2016-Singapore
- 12-14 December 2016-Hong Kong

Download the full details:

<http://www.ethanhathaway.com/training/certified-international-procurement-professional-cipp>

Certified International Supply Chain Professionals (CISP)

- 20-22 July 2016-London, UK
- 10-12 August 2016-Singapore
- 21-23 September 2016-Jakarta,Indonesia
- 19-21 October 2016-London, UK
- 23-25 November 2016-Singapore
- 7-9 December 2016-Hong Kong

Download the full details:

<http://www.ethanhathaway.com/training/certified-international-supply-chain-professional-cisp>

Successful Project Management

- 22-26 August 2016-Singapore
- 26-30 September 2016-Kuala Lumpur, Malaysia
- 6-10 November 2016-Dubai,UAE
- 5-9 December 2016-Singapore

Download the full details:

<http://www.ethanhathaway.com/training/successful-project-management/>

Certified Business Operations Management Specialist

- 6-9 November 2016-Dubai
- 9 January-28 February 2016-Online Distance Learning

Download the full details:

<http://www.ethanhathaway.com/training/certified-business-operations-management-specialist-cboms/>