



HOW TO INCREASE PROFITS INSTANTLY WITHOUT SALES



Tony Nuzio
ICC Logistics Services, Inc.

Shore Up Profits By Plugging Up Profit Leaks

Ask most company executives about their plans to boost their bottom line, and they'll tell you about all the things they're doing to increase top line revenue. But by focusing only on the top line, these executives may be missing a huge profit improvement opportunity – one that can help businesses both large and small, those in specialized fields and those selling commoditized products. Instead, we staunchly advocate for continually reducing expenses and improving operational processes.

While increasing sales is certainly important to improve corporate profits, it also requires a significant amount of resources. And combine that with the competitive pressures evident in just about every business today, a single-focused initiative of increasing sales is not as smart as you may think. After all, the quickest way to grow sales is by slashing prices, a strategy that will almost always result in a business' demise.

In mature industries, businesses compete in the same sandbox with very little differentiation among them. Sales professionals repeatedly tell us that, absent a clear differentiation strategy – a strong unique value proposition – the only thing separating their company from their competitors is price. And competing on price is a zero-sum game.

We think we have the solution to all that. ***Expense reduction removes excess costs from operations***, thereby significantly improving profits, in many cases without the need to increase sales by even one dollar.

An ongoing, earnest commitment to continually reducing expenses should be part of every company's mission. Doing so will provide significant profit improvement opportunities for all businesses over the long term.

We also have some other real-life examples of profit improvement initiatives we'd like to share with you.

Case Study 1: Improving the Manufacturing Process for your Customer

One of our clients, a medical equipment manufacturer, hired a new director of supply chain. At our initial meeting the director asked the following question: ***How can we build a world-class supply chain?*** I immediately thought, wow, that's a great question. My response: ***You start with your customer!***

The response was met with blank stares from several meeting attendees, including the new director, and many of his team members, some of whom had been with the company for many years. By way of explanation, I proceeded to tell the following story.

Your company manufactures a variety of medical equipment products that are sold to large medical distributors. We have a good understanding of your current manufacturing process, which has certainly improved recently, but is still somewhat disjointed. For example, when orders from the customers are received at the factory they are sent immediately to the manufacturing floor for production. If all of the raw materials to manufacture items within the order are in stock, those products are made and sent out that same day, or next day via your preferred parcel carrier.

Products that cannot be assembled the day they are ordered, because they require additional assembly parts not in inventory, are placed on backorder awaiting the component parts from your suppliers. Once the component parts are received, whatever backorders can be filled are assembled and shipped that day, again by your preferred parcel carrier. This could be the day after the initial order or it could be several days after the initial order was received. And, this process goes on and on until the entire order is complete.

I then proceeded to answer the director's question regarding how to build a world-class supply chain.

I told the team assembled at this meeting that since a majority of their customers were large medical distributors, we believed it made sense to query those customers to see if they would prefer receiving their shipments in a consolidated fashion once or twice a week as opposed to receiving bits and pieces of the order on an almost daily basis. Not only had they

not taken this step, it hadn't even occurred to them to do so. ***They simply assumed their customers were happy*** with the manufacturer's standard manufacturing and shipment process.

Not surprisingly, our client was in for a real shock. They contacted their customers and found out that most of them preferred to receive consolidated shipments on a regularly scheduled basis.

Our client immediately began to consolidate their customers' orders and arranged to ship the goods, shrink-wrapped on pallets. Now the shipments were made via the manufacturer's preferred LTL carriers directly to their customers. This improved shipping process provided the following benefits to our client and their customers:

- The shipments reached their customers faster than they had previously, even though many orders were previously being shipped the same day the order was received
- The shipments arrived at the customer's door with little to no damage, in fact, product damage had been an issue for their customers in the past
- Claims processing costs were now virtually eliminated
- Our client's shipping costs were also dramatically reduced

What's more, our client gained many, happier customers. Not only did our client gain a distinct competitive advantage over some of their competitors, but their distributor customers' costs to receive and check goods into inventory were also reduced.

Now, our client had a couple of options with their new shipping arrangement. They could pass some of the newly found savings on to their customers by reducing prices. What a great way to increase sales and customer loyalty. Or they could use the savings to boost their R&D budget and develop new products, the lifeblood of their business.

Our client chose option one: They fortified their customer bond for long-term business growth by passing along the additional savings. Our client also was adding new customers on a regular basis and the size and value of their customer orders were continually increasing, all thanks to the improvement in order fulfillment.

