*Ideas for Leadership in Logistics*

THE OFFICIAL MAGAZINE OF THE PROFESSIONAL LOGISTICS INSTITUTE

VOLUME 8, ISSUE 3, FALL 2002
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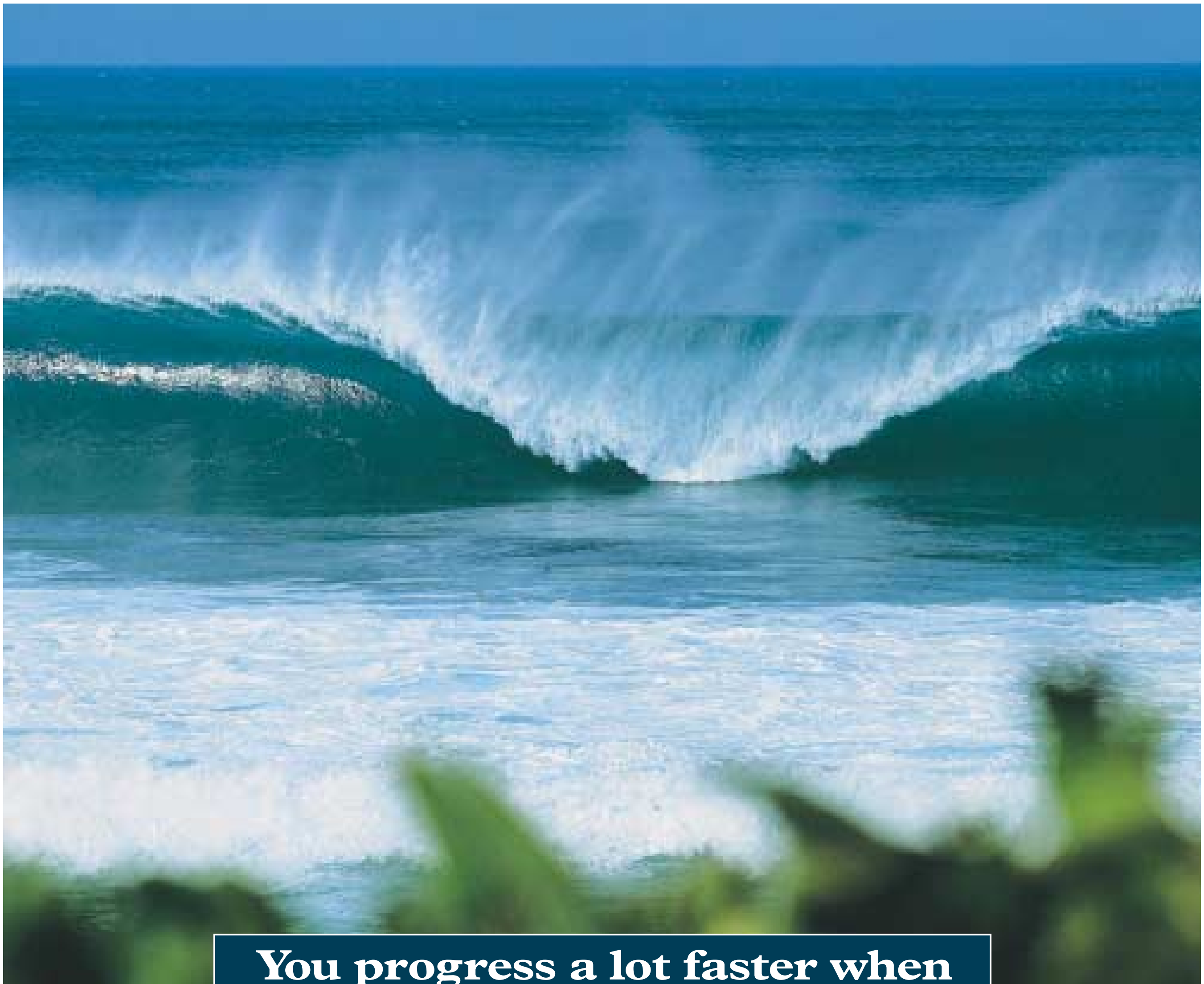

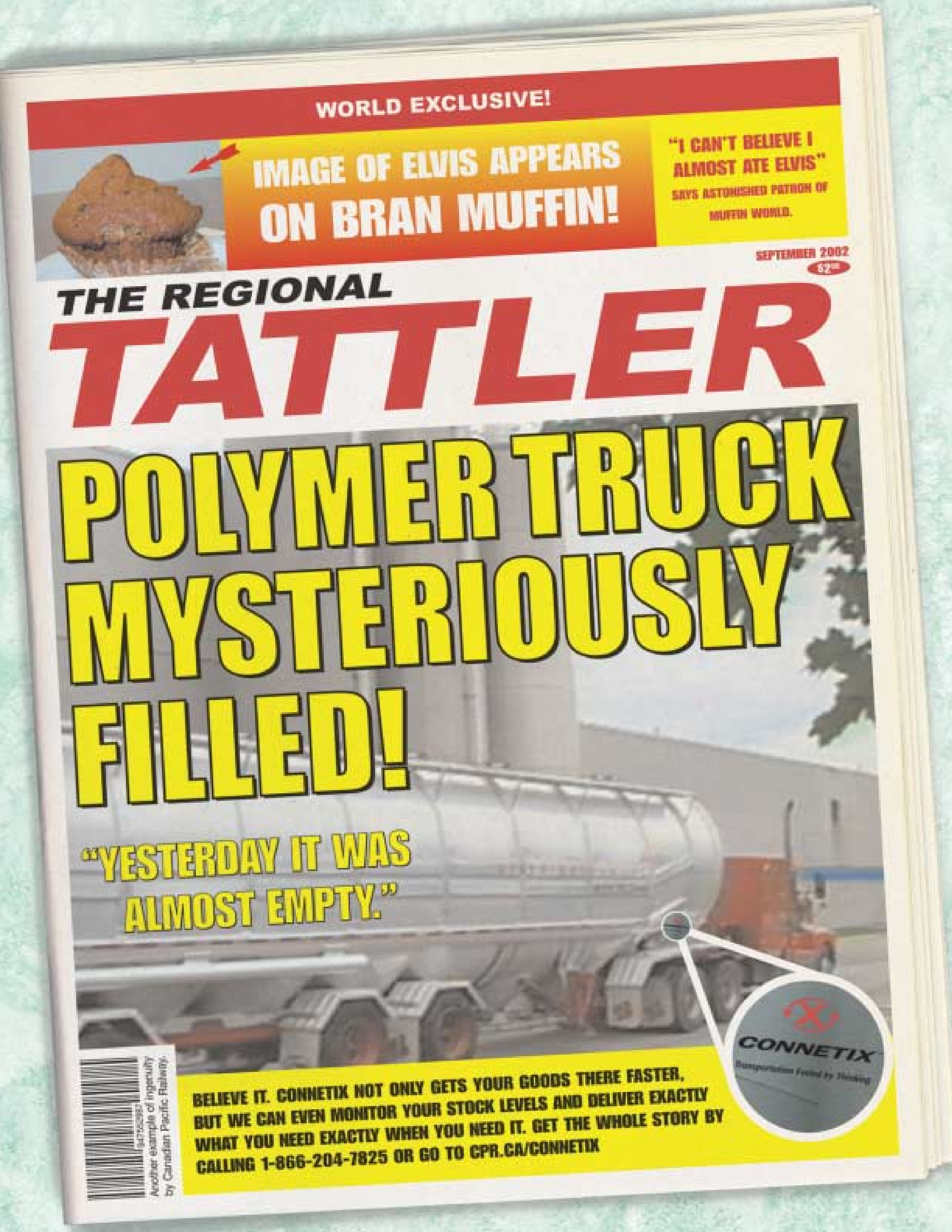
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VOLUME 8 ISSUE 3, FALL 2002

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### Companies and Organizations with New PLogs

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# on the move FALL 2002

## New Columnists Join LQ's Team

We are pleased to announce Ross Reimer and Dr. Linda Ferguson have accepted LQ's invitation to participate as editorial contributors in a newly inaugurated column entitled "Recruitment Best Practices in Logistics." LQ's readers can look forward to this new column in our Winter edition and expect to garner information about how to get a leg up on their competition through the process of finding the finest in human capital and promoting people to pivotal positions.

