

Spring 2004

Message from the President

This year we expanded our cost management services to include labor management. In addition, we have developed strategic partnerships with leading logistics software providers that will enable enVista to maintain our focus on logistics cost management. We are positioned to expand our resource talent pool by hiring the best and brightest people in the logistics field. Simply stated, our goal is to add value. We take pride in the fact that our solutions are delivered with proven methodologies and by extremely talented associates.

I want to thank our clients, associates and partners for making 2003 a success. And we look forward to a phenomenal 2004.

Jim Barnes II
President & CEO
enVista

Improve distribution operations through the Four Keys to Operational Performance.

If you were to categorize your distribution or manufacturing operations, how would they rank? Are they “world-class” or “middle-class?” In the world of high labor costs, increasing customer demand and tight budgets, the need for efficient production and timely order fulfillment is more important than ever. Take a moment to answer the following questions:

- Are you getting the most from your labor dollar?
- Are your associates self motivated, requiring minimal supervision?
- Are your associates fairly compensated for their level of effort?
- Are you able to track performance at the individual level?
- Are your supervisors able to manage proactively?
- Is your facility operating at maximum throughput?
- Are you meeting customer service goals?
- Are you able to retain quality associates?

If you answered no to any of these questions, you could improve your manufacturing or distribution operations by focusing on the “Four Keys to Operational Performance.” Many of today’s most successful distribution operations have implemented operational improvements throughout their facility and are reaping the rewards of higher throughput and lower labor cost. *(continued on back)*



Shipping Tips

Product Packaging

Many shipping departments do not properly prepare packages for shipment. Often companies that are trying to reduce costs will skimp on their packaging. This shouldn’t be an area to cut. In fact, it should actually be an area that you spend money on. You are going to hand your freight over to a carrier that handles millions of packages each day and has extreme delivery time demands. The better your package is designed, the more likely it is to survive. Carriers have experts in packaging design and testing, as does your package vendor. Take advantage of these resources as much as you can.

Address Confirmations

How many address corrections appear on your weekly carrier invoice? For many shippers, this can cost hundreds or thousands of dollars a week. Making sure that the address is correct during order entry can easily eliminate this cost. Many times shipping managers do not communicate address correction information to the proper channels within their organization and the same errors occur over and over, thus increasing the cost of each package (and never recovered by you). It is essential that proper communication take place between the department processing carrier invoices and the customer service and order entry departments so that address errors are caught and not duplicated.

Understanding The Value of Package Characteristics

Use Package Characteristics to Your Advantage in a Carrier Negotiation

Do you know what package characteristics are important to your parcel carrier or their competitor?

Are you shipping the type of packages that bring in the most profit to the carrier?

Certain shippers have more profitable package characteristics than others. Of course, the carriers need a good mix of packages, but by having an understanding of what drives the carrier's profitability, you will have better leverage during the contract negotiation process.

As a customer of a carrier you should want your selected carrier to be profitable. After all, they are a vital extension of your business.

By having the basic facts about package characteristics in your toolbox, you will facilitate a win-win both you and the carrier, your next contract negotiation.

There are four basic package characteristics that the carriers look for in a client when negotiating incentives. They are:

- Package volumes per day or week
- Average weight of those packages
- Length of haul of those packages
- Percent of residential deliveries

We will give you a basic understanding of these characteristics and why they are important to the carrier. Again, the more desirable the carrier believes you are, the smoother the incentive negotiating process will be.

The first package characteristic is package volumes per day or week.

This is important to the carrier because it directly affects their pick up costs. For example, if a certain shipper has one thousand packages per day for pick up, the carrier may be able to use the customer's dock and equipment for loading. Usually, this is a win-win situation for both parties. The shipper's staging area is freed up because they are able to extend their dock twenty-eight feet with the carrier's trailer space. For the carrier, the shipper loads the trailer and, more important, it only takes one stop to pick up the packages. Conversely, for the carrier to pick up 50 packages at a stop would take them 20 stops to yield the same number of packages, thus increasing their pick up cost dramatically.



You can see that the number of packages per pick up is vital to the carrier in controlling their cost. The more a shipper can help with controlling this cost, the more willing the carrier will be to provide a higher incentive for the shipper. This could be the deciding factor as to whether you would use a single carrier for your shipping needs or split the business among several vendors.

The next two important categories are the average weight and length of haul.

Carriers assess how these factors directly effect their revenue generation. The heavier the package and the longer the distance the package travels, the more cost to you, the shipper, and the more revenue for the carrier.

For example, a 25-pound package going to zone 8 yields much more revenue for the carrier than a 1-pound package going to zone 2. In these two categories the carrier is looking for maximum revenue generation. Why? It does not cost the carrier any more to move a 1-pound package 2000 miles than a 25-pound package, yet the revenue they receive is substantially more. The carrier does look at a good mix of packages for loading purposes and that is why averages are used in these areas, but in general, the heavier packages and longer hauls are good shipping characteristics to have when negotiating.