So, as you can see from this simple example, ***the benefits of a well thought-out program that focuses totally on the customer cannot be overstated.***

Logistics a Logical Place to Start

A cost driver which is always ripe for cost reductions is the area of transportation and logistics. A company CEO once told me, "I don't care how much the freight carriers charge for shipping because my customers pay for it." Dare I say that this is a CEO who is totally out of touch with reality! Unless his company is the only supplier of a particular product line, his competition will be continually breathing down his neck. The smart competition will usually offer lower prices because they have figured out how to lower their transportation and logistics expenses.

We've all heard the phrase: You don't know what you don't know. Nowhere is that more evident than in the area of transportation and logistics expense management. Why you ask?

- Many companies believe they are locked into their current transportation service providers' rates, and that those rates are the best rates in the industry
- They believe that simply because their service providers continue to tell them so
- Many companies are receiving discounts in excess of 85%, so they believe their rates can't get any lower
- Companies can have the very best negotiators on staff but if they do not have access to the freight carrier's cost information, pricing matrixes, contract terms and conditions, there is absolutely no way they can determine if the rates and charges they are paying are in fact the ***best-in-class rates for the services provided.***
- Many companies never even audit their freight invoices, so they can't know whether those invoices are correct. After all, freight carriers are staffed by people and people make errors
- Some companies claim they audit their invoices in-house. If they indeed do, they are likely spending thousands of dollars a year more for that audit function than it would cost them to outsource the function to a qualified third party audit firm.

- Many shippers pay huge fees for expedited services unnecessarily when many shipments are already guaranteed for next-day delivery in the ground shipping environment

This list goes on and on, and unless a company has trained transportation and logistics executives on staff, they are usually paying 20%, 30%, or even 40% or more than they should.

Case Study 2: Contract Re-Negotiation

One of our clients was receiving an 84% discount from their primary LTL carrier. We helped them renegotiate their LTL contract with the same carrier and ***reduced their annual LTL expenses by 40%***, making their 84% discount not such a great deal after all.

You see the carrier was providing the 84% discount off of the highest base rate level the carrier published. Kind of like the retailers do offering discounts from the “originally sold at price.” The reality is that there is more than one set of base rates a shipper can negotiate with their freight carriers. The problem is however, that many shippers are not aware of that fact.

We had the freight carrier publish a lower discount off of a much lower base rate and now the client receives the same service, but just pays less for it; how’s that for a deal!

Case Study 3:

A client was spending in excess of \$5 million annually on small parcel shipments and by the way, never audited those invoices. The truth is, they lacked the expertise and technology which can be provided by third-party audit firms specializing in this service.

We convinced this client to outsource their parcel audits to a third-party parcel audit firm and they began recouping thousands of dollars weekly in refunds for late-delivered packages and for all carrier invoicing errors. They then contracted with the same

audit/consulting firm to help them re-negotiate their parcel carrier contract to receive lower rates. The net result: ***Their bottom line swelled by \$1.3 million annually!***

To put that number into perspective, this company would have had to sell over \$100 million in new products to achieve the same bottom line profit impact. Even if that were possible, it would have required a monumental effort on their part. So, how important is transportation and logistics expense reduction to a company's bottom line? The following chart indicates the incredible profit improvement opportunities that companies can gain by reducing their transportation and logistics expenses.

Profit Impact of Reduced Freight Costs

Net before tax profit margin	A freight cost reduction of ...				
	\$100,000	\$500,000	\$1,000,000	\$2,000,000	\$5,000,000
	Equals approximate sales of ...				
4%	\$2,500,000	\$12,500,000	\$25,000,000	\$50,000,000	\$125,000,000
5%	\$2,000,000	\$10,000,000	\$20,000,000	\$40,000,000	\$100,000,000
6%	\$1,666,667	\$8,333,333	\$16,666,667	\$33,333,333	\$83,333,333
7%	\$1,428,571	\$7,142,857	\$14,285,714	\$28,571,429	\$71,428,571
8%	\$1,250,000	\$6,250,000	\$12,500,000	\$25,000,000	\$62,500,000
9%	\$1,111,111	\$5,555,556	\$11,111,111	\$22,222,222	\$55,555,556
10%	\$1,000,000	\$5,000,000	\$10,000,000	\$20,000,000	\$50,000,000

Now that we've identified several ways companies can pump up their profits, the real challenge is to find someone within the organization who is ultimately responsible for ensuring these profit improvement initiatives are actually achieved.