**Ross Reimer**
***President***
***Reimer Associates, Inc.***

Mr. Reimer, founder of Reimer Associates, Inc., a firm that provides services in management consulting, mergers and acquisitions and executive search and recruiting, has an extensive experience in all areas of operations and supply chain management with a deep interest in the people who make logistics companies successful. Mr. Reimer founded Reimer Associates, Inc., after more than 20 years of senior-level experience in logistics.

**Dr. Linda Ferguson**
***Recruiting and Communications Specialist***
***Reimer Associates, Inc.***

Dr. Ferguson is a recruiting and communications specialist with Reimer Associates, Inc. She has spent more than 15 years helping clients to clarify their corporate message and communicate it effectively to their customers and stakeholders. Dr. Ferguson holds a Ph.D. from the University of Toronto.

## Public Service Announcements

**The Institute has a New Office**
The Logistics Institute moved to new offices in mid June. We are now located in the "coolest neighborhood in Canada," according to Enroute magazine, directly across the street from City TV (Much Music and Speakers Corner). Our address is: Canadian Professional Logistics Institute, 160 John Street, Suite 200, Toronto, Ontario M5V 2E5.

## LQ Advisory Board Announcement

We are pleased to announce that Stuart Penman has accepted an invitation to join LQ's Advisory Board.

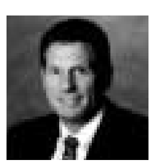
**Stuart Penman**
***Vice President of Logistics***
***Acklands-Grainger Inc.***

Mr. Penman graduated from the University of Toronto Business School in (1983), and became a member of the Society of Logistics Engineers in (1989). He worked for 14 years in the Consumer Products and Retail sector with a number of Canadian and multi-national companies. In addition, Mr. Penman has also worked for seven years with Ernst & Young in Global Supply Chain Management, prior to joining Acklands-Grainger. His current focus is working with a talented multi-functional team, to redefine AGI's logistics function in the E-world. Mr. Penman is a member of the Canadian Executive of the Council of Logistics Management, and a member of the standing committee for transportation of the Canadian Chamber of Commerce as well as a member of the Canadian Exporters Association. He is a regular contributor to trade journals and a speaker at supply chain seminars.

LQ's board performs a pivotal role in directing LQ's business practices to ensure it remains a leading source of the best ideas for logisticians who are leading and transforming and developing business. Since LQ's founding in 1995, it has upheld a tradition of being the only publication with the consistent mission to be a logistics publication written by professionals for professionals in the field of logistics in Canada. LQ is in the process of enhancing its international focus with a greater focus on the Americas.

## TNT Executive Appointments

TNT Logistics North America, one of the America's leading providers of value-added logistics services, has recently promoted Mark Johnson to the position of vice president, Quality and Development, Dave Souza to the position of corporate controller and Tom Blount to the position of vice president and general manager of Michelin Operations.



**Mark Johnson**
***Vice President, Quality and Development***
***TNT Logistics North America***

Mark Johnson, a 15-year veteran of TNT Logistics North America, will oversee the quality assurance, training/development, compliance/safety and the pay for performance objectives of the company's 6,200 employees. He started his career with TNT as an Industrial Engineer and launched the Quality department in the late 1980s. His most recent position was director of operations.

**Dave Souza**
***Corporate Controller***
***TNT Logistics North America***

Dave Souza came to TNT in June 1995 after a career in finance and audit with KPMG. He most recently served as director of finance, where he was responsible for a broad number of financial accounting functions. Mr. Souza was instrumental in the launch of TNT South America operations in 1996 and played a critical role in the acquisition of CTI Logistx by TPG Corporation, forming TNT Logistics North America in 2000.

**Tom Blount**
***Vice President and General Manager***
***Michelin Operations***
***TNT Logistics North America***

Tom Blount began his career with TNT in January 1997 as director of quality after having a distinguished career in the United States Navy. Blount's last assignment was Chief of Staff of Carrier Group 6 at Mayport Naval Station. At TNT, he launched the ISO certifications and management development programs. He will have oversight for one of TNT's largest contracts, the United States and Canadian distribution network for Michelin Tire & Rubber Corporation.

About TPG N.V. and TNT Logistics North America – TPG N.V. with its two brands TNT and Royal TPG Post, is a global provider of mail, express and logistics services. It employs over 143,000 people in 60 countries and serves over 200 countries. The company reported sales of $11.2 billion in 2001. TPG N.V. is publicly listed on the stock exchanges of Amsterdam, New York, London and Frankfurt. The PG website address is: www.tpg.com.

TNT Logistics, a division of TPG, employs more than 32,000 people who operate in 35 countries managing over 6.0 million m2 of warehouse space. In 2001, TNT Logistics reported sales of $3.1 billion. The TNT Logistics website address is www.tnt.com/logistics.

TNT Logistics North America is recognized as one of the world's leading providers of customized, value-added logistics solutions to Fortune 500 companies in the automotive, tire, retail, electronics, utilities, telecom, fast-moving consumer goods, heavy machinery and rail industries. Headquartered in Jacksonville, Florida, TNT Logistics North America manages over 208 operations in the United States, Canada and Mexico and offers global reach through TNT Logistics. Based in Jacksonville, Florida, TNT Logistics North America's web is at www.tntlogistics.com.

# upcoming events FALL 2002

## *September 2002*

September 22-24
**Material Handling Conference**
This Material Handling Conference, includes material handling and supply chain software industry experts and users. Case Studies are also presented from a customer perspective providing details derived from their personal experience of planning, engineering and supporting systems. Sponsored by HK Systems and Irista, based in Park City, Utah. For more information contact: cheryl.falk@hksystems.com

September 29 - October 2
**The Council of Logistics Management's 2002 Annual Conference, The Rules are Changing**
San Francisco, California, Contact: Tel: 630-574-0985, E-mail: clmadmin@clm1.org

## *October 2002*

October 20 – 25 (and March 16 – 21, 2003)
**Essentials of Supply Chain & Logistics Management**
This five-day executive Program is designed to clearly demonstrate how each supply chain element interrelates and how to manage the overall supply chain for speed and reliability, flexibility, cost and asset efficiency. The program helps you develop a high performance supply chain for your organization. The Donald B. McCaskill Centre, Schulich School of Business, Toronto, Ontario. Preview this program as well as others and register online at: http://execdev.schulich.yorku.ca/

## *November 2002*

November 6 – 7
**Collaborative Business Planning and Operations**
This course gives participants a clear understanding of collaborative commerce. It will focus particularly on Collaborative Planning, Forecasting and Replenishment CPFR (R). Participants will return to their companies able to create a firm plan for implementation. The Miles S. Nadal Management Centre, Toronto, Ontario. Preview this program as well as others and register online at: http://execdev.schulich.yorku.ca/

November 13
**Best Buy Co.'s Acquisition of Future Shop**
Debra Lang, Director of Enterprise International Operations and New Business Best Buy Co., discusses the acquisition of Future Shop by Best Buy, North America's leading retailer of consumer electronic products. This roundtable will also encompass the opening of Best Buy's first store in Canada and an overview of the company's vision as well as supply chain opportunities, challenges and learnings. What does Best Buy's expansion mean for customers, suppliers and supply chain partners? Toronto Airport Marriott Hotel. Contact: Fred Moody, CLM Toronto Roundtable president, for more information at: fmoody@LQ.ca

November 16 - 19
**International Intermodal Expo, Intermodal Association of North America**
Anaheim Convention Centre, Anaheim, CA. Contact: Connie Sheffield at 301-982-3499 Ext. 12 for more information.

## *January 2003*

January 14
**CLM Toronto Roundtable: Leadership in Transportation, Managing Change in the 21st Century. (Date to be confirmed.)**
The transportation industry continues to evolve to meet the changing needs of customers. This CLM Roundtable includes a panel comprised of senior executives from Canada's leading logistics and transportation companies, who have transformed and positioned their companies as leaders in their segment of the transportation industry. Toronto Airport Marriott Hotel. Contact: Fred Moody, CLM Toronto Roundtable president, for more information at: fmoody@LQ.ca

January 27 – 29
**Healthcare Supply Chain Management**
Keeping your facility competitive requires that executives in Canadian healthcare industry identify innovative ways to work with their supply chain partners. This seminar is intended to help healthcare managers and their suppliers reduce operating costs and improve efficiencies throughout their supply chain. The Miles S. Nadal Management Centre, Toronto, Ontario. Preview this program as well as others and register online at: http://execdev.schulich.yorku.ca/

# President's Viewpoint

*by Victor Deyglio*

# DISCIPLINED ACTION *from Potential to Reality*

***Planning is priceless, but plans are useless.***

The journey from Good to Great begins with disciplined people: Level 5 Leaders imbedded throughout the organization with the entrepreneurial zeal to succeed. Breakthrough comes with disciplined thought: confronting the brutal facts that limit growth, and developing "best in the world" insight and understanding (Hedgehog Concept). Greatness is built through disciplined action.

Discipline is not about getting "the wrong people into the right behaviors." It's not about logically coherent strategies and plans, nor does it entail bureaucratic procedures and processes. Good-to-great requires a *culture of discipline*: a balance between freedom and responsibility within the framework of a highly developed system.

## Cancer of Mediocrity

Collins and his team describe why few new companies become great, thereby unmasking a root cause why all companies stagnate in the face of success:

Entrepreneurial success is fueled by creativity, imagination, bold moves into uncharted waters, and visionary zeal. As a company grows and becomes more complex, it begins to trip over its own success – too many new people, too many new customers, too many new orders, too many new products. What was once great fun becomes an unwieldy ball of disorganized stuff.

In response, someone (often a board member) says it's time to grow up and get professional management. The company hires MBAs and seasoned executives from blue-chip companies. Processes, procedures, checklists sprout up like weeds. An egalitarian environment gets replaced by a hierarchy, chains of command appear, reporting relationships become clear, an executive class emerges with special perks. A culture of "we and they" grows – just like a real company!

The cancer of mediocrity begins, and quickly metastasizes into full blown bureaucracy. Bureaucracy is about "standard behaviour," not about discipline. In reality, the purpose of bureaucracy is "to compensate for incompetence and lack of discipline."

Most companies build their bureaucratic rules to manage the small percentage of wrong people on the bus, which in turn drives away the right people on the bus, which then increases the percentage of wrong people on the bus, which increases the need for more bureaucracy to compensate for incompetence and lack of discipline, and so on…

## Freedom and Responsibility.

The alternative to a bureaucratic culture is a culture of discipline, balanced with an ethic of entrepreneurship. The core value is freedom, which has two dimensions: freedom from restrictive loyalty to what had always been (so that we can face the brutal facts that limit greatness), linked integrally to freedom to lead into the unknown future (so that we can be passionate about being the best in the world).

But freedom without responsibility becomes tyranny of self-will, A fanatical egotism that becomes the unsavory mix of greed and stupidity manifested recently too many boardrooms. How can anyone really believe that building a pro-golf course for personal use with shareholder money would go unnoticed?

Responsibility to an enterprise greater than oneself underpins the egoless clarity needed to face the brutal facts, and turn potential into reality as well as sustain greatness. Level 5 Leaders are driven to be responsible.

## Culture of Discipline

Discipline by itself will not produce great results. The Iacocca's of corporate fame are disciplinarians, precise and methodical. They bring strict disciplines to the company; rigorous planning and competitor analysis, systematic market research, profit analysis, hard-nosed cost control.

But good-to-great lies in "the discipline to do whatever it takes to become the best within carefully selected arenas and then to seek continual improvements from there." Good-to-great

(President's Viewpoint, *continued on page 37*)

by David E. Yundt

# Optimizing Supply Chain Performance in Healthcare

A UNIQUE INITIATIVE

Imagine that you're lying flat on a gurney being raced from emergency through long hospital corridors. You're about to enter the operating room and the orderly says, "I want to tell you that we run a just-in-time facility. We don't stock large supplies of scalpels, gauze, needles or sutures. But trust me, everything's here when we need it."

You might be concerned. After all, using a just-in-time environment may be an easy decision for many industry sectors, this isn't the case when people's health is involved.

Many of the techniques used to improve supply chain performance in other industries are not so easily applied to hospitals and healthcare. The healthcare industry in Canada is unique, and the differences extend beyond the care of people's lives. These public institutions have controlled revenue streams, strict levels of privacy and security, and different missions and mandates than private corporations. Consequently, optimizing supply chain performance in the healthcare industry requires a highly strategic approach.

## The Need for Change

Hospitals have traditionally maintained on-site storage of medical and surgical supplies. But in this era of severe budget constraints, supply chain performance in healthcare is receiving increased attention. In November 2001, the Ontario Hospital Association issued its *Task Force Report on Supply Chain Management*. This excerpt from the report's Executive Summary highlights the need for supply chain reform:

"The Report indicates that Ontario hospitals are not taking advantage of the cost savings and risk reduction opportunities embedded in the Healthcare supply chain and that, on balance and over time, the savings far outweigh the costs. This report seeks to make supply chain reform a priority by: examining why Healthcare lags behind the private sector; identifying the areas and amounts of savings available; and estimating the impact of supply chain management 'best practices' on efficiency improvements, reduced costs and reductions in medical error."

When an institution's core purpose is patient care, it's a challenge to invest in the development of supply chain infrastructure and logistics technology. Therefore, when hospitals have initiated supply chain reform, and many Canadian hospitals have done so, they sometimes outsource to third party logistics providers.

In the mid-1990s, University Health Network and Mount Sinai Hospital, both of Toronto, outsourced their stores operations. University Health Network is an umbrella organization that supports the patient care, education and research programs of Toronto General Hospital, Toronto Western Hospital and Princess Margaret Hospital. The outsourcing program that serviced the four hospitals proved successful, achieving significant cost-savings in inventory, administration and logistics.

The program, however, had room for improvement. Due to the nature of the outsourcing relationship, the operation involved a limited number of SKUs. Also, after several years, the savings plateaued. So, in 2000, University Health Network made the decision to re-evaluate their existing logistics outsourcing business model.

## Searching for a Solution

For assistance, University Health Network called upon THiiNC Logistics Inc., a Toronto-based provider of healthcare supply chain solutions. Together, they explored every possible option, including the search for a third-party organization that specialized in the hospital supply chain for medical and surgical products. The search did not reveal any organization capable of meeting all of the hospitals' objectives. The team believed that with both internal hospital expertise and external supply chain and logistics expertise, best practices commonly applied to other industries could be adapted to the unique needs of the healthcare industry.

The resulting decision was to create a new company that would operate under a Public-Private Partnership between University Health Network and THiiNC Logistics. It was a solution that could also provide a future business opportunity — the new organization had the potential to meet the needs of other hospitals on a regional or national basis.

University Health Network hired THiiNC Logistics to manage the start-up. The initiative was dubbed Project PLUS, and the new company was named Hospital Logistics Inc. The company would provide supply chain services for medical and surgical supplies to the Canadian hospital market based on a 4PL model. Hospitals would benefit from high service levels and significant cost-saving opportunities.

Project PLUS began with a golden opportunity – Hospital Logistics could be designed from a blank sheet of paper. There were some parameters of course. The company needed to be an independent organization that operated at arm's length from University Health Network. An infrastructure had to be built that could support a national business. And the new company needed to be fully operational in 10 months.

## Two Breakthrough Ideas

Designing the strategic solution resulted in two breakthrough ideas: the nursing unit must be viewed as the customer; and the supply chain should be managed by a fully integrated technology platform.

Traditionally, the hospital has been viewed as the customer, which is one step removed from the end of the supply chain. Nursing units, clinics, and others order and receive supplies. In this model, the hospital would be the client and the various locations within the hospital the customers. Now, logistics responsibilities no longer ended at the hospital door, and Hospital Logistics Inc. would assume responsibility for managing in-hospital logistics staff. This unique element of the solution was enabled by the cooperative nature of a Public-Private Partnership.

Development of the second idea, an integrated platform, began with the need to make a decision between an enterprise resource planning (ERP) system or integrating best of breed solutions. A system evaluation team conducted an extensive vendor evaluation, searching for the optimum way to meet a diverse list of critical objectives. The solution had to be a seamless platform that provided rich functionality in all components, including Web-based applications. A flexible platform was necessary to support future changes in the supply chain and potential business opportunities, such as the addition of more hospitals. And perhaps most challenging, the system needed to be implemented within four months to support the overall project timetable.

The enterprise model was chosen and an ERP system was found that met the project's strategic needs and goals. The evaluation team selected a Canadian company, TECSYS Inc., to provide the applications for Hospital Logistics Inc. This particular supply chain management software company was chosen for its considerable experience in distribution, and because of the features of its EliteSeries suite:

- TECSYS EliteSeries suite covers the complete platform, offering Enterprise Performance Management (EPM), Distribution Management (DMS), Warehouse Management (WMS), Transportation Management (TMS), and E-Commerce.
- EliteSeries suite provides all of the benefits of an integrated solution, while providing rich functionality in each module.
- The latest release of EliteSeries is built with the technological advantages of Web-based applications, which perfectly suits the project.
- The system supports the use of technology including Personal Data Assistants (PDA) for scanning of product in the hospitals and order creation, and Radio Frequency (RF) for all activities in the distribution centre.

As the EliteSeries suite was implemented, key modifications were made to the system for the in-hospital logistics activities (i.e. controlling the set-up, ordering and stocking of product within the nursing units). The result was a totally integrated solution – one system to control internal hospital logistics, the warehouse operation, inventory management, purchasing and financial management. This is unique in the healthcare industry in Canada. Until now, when a hospital chose to work with a third party logistics provider, different components of the solution ran on separate system platforms.

The only activity within the supply chain that Hospital Logistics does not control is managing product selection and contract negotiation with suppliers. In the industry today, individual hospitals negotiate prices with suppliers. Consequently, Hospital Logistics Inc.'s computer system is physically separated from the hospitals, and was designed with security features and database

(OPTIMIZING SUPPLY CHAIN, *continued on page 27*)

## Leadership in Logistics, a Québec Perspective

*by Pierre Massicotte*

# L'Oréal

## Global Strategy, Local Action

*As I mentioned in my previous editorial I will present you with some of the companies which are actively involved in logistics activities in Québec.*

*Being "somewhat" bias, I will begin in this editorial, with L'Oréal.*

*Most companies have global strategies and local initiatives to execute that strategy. L'Oréal succeeds quite skillfully, by mirroring their global strategies in their local initiatives around the world. Let us have a look at how it is being done in Canada.*

On June 17 2002, L'Oréal Canada announced major investments in the borough of Saint-Laurent, Québec. The company is investing $100 million to expand its production plant, its logistics center and its consumer service and technical training center. L'Oréal Canada will create more than 100 new jobs over three years. The company, a subsidiary of the French multinational L'Oréal S.A. is the largest cosmetics company in Canada and the only manufacturer of hair care products based in Québec.

### L'Oréal, Global Strategy

L'Oréal is present in 150 countries around the world. With 47 manufacturing plants and 88 distribution centers, L'Oréal produces and distributes thousands of high quality products to millions of consumers on all continents.

**Brand Development**

The company invests more then 3 percent of its revenues in research and development to constantly offer consumers new products born from the latest technology.

Sophisticated marketing plans are implemented worldwide to develop and to explore new markets and to gain market share. The brands are regrouped into four categories: Professional Products, Consumer Products, Luxury Products and Active Cosmetics.

**Product Quality**

Quality is a key objective for the manufacturing plants and a fundamental element of the success of L'Oréal. Every plant plays a specific role in support of the integrated global manufacturing strategy of the group. They are subject to very strict quality standards from the group and to ISO certification. Internal and external audits are conducted on a timely basis. Safety and environmental programs are in place in every facility. The results are benchmarked on a monthly basis and standards upgraded for the highest achievements

**Logistics Efficiency**

In order to support global marketing and manufacturing strategies, the group has to rely on efficient logistics, a key enabler for success. As a result, new logistics functions and groups are emerging and being organized in many countries around the world. Distribution facilities and information system projects have received full attention and support from the company's management. The company is moving towards greater logistics efficiency and excellence.

**Qualified Workforce**

L'Oréal is very active in recruiting new talent and qualified employees around the world. With a strong presence in the universities and via its internet site, L'Oréal is becoming the first choice of many graduates. More so, since the well being of the employee is of key importance for the company any initiatives to offer customized services to employees are welcome and being implemented in many facilities.

### L'Oréal Canada, Local Action

**The Brands…**

Since its creation in 1958 L'Oréal Canada (formerly Cosmair Canada until 2000) has strongly supported the brand development strategy of the group, with a strong track record in business growth. Today, the Canadian portfolio counts 19 international renowned brands: L'Oréal Professionnel, Matrix, Redken, Kérastase, L'Oréal Paris, Garnier, Maybelline, Ombrelle, Lancôme, Biotherm, Helena Rubinstein, Ralph Lauren, Giorgio Armani, Cacharel, Guy Laroche, Paloma Picasso, Kiehl's, Vichy and La Roche-Posay. These products can be found across Canada.

(Leadership in Logistics, *continued on page 27*)

by Carol West

# PROFESSIONAL CERTIFICATION FOR CUSTOMS BROKERS

This fall the Canadian Society of Customs Brokers launches a new professional certification program for customs brokers. The 12-month Certified Customs Specialist (CCS) program is the first of its kind in Canada, designed to address three critical developments in the industry:

- The government's decision to alter the licensing requirements for brokers;
- The increasingly severe consequences for importers who make errors in handling customs transactions with CCRA; and
- Increasingly complex human resource needs, in an industry where a high level of knowledge and expertise is at a premium.

## The Redesign of Broker Regulation

The government has announced significant changes to its customs broker regulatory program. These changes have resulted in an enormous gap in an industry where professional qualifications and standards are essential. When importers place their customs transactions in the hands of a broker, they are making a decision based on trust. While the previous government-issued "qualified customs broker" designation was never a guarantee of service quality, it did provide some assurance that the broker was qualified to do the job. Without some form of recognized, credible standard for professional qualification, importers would have a much more difficult challenge when considering a broker's service.

The Certified Customs Specialist program fills the need for such a standard. Backed by the CSCB – one of the most trusted organizations in the industry – the program will ensure that graduates have a thorough grounding in the fundamentals of customs transactions, procedures and policies. And it will ensure that graduates have the skills necessary to apply their knowledge in real life, to the best advantage of importers.

The "CCS" designation will, I believe, quickly become recognized as the new professional standard in the customs marketplace.

## Helping Importers to "Get it Right"

CCS will, of course, be more than just a designation. A Customs Certified Specialist will have the specialised knowledge and skills required to deliver the level of service importers need, in an environment where mistakes can lead to serious consequences.

Current and planned CCRA policies place an increasing burden on importers to "get it right" when reporting and accounting for goods. Monetary penalties – even for data entry errors – can quickly add up. Post-clearance audit procedures expose importers to a more comprehensive, thorough review of past customs transactions than ever before. That review, increasingly, can involve not only records of goods received, but an importer's entire business operation.

From CCRA's perspective, "getting it right" means getting it right the first time, with automatic penalties for administrative errors. As each customs transaction involves a more complex set of details, linking goods received to their point of origin through to their final destination, the possibility for errors to creep in keeps growing – leaving the importer open to considerable risk. It is a risk that

> *Current and planned CCRA policies place an increasing burden on importers to "get it right" when reporting and accounting for goods.*

(CSCB Report, *continued on page 29*)

by Nicholas Seiersen

# E-Purchasing in Canada

## A CASE STUDY

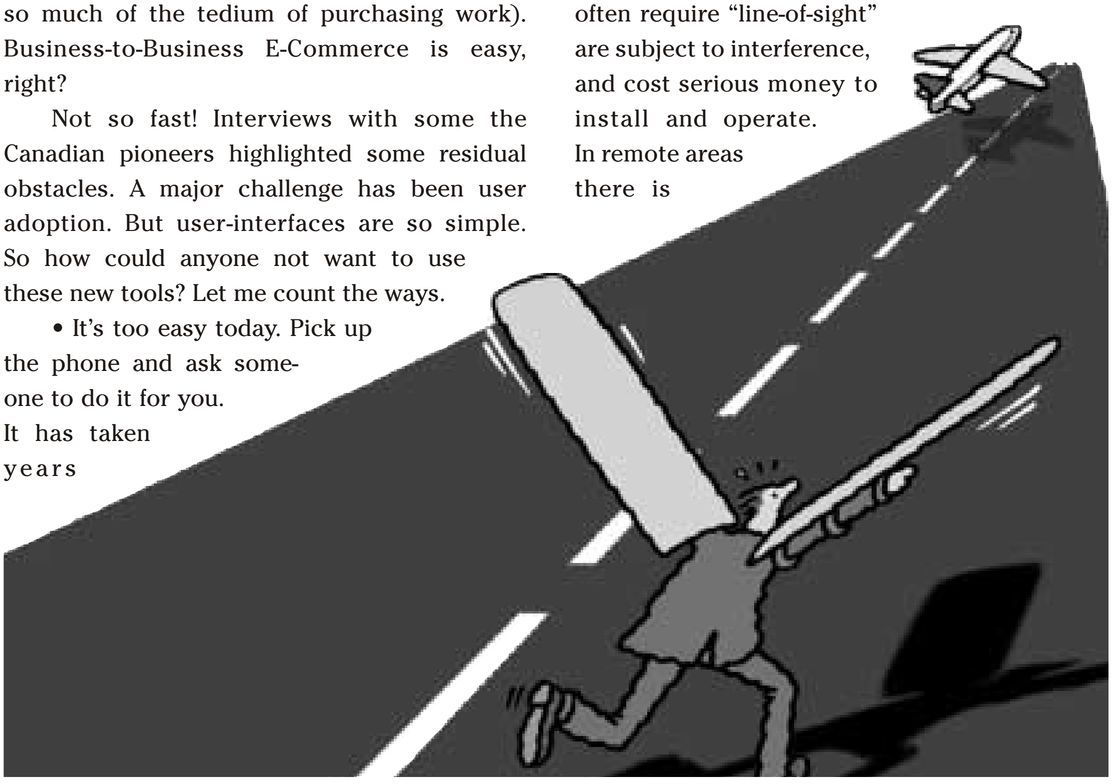
A previous article discussed the state of E-Purchasing in Canada. In this article, some pioneers tell their story – the brave souls that are playing "Chicken." What are the challenges they have overcome, what learnings can they pass on?

Counter-intuitively, getting the back-end to work is "easy." Integrate the systems (this has its own set of challenges, but they are resolved in the initial implementation project), then get the buyers to use these new capabilities effectively (usually quite easy because they relieve so much of the tedium of purchasing work). Business-to-Business E-Commerce is easy, right?

Not so fast! Interviews with some the Canadian pioneers highlighted some residual obstacles. A major challenge has been user adoption. But user-interfaces are so simple. So how could anyone not want to use these new tools? Let me count the ways.

• It's too easy today. Pick up the phone and ask someone to do it for you. It has taken years for office automation to eliminate some secretaries and the internet is inexorably, and very slowly, killing travel agents.

• Adequate infrastructure may not be in place. It's difficult enough to get a cell-phone signal in cottage country or at the airport. Imagine what its like North of the 50th parallel when you need high-speed access to drawings to select the right item. The toughest user to serve is the mobile worker, whether on the shop floor or in the wild. Industrial wireless networks that often require "line-of-sight" are subject to interference, and cost serious money to install and operate. In remote areas there is



limited and spotty access to cable and high-speed dial-up. Satellite links are very expensive, and the equipment is cumbersome. So the user is tethered to a "land-line."

• User interfaces are still immature or at least unfamiliar. Palm pilots and Blackberries are not a challenge to highly educated and technologically-fluent, yuppies. While computer and internet usage is very high in Canada, many experienced workers have not made the move online for important job-related things. Why? It's still too confusing. In cell phone M-Commerce (using web-ready cell phones to do business), research found that 200 buttons had to be pushed to setup an M-Commerce account, and a further 90 were required to place a second order. Who has the patience for that when there is real work to be done?

*The reality is that front-line people and processes are working to catch up with the capabilities of the technology.*

• It gets worse before it gets better. This is the toughest nut to crack; adoption of new ways of ordering will involve a learning curve that means that the process will be slower, before it gets faster! Helping purchasers get to the point that they are efficient with a new electronic ordering system takes time, patience, and the occasional prod to get some action. Companies must hang in for the long haul, even if things are apparently getting worse.

• Rudimentary catalogue quality. If the fancy new system is more difficult or tedious to use than the old ERP system, where is the progress? When CN, for example, rolled out Ariba, the heavy users requested changes to make it easier for them to do their jobs. This involved templates where frequently ordered items can be ordered with three clicks and mini-catalogues, where they find the things they use most often, without browsing the whole catalogue. The promise of these new systems has been vastly improved visual presentation and technical information about the products available. If the initial content loaded is dumped from the ERP, this promise has been flouted.

The reality is that front-line people and processes are working to catch up with the capabilities of the technology. Many of these obstacles will be eliminated as younger, more tech-savvy users take over in the workforce. In the meantime, CN, for example, has almost 900 active users, buying about $80 million annually. To achieve this, training on Ariba was required, as well as a comprehensive definition and explanation of the benefits. And, a little gentle persuasion was used; When users go outside the system, they dilute CN's buying power, or disqualify the E-Purchasing discounts and this is charged back to the user's budget.

Another challenge that is less daunting than originally feared is supplier readiness and willingness to adopt. This may be because the pioneers found like-minded souls amid their key suppliers. More cynically, it may be the old adage – "he who pays the piper, calls the tune." Many suppliers are discovering that E-Business is their future business, and they will welcome the opportunity to get onboard, as soon as their customers are ready.

## CN and Ackland's Grainger: An Overview of E-Procurement Implementation

When CN started out on their E-Purchasing voyage in 1999, the first vendor to load their catalogue and transact on-line was Acklands-Grainger, Inc.(AGI). For CN, having such a significant supplier on-line so quickly was a major win, and it drew users to spend through the new Ariba system. AGI built on a substantial business already won from years of strategic MRO sourcing at CN, minus the data-keying errors, the clerical efforts, and new, more cost effective fulfillment processes. More specifically, they foresaw these benefits:

• Elimination of order-entry tasks. Pick-tickets go directly through to AGI printers in the location selected for fulfillment of this item.

• No translation issues for product requirements. The customer gets what they ordered themselves, from the online catalogue.

• An ability to customize catalogues and pricing. CN has a CN specific Safety catalogue and a general supplies catalogues, with approved items and the preferred pricing.

• The catalogue directs users to AGI Product brands. This meets CN's cost-reduction objectives and builds volume on "private label" items that are frequently more profitable.

• It directs the end user to AGI as the only preferred vendor for MRO.

• AGI gains experience as an e-participant to share with other customers.

• It gives AGI the ability to map the order to the most efficient servicing location or fulfillment process.

• It standardizes ordering method from CN to AGI.

AGI recognized that this new business channel would have a lower cost-to-serve, and they offer a special, distinct, E-Purchasing discount.

So the E-Purchasing proposition is attractive for suppliers. It is, however, neither straightforward, nor easy.

• Product information and catalogue management and maintenance is a large part of any E-Procurement initiative and is regularly overlooked as a significant cost of ongoing operations. It is also one of the most vital steps. Without accurate data, problems are passed downstream and can result in major accounting issues such as invoice matching problems.

• Connectivity, namely, the supplier connecting to marketplaces and/or directly to customers, is also never as easy as it seems. The multitude of people throughout many different organizations that need to be involved in testing resulted in very slow progress in developing connections between buyers and marketplaces and/or suppliers. And, XML-file transfer is not as simple as it is often described, as the CN story clearly illustrates.

## CN Case Study

*Insights From CN's Sameh Fahmy, vice president of Supply Management, and Nick Lesey, supply manager of General Supplies and Services, CN.*

E-Purchasing is the same as any new technology. It will require seven years to become broadly accepted. At that point, in three or four years, as it started in around 1999, it will become difficult to find a company in Canada that will not be performing Business-to-Business transactions online with their suppliers.

The tools used may have capabilities that we have not yet imagined today. In the early days of ATMs, many people were frightened to use them. Now, even senior citizens pay their bills on these robots. In the early days on Interac, there were interminable arguments over who would pay for the terminals, who would pay the transaction fees. Now everyone has one, no sum is too small. No one thinks twice about taking an elevator. When that happens, it will too late to get on board. You will be playing catch-up. The time to start is now.

There is value for everyone in E-Purchasing. CN sees value through lower buyer costs as the user buys against pre-sourced catalogues, and there are lower invoice mismatches, greater savings through maverick buys channeled to preferred vendors and standardization. The spend data, for example, enabled CN to drive users to three safety vests from 132 different vests.

Suppliers, such as AGI, see value based on eliminated data-keying errors, reduced clerical

## A Day in the Life of a CN Order for MRO Products from Acklands Grainger

- A mechanic requires a maintenance part.
- The mechanic logs onto the CN Ariba system.
- The mechanic quickly finds the part in catalogue, which links to picture(s)/ specs on Acklands-Grainger's web site to verify that it is the product sought.
- A requisition is submitted.
- This flows through CN's approval process, electronically, with an email notification to appropriate approvers, if it's required. In fact, most purchases are sent directly to AGI from the requisitioner's account (they are responsible for their budgets).
- The order starts in Ariba software.
- Next, it's sent to CN's SAP system.
- Then it's sent from SAP via EDI to Sterling Software (EDI Value-added network to connect supplier(s) and customers).
- Sent from Sterling Software to Commport (AGI's EDI Provider).
- Sent from Commport to AGI's Biztalk Server.
- Once received, the information regarding ship-to-location is identified (this is related to Acklands-Grainger's account number and servicing branch location).
- Once account and servicing location identified, the order is sent electronically to branch system where the order is entered electronically onto a point-of-sale system and printed in warehouse as a pick-ticket.
- The order is then picked and/or back ordered.
- This is followed by shipment decisions made by customer service, if the order is back ordered (e.g. Direct-ship from supplier).
- Once the product is picked, it is shipped to the location as entered by the customer.

efforts and more cost effective fulfillment processes. But even small companies, or minor CN suppliers that are not otherwise engaged in E-Purchasing, see value in error-free transactions that they can receive, as they want. They also benefit from catalogues that they can refresh as often as they want and, for which there is EPIRA (a rail industry EDI standard)-enabled back-end invoice and payment processing, that gets them their receivables faster. One supplier is 100 percent E-Purchasing, with five employees and one computer. CN pays the Ariba transaction fees, so there is no barrier to coming on-line. It is almost as simple as if the preferred supplier base is another division of CN.

User acceptance is about common sense. On a recent tour in the field, a manager was still using the old way of buying supplies to get his job done. They trained him on the tool as he had slipped through the cracks and showed him how the system would save him the half-day he spent each week on manually coding and approving invoices. Advice from the heart: when you embark on your E-Purchasing endeavor, don't lose your head. Do not get carried away and don't be tempted by the sirens of ".com." Move forward with prudence, common sense and seek pragmatic, true business value.

Some of the other and most salient applications of E-Purchasing at CN have their roots in E-Procurements' origins at CN. E-Procurement began in 1999 at CN during a Christmas party and with a discussion with a friend from Bell Canada. By January, a project was launched. In August, a pilot was live. But by April, CN was already in discussion with the other major rail carriers in North America, such as BN, UP, CSX, NS & CP. Today, the resultant Railmarketplace.com provides a platform for strategic sourcing and spend consolidation where appropriate. (But that will be the subject of another article).

After an intense month of business models and spreadsheets, it was clear that CN could not build a separate marketplace by itself. With the objective of looking at new ways and means for strategic sourcing, they engaged a dialogue with the other five major railways.

Today, where possible, all six carriers aggregate their buying power (office supplies, tires, etc.) In many cases, the combined buying power of these carriers is such that anti-trust laws, or the specificity of their requirements, do not allow them to aggregate their purchases.

Nevertheless, Railmarketplace.com still provides a unique site for railway online RFI/RFP and supplier (reverse) auctions. The suppliers know the site, the functionality and the style. Plus they have been pre-qualified by the other carriers. The buyers know the site's capabilities and limitations and have faith that it is an effective window to their supplier community. The bulletin board of upcoming events allows members to join other carriers' sourcing events, or to obtain insight into new supplier qualifications. At a recent auction, a Czech vendor was introduced by CN, against the existing Japanese, French and U.S. suppliers. The very attractive pricing was buttressed by an intense pre-qualification, with extensive lab analysis of products. Global fulfillment might present a challenge for some carriers or their suppliers. For others, it is an opportunity to provide inventory holding and product finishing services that have a ready buyer at CN.

Global sourcing also represents an opportunity to broaden the sourcing market and thus deflect the anti-trust market concentration constraints.

Auctions are highly appropriate for small value highly substitutable commodities, such as fasteners. Traditional RFP processes are far too cumbersome to be cost or time effective for these organizations. There is limited value from the incumbent relationship, and savings can be very substantial. The Clarus auction tool used at Railmarketplace.com allows several criteria to be weighted in the auction formula, and existing relationships is one of them. The site also allows pre-qualification for complex RFP through RFI. The suppliers know the site, and know how to use the tool. These options help address the legitimate concerns a long-standing supplier, with extensive relationships, would have over betting their business or their profit margin on a 45-minute gamble.

So what is the message from the E-Purchasing pioneers in Canada? There is significant value for both the buyer and the seller, and by implication, for the entire supply chain. Many have already embarked on this profitable voyage. It is time for you, too.

NICHOLAS SEIERSEN *is a Senior Manager, KPMG Consulting LP, Toronto.*

# Promoting Quality Healthcare Through Supply Chain *Best Practices*

*by Sarah Friesen*

"Promoting safe and quality healthcare through the implementation of optimal supply chain management practices and systems" is the vision of the newly created Canadian Healthcare Supply Chain Network (CHSCN). The group's mission is "to establish and promote Canadian healthcare supply chain standards and best practices, and to provide executional support for all healthcare stakeholders," resulting in improved effectiveness and efficiency, improved patient outcomes and greater alignment between supply chain partners.

CHSCN has its roots in the Efficient Healthcare Consumer Response (EHCR) initiative. Based on the United States' model, EHCR was established in Canada in 1998 by a group of hospitals, distributors and manufacturers to realize supply chain cost savings through the adoption of standards, such as EDI and barcoding, and other strategies such as Activity Based Costing. EHCR educated the industry through regional seminars, healthcare conferences and articles. A pilot project was initiated with the Ottawa Hospital, key suppliers and distributors. Yet, despite the zeal of its members, EHCR did not achieve the level of implementation that would have made this a great success story.

Also, CHSCN was established as a result of the November 2001 "*Task Force Report on Supply Chain Management: Improving Supply Chain Management for Better Healthcare*," co-sponsored by EHCR and the Ontario Hospital Association. This report demonstrated how a more efficient healthcare supply chain could save more than $350 million across Canada, and how the use of best practices and technology (such as bar coding) could significantly reduce medical errors.

Unlike the private sector, healthcare has been slow to recognize the value of the supply chain in reducing cost and improving efficiency. As the report indicated, while industry used process improvement and technology to generate billions of dollars in supply chain cost savings, this type of systemic change has been late in coming to hospitals. Inconsistent levels of efficiency, technology and resources have made it difficult for them to adopt traditional optimization strategies, and this has been compounded by the necessity for hospitals to accommodate physician preferences in decision making processes.

The Task Force Report identified four critical success factors which must be in place to achieve supply chain optimization in healthcare: 1) buy-in of senior management, 2) common goals and standards among hospitals, 3) training and 4) government support in setting standards and in funding initiatives. No small task!

A broad-based group of healthcare and industry supply chain professionals (all on a volunteer basis) picked up the challenge, and formed the Canadian Healthcare Supply Chain Network as a vehicle to deliver on the recommendations outlined in the report. The membership of the Steering Committee is another critical success factor, because the intention is for CHSCN to represent all potential stakeholders of the healthcare supply chain. CHSCN is co-chaired by members representing both hospitals (Sarah Friesen, Director of Supply Chain Services at Sunnybrook & Women's in Toronto) and suppliers (Peter Goodhand, President, Medical Devices Canada). Members include: Richard Giesbrecht from Shared Healthcare Supply

Services in Toronto, Mike Fry, Director of Materials Management at the Ottawa Hospital, Mike Rosser, General Manager, Healthcare Materials Management Services in London, Gary Mandziuk, Regional Manager, 3M Canada Company, Klaas DeWitte, Director, Inventory Management and Business Processes, Johnson & Johnson Medical Products, Irene Podolak, Partner with Deloitte & Touche, Rob Fletcher, Vice President Health Development, BCE Emergis, Norman Sung, Director Business Development, Global Healthcare Exchange, Doug McVeigh, President, Medbuy Corporation, Terry Rooney, President Canadian Pharmaceutical Distribution Network and Nigel Wood, Director, Industry Relations with the Electronic Commerce Council of Canada. This will be rounded out with participation from companies representing blood and food.

Through intense strategic planning exercises, the Steering Committee identified 10 key priorities that support the vision and mission. Ranked according to impact and feasibility, they include:

1) establish a repository of best practices
2) develop a network of experts
3) affiliate with professional associations
4) develop and deliver education through programs and seminars
5) develop a gap-analysis tool
6) facilitate executive sponsorship
7) develop a skills inventory of core competencies for supply chain professionals
8) develop a certification program
9) establish regional industry buying entities, and/or increase affiliation with Group Purchasing Organizations
10) identify and implement universal standards, e.g. bar codes

The list of next steps is long and varied. The Steering Committee plans to launch CHSCN in November and will be targeting all stakeholders in the healthcare supply chain as potential members. In the meantime, work continues on developing the profiles for each of the projects listed above, so that by the time of the launch, there are tangible benefits to offer the new members, and the real work can begin.

The steering committee of the Canadian Healthcare Supply Chain Network recognizes the huge challenge ahead, but is strongly motivated by the impact the supply chain can have on reducing medical error and driving costs out of the system. If you're interested in obtaining more information, please call Sarah Friesen at 416-480-6100 x 3342, or Peter Goodhand at 416-620-1915 x 226.

SARAH FRIESEN *is the Director of Supply Chain Services and Biomedical Engineering, Sunnybrook & Women's College Health Sciences Centre*

HEALTHCARE SUPPLY CHAIN MANAGEMENT

## *Learning the Tools of the Trade*

In January 2002 an educational forum was launched to arm healthcare supply chain managers with a new set of tools. The three-day program, *Healthcare Supply Chain Management*, is offered by the Executive Centre for Supply Chain & Logistics Management (part of the Schulich School of Business' Executive Development Program, Toronto). The course is offered in January and July, and to date has attracted supply chain managers from hospitals and manufacturers across Canada.

The program was designed to provide hands on, practical strategies to improve efficiencies in healthcare supply chains, especially within hospitals and healthcare institutions. Using a four-step model, the course begins with strategy development and process design fundamentals. The next two steps cover principles of strategic sourcing, warehouse and inventory management. Finally, the participants are taught how to use a gap-analysis tool, which incorporates all of the elements previously introduced. The course is structured so that managers can work on issues specific to their own organizations in breakout sessions.

The networking opportunities created by bringing together such a diverse mix of healthcare institutions and suppliers are significant. By the end of the first day there is a palpable buzz in the room as "war" stories are traded and it sinks in that others are experiencing the same issues and challenges. To date, 26 healthcare institutions and six suppliers have attended. Distribution lists have been created, and former participants often send out emails asking for information so they don't have to reinvent the wheel.

One of the highlights of the course is the tour to a state-of-the-art warehouse. For the July session, the group visited the Medis facility, a major distributor of pharmaceuticals. The tour was of great interest to all who attended for two reasons: Medis is a supplier to many of the hospitals, and they have implemented many leading edge warehouse management processes.

Feedback on the course has been excellent, and the next offering is scheduled January 27 – 29, 2002. Plans are evolving to add a second module, which will provide more depth on strategic sourcing and contract management.

By Mike Scott

# Modern Day Marco Polos

## Accessing China requires relationships, patience

As developing economies throughout the world are feeling the pinch from Argentina's default on its debt, China continues to grow. China's industrial production grew by 12.8 percent in the 12 months to July. Five years ago, the country withstood the Asian currency crisis that battered the so-called Tiger economies of South East Asia. In fact, many credit China's ability to defend its currency for stopping the contagion and facilitating the country's acceptance into the World Trade Organization.

China has surpassed Canada as the world's seventh largest economy. How much longer before we'll be talking about a G9?

As a place to do business, China has clearly arrived. Yet for companies new to the market, it is important to realize that China still lacks the transparency that we are accustomed to in the West and there are significant peculiarities that define its business culture. And there is no more formidable aspect of Chinese business culture than "Guan xi."

Guan xi, meaning "personal relationship," is the foundation of all business dealings with Chinese partners. You must earn the trust and respect of your potential business partner. If the relationship is there, business will follow. As a result, there is usually no substitute for meeting face-to-face, especially over formal lunch or dinner functions. Nurturing Guan xi is particularly important with well-established businesses and state-run enterprises. Interestingly though, the younger class of entrepreneurs is showing signs of being more flexible and initial formalities are sometimes bypassed in the interest of getting right to business.

Compared to business experiences you may have had in other countries, having a proper appreciation of Guan xi means that you should be prepared to invest more time and effort in the exploratory stage of any new Chinese business venture. Spend the time to identify and get to know the right partner. Visit the country several times before confirming business relationship. Invite your partners to visit you in North

America. Even if they don't accept, it's the formality of the invitation that counts.

Depending on the scale of your potential business it's also important to nurture Guan xi with government officials. This may not be obvious to North American business people, but government connections can be an invaluable help in sourcing and finding opportunities. Chinese bureaucracy is well structured to welcome Western business, as central, provincial and major municipal governments have foreign affairs departments dedicated to international trade. The China Council for the Promotion of International Trade (CCPIT) is a good starting point.

*Chinese bureaucracy is well structured to welcome Western business, as central, provincial and major municipal governments have foreign affairs departments dedicated to international trade.*

Our company's relationships with various government officials have grown over the years to the point where we now organize annual trade missions to China. Smaller in scale than government-led missions, we typically bring about 20 North American businesses to several major Chinese commercial centers, and with the assistance of local economic development agencies, set up highly targeted initial meetings with potential business partners.

The experience of many mission participants attests to the importance of Guan xi and of another key piece of advice: keep an open mind and be prepared to respond to some opportunities, even if they sound unconventional. SR Instruments of Tonawanda, NY joined the 2000 mission in the hopes of opening a new market for their various lines of precision medical and navigational scales. In the end, this goal didn't materialize, but the trip was very fruitful nonetheless. Within three months, SR had established co-production relationship with a vendor in Beijing and today has additional arrangements with facilities in Shanghai and Wuxi, researching, developing and manufacturing components for new products.

SR's success in sourcing boils down to the company's receptiveness to new ideas and its understanding of the role of Guan xi. During the Beijing leg of the trade mission, SR's marketing manager, Teresa Eyring, was introduced to a high-level official in Beijing's Economic Development bureaucracy and maintained regular contact with him upon her return home. When the gentleman decided to retire, SR retained him in the capacity of business advisor to communicate with the company's Beijing manufacturer and explore opportunities with potential new partners.

Having eyes and ears like this in China is extremely beneficial for liaison and problem solving. Ms. Eyring still travels to China about twice a year to nurture relationships, but her business advisor facilitates the daily legwork. Communication of quality and service expectations is the key, as Chinese partners tend to be very conscientious when these are understood.

When evaluating potential partners, many of the same criteria that guide business decisions in North America apply. Capabilities, staffing, expertise, resources and company culture are important considerations when determining whether there is an ideal fit between organizations. Site visits can be of great value in scoping out potential business partners, and if this isn't feasible, having local advisors conduct the investigative work makes definite sense.

China is not without its economic challenges. Inefficiency in remaining state-owned enterprises, particularly the banking sector, rural unemployment and an increasing government debtload are serious issues facing Chinese leadership. But I firmly believe that the early mover will be in the best position as the market grows and matures. The basic rules of relationships and patience are simple, but first you must be committed to the effort and be open to new opportunities that arise.

MIKE SCOTT *is President and C.E.O. of PBB Global Logistics, a provider of integrated supply chain solutions. He will be leading PBB's third trade mission to China in November 2002.*


*by Joe Grubic & Dale Thomson*

# *Negotiating a* **Superior** Logistics Services Agreement

Ensuring sustained quality and performance from your logistics service providers. Maintaining high service levels for your customers. And making a significant contribution to operational cost reductions. It all begins with the Logistics Service Agreement (LSA). In today's business environment of demanding global service requirements, growing levels of outsourcing, as well as challenging performance and cost targets, negotiating and managing a LSA has become more complex, comprehensive and challenging than ever before. Today's logistics managers need to shape a superior LSA, with the right methodology and content. This article examines the four key steps to negotiate a successful LSA.

Changing market conditions over the past 18 months have brought a renewed focus by many companies to reduce their operational costs and streamline their supply chains. This renewed focus has led companies to consider the benefits of outsourcing non-core activities, including significant parts of their logistics operation. In the case of logistics services, outsourcing enables companies to leverage the existing infrastructure, technology and processes provided by logistics services providers making direct investments.

At the same time, however, outsourcing of more comprehensive logistics elements has resulted in an increased level of complexity in negotiating LSAs. Adding to that complexity are more encompassing relationships between the company and the logistics service provider — relationships that have evolved from simple interactions governed by straightforward tariff schedules to more complex arrangements defined largely by sophisticated global service agreements.

With these challenges converging upon logistics managers, how should they craft the right LSA for the best results?

Up-front negotiation is at the heart of addressing these challenges. Indeed, effective negotiation, increasingly a critical skill set for most logistics managers, can impact both the cost and service levels of delivering products to customers, lead to cost and operational efficiencies, and help ensure the quality of the logistics services provided to your company. Here are four critical steps to successfully negotiate an LSA for today's business requirements:

- Understand the mandate and objectives at the beginning of the process;
- Bring the right parties to the negotiation table: A short-list based on capability;
- Draft and negotiate a comprehensive LSA;
- Establish an effective governance process.

### Understand the mandate and objectives from the outset

The first step to effectively negotiate a superior LSA is to ensure that your team clearly understands the mandate and objectives before you start negotiations. The required services should be documented clearly and reflect the real requirements of your company. A well-documented business case that accurately portrays the financial impact of options should be maintained throughout the process to test these options and validate the final decision against the mandate.

### Bring the right party to the table: A short-list based on capability

The second step is the selection of the right party to bring to the negotiation table. This selection should be based on a robust request-for-quote process that considers both capability and price. The short-listing of candidates should be based on clearly documented requirements, not on the best marketing presentation. It is of no value to negotiate a great price if the service provider is incapable of delivering the required service. Conversely, there is little value in talking to a company that offers champagne service if you have a beer budget.

*The first step to effectively negotiate a superior LSA is to ensure that your team clearly understands the mandate and objectives before you start negotiations.*

The logistics manager should also consider the following issues in determining the suitability of a potential vendor:

- Ability to integrate well into your corporate culture;
- Knowledge of your business (or industry);
- Awareness and sharing of your objectives and strategic goals;
- Availability and applicability of information management tools;
- Capability of the logistics service provider to leverage their clients to deliver the required added value;
- Commitment to achieving your objectives, goals and mandate.

### Draft and Negotiate a Comprehensive LSA

The third step is the actual drafting and negotiation of the LSA. In the agreement, it is important to address how the parties are expected to interact, as well as their specific responsibilities. Establishing a clear understanding of responsibilities at the beginning of the relationship between the company and the logistics service provider goes a long way toward minimizing any potential impact on service, cost, and continuity, as the logistics service provider takes on the responsibility of delivering the required services. The LSA should define the terms and conditions of the relationship between your company and the logistics service provider. These terms and conditions should encompass the entire relationship, including both legal and operational responsibilities of the parties.

*Defining the legal responsibilities:* The respective legal departments of each party should have primary responsibility for the negotiation of such issues as limitations of liability, intellectual property rights, confidentiality and governing laws. Although these issues are critical in protecting both parties, it is equally as important to define the operational relationship between the parties.

Defining the operational relationship between the parties is the primary responsibility of the logistics manager in negotiating the LSA. This definition should include: specific scope of services, ordering process, governance process, pricing, payment terms, warranties or performance levels, and a description of responsibilities for both parties.

*Describing the scope of services:* One of the most critical elements of the LSA is the description of the scope of services. The logistics manager should be able to pull this directly from the description developed for the request-for-quote process. This description should be comprehensive and should account for any shortcomings that have been identified in the bidding process. A vague description of the service requirements could result in the unfortunate situation where the logistics service provider delivers the scope of services in the contract, but fails to deliver what your company requires. Additionally, as a result of vague descriptions, further complications may arise from differing interpretations of commonly used terminology (ie. reverse logistics, merge-in-transit, marshaling, etc.) For example, reverse logistics may be understood simply as the reverse flow of material from the original destination point back to the original point-of-supply (point-of-shipment). The concept of the material flow may be consistent with your interpretation, although differing processes may be required to follow, depending on the type of material flowing in reverse, namely, asset returns versus repair and return material (defective material requiring repair). More specifically, the process may vary in the way the material is received, put-away, stocked and tracked throughout the entire process. Systems and data-entry requirements may also differ substantially. Based on this particular example, it is clear how a descriptive scope of services can ensure that your requirements and expectations are clearly understood and delivered.

*Rewards and Incentives:* As operational efficiencies and cost reduction are the primary benefit of any business re-design, ensure that the rewards and incentives in the LSA support are aligned to help achieve your goals and objectives. Examples of these may include: cost-reduction targets, performance bonuses, gain-sharing models, etc. Cost-reduction targets may consist of a minimum guaranteed reduction in costs that the logistics service provider must deliver within a specified time period (ie. first year). The resultant repercussions of failing to achieve these targets

(Superior Agreement, *continued on page 32*)

(Optimizing Supply Chain, *continued from page 14*)

architecture that ensure that each hospital's information and data remain strictly private. This information is shared electronically with each hospital.

All of this would mean nothing of course, unless the solution worked without compromising on service. This solution provides:

- a target of a 98.5 percent fill rate on 2,700 SKUs in a just-in-time environment;
- operation six days per week with orders being placed up to 4 p.m. and delivered the same day, beginning at 8:30 p.m.;
- rush service for emergencies