Lastly, the carrier looks at delivery cost.

More specifically, they consider the percentage of packages being delivered to a residence. Residential deliveries are more costly to the carrier, because typically only

one package is delivered to a residence from one shipper. Whereas, a commercial stop has multiple packages delivered from several vendors. Also, important in the equation is that a commercial delivery stop probably has another delivery stop within a couple hundred yards. Residential deliveries have to be "sought out."

The carriers have done a good job of controlling the delivery cost by charging more for residential delivery, partly due to the increase of on-line shopping and auctions, but it is still a crucial part of their business model and thus a consideration during negotiations.

If you are a high volume residential shipper do not be discouraged, the carriers have become better at handling this type of business with technology tools, but be prepared to pay more and receive less incentive for this segment of packages. Simply stated, the more commercial deliveries, the more attractive you are to a carrier.

These package characteristics are the first snapshot that a carrier is going to look at when they are making pricing evaluations. Other considerations include: claims ratio, accounts payable, oversize packages, and hazardous material/ dangerous good packages.

Negotiating power.

By understanding the importance of these characteristics and the impact each one has to a carrier, you will be armed with better negotiating power. A shipper with a desirable shipping profile and package characteristics can use these items to their advantage in decreasing overall shipping costs.

New Clients

Applica
Bio-Rad Laboratories
Campania International
Distro
Gateway Learning Corp
Guest Distribution
Letstalk.com
Porthos Wine
R.R. Donnelly Financial
Recreation Equipment, Inc. (REI)

Events

NCOF
 Booth #106
 Chicago, IL
 April 19 - 21, 2004

D/C Expo
 Booth #328
 Chicago, IL
 May 18 - 20, 2004

Speaking at D/C Expo:
 Jim Barnes on Wave
 Management Strategy.
 Tuesday, May 18,
 1:30pm - 2:30pm

The “Four Keys to Operational Performance”

Did You Know?

By focusing on the “Four Keys”, you can improve your operation:

Reduced labor cost through increased productivity –30 to 50% in most situations

Increased visibility of associate performance

Increased associate retention and morale

Increased facility throughput, extending capacity

Improved management skills and effectiveness

A more self-directed work force through metrics and accountability

Improved service levels

Operations Improvement

Streamline, simplify and standardize. Operations are the foundation of efficient distribution or manufacturing. A solid foundation is essential. Inefficient product flow and non-value added activities need to be eliminated. Over-complication is very common in today’s distribution centers due to systematization and mechanization. Operating procedures must be easily understood by the associates, and all associates must be trained in the best methods to perform their tasks. In addition, it is important to collaborate with line managers and associates to identify “best practices” for your operations. In many cases a lot of good ideas within the organization never surface because input is not solicited or valued.

Productivity Tracking

What is tracked - gets done. Most companies track departmental or facility-wide productivity (UPH) and cost (cost per unit). However, this does not allow you to effectively manage labor or provide timely feedback to associates on their performance. Visibility of production and time recording at the individual level is imperative to effectively labor management. Tracking productivity can be done in a variety of ways, but advances in technology have led to a new generation of automated productivity tracking software tools. These tools can be easily interfaced with a WMS to track productivity and calculate individual associate performance.

When you know exactly who is – and more importantly – who is not performing up to standard, the manager can intervene to provide training or discipline as required. Another benefit of accurate productivity tracking is that the information can be used to plan and balance staffing by operational area, making best use of available labor assets – daily.

Engineered Standards

Everyone needs a goal. Engineered standards developed through time and motion studies are an objective tool to measure individual performance. While UPH (unit per hour) goals are better than not having goals, unless your product mix is consistent, they tend to be judged as “unfair” by associates. If the goals aren’t considered realistic, associates become discouraged. Engineered standards are the best way to provide accurate and fair goals for associates as standards take multiple production variables (e.g. unit, carton, and pallet) into consideration. As product mix changes, the standard adjusts accordingly. Also, standards allow you to set one performance goal facility-wide—100% Performance. This is much simpler to track than UPH goals, where they may be several in each operational area.

Performance Incentive Programs (Rewards and Pay-for-Performance)

There are several ways to reward performance. Motivation is the key to high performance levels. Human nature is such that people tend to only put forth maximum effort if there is something “in it for me.” Incentive programs are a way to motivate associates by rewarding them for their effort and performance. Incentive programs range from non-monetary “rewards” to “pay-for-performance” programs. Rewards include recognition clubs, raffles, merchandise giveaways, and lunches. Pay-for-performance incentives reward associates with an hourly performance bonus for exceeding performance standards. As productivity increases, the company (lower labor cost) and the associates (increased earnings) share in the success—a “win-win” situation.

You can improve your operational performance by implementing these four keys. The potential labor savings are significant, but do not underestimate the positive impact on your organization from increased management effectiveness to improved associate morale and retention. A positive, empowered workforce is priceless.

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