Way back in 2006, Jonathan Byrnes, a consultant and MIT lecturer, stated that a firm's Chief Financial Officer should in fact assume the responsibility as the company's "**Chief Profitability Officer.**" What a great idea! Mr. Byrnes went on to state that as much as 30-40% of a company's business is unprofitable, and that many CFO's did not have a good grasp of which parts of their business were profitable and which areas were not. It is our contention that not much has changed in business today and that companies are still losing money they may not even know they are losing.

As we see it, much of the problem in identifying profits or losses within various operations within an organization lies in the fact that companies do not have the ability to properly benchmark their operations and costs.

Within every business, employees are performing multiple functions and are often stretched beyond their capabilities. Also, most businesses lack comprehensive training initiatives to ensure that employees responsible for managing functions, including transportation and logistics functions, have the skills and knowledge to respond to daily changes in government regulations, carrier pricing agreements as well as ever changing and often confusing, contract terms and conditions. These employees therefore lack the ability to make a real impact on their company's bottom line.

But there are incredible opportunities to work with organizations outside of the business that have the necessary skills, talents, technology and experience to bring this value to the company at a fraction of the cost, and in many cases, for no cost at all.

Companies regularly rely on outside accounting and legal firms to help them run their businesses. So, it also makes sense to rely on other focused third-party providers to improve customer service while simultaneously reducing transportation and logistics costs.

Want some ideas on areas within the transportation and logistics function that are ripe for this expertise? The following are areas offering an immediate opportunity for cost reductions and therefore, profit improvement.

Freight Bill Pre-Audit and Payment Services: Does the company have the trained analysts to comprehensively audit every freight bill it receives? And, if it does, just how

much do you think that costs? Some estimates indicate that it costs major corporations more than \$5 to process a single invoice. How many invoices does the company process each year? The many quality Freight Bill Pre-Audit and Payment companies providing global freight payment services can reduce that expense to just pennies an invoice. You'll save tens of thousands and perhaps even hundreds of thousands of dollars each year.

Freight Bill Post-Audit Services: You may not think it's necessary to have a firm audit previously paid and in some cases, previously audited freight invoices. So did a major Fortune 100 company. But then their post auditor recovered \$9 million in duplicate payments that went undetected until the post audit firm uncovered it. Freight bill auditing firms work on a percentage of the recoveries they actually obtain, costing their clients nothing, but paying huge dividends.

Parcel Carrier Audit and Contract Optimization Services: Many companies do not audit their parcel carrier invoices simply because they don't know how. The good news is that there are firms that specialize in these types of audits who obtain full refunds for duplicate billings, late deliveries, improper charges, invalid late payment fees and the like. Again, these firms typically work on a contingency fee. They bear all the risk; and, companies therefore don't have to find room in their budgets to hire them.

These firms also help their clients re-negotiate their parcel contracts to obtain significantly lower freight costs. They can do this better than in-house operations because they have the trained staff, which many times do nothing but parcel contract negotiations. They routinely benchmark shippers' rates to guarantee "best in class" freight costs. Here again, there are typically no up-front costs for the shipper.

Supply Chain Management Consultants: Thinking about building additional distribution or fulfillment centers? Where should they be located? How many should the company have? How big should they be? How should they be structured; what IT support services do they require? Don't go it alone. Supply Chain Management Consultants can help you every step of the way and save you a great deal of time, money and premature gray hair.

Third-Party Logistics Providers: Shipping, receiving, LTL and truckload shipping services, providing fulfillment operations, warehousing, distribution, pick, pack and ship and the list goes on and on. These firms usually offer much more comprehensive services at much lower costs than can be obtained through in-house operations. You do not need to swim in the ocean all alone.

All of these outsourcing firms provide specialized services that improve efficiencies, increase their clients' profits and allow those clients to focus on their core business. Companies now have the energy and resources to devote to increasing their own sales.

Increased sales and reduced expenses – a winning combination that always augments profits.

Looking for more information? Consider a call with one of our seasoned logistics professionals. Ideas are free and we'd love to hear from you.



960 S. Broadway
Suite 110
Hicksville, NY 11801
(516) 822-1183
(516) 822-1126 Fax
www.icclogistics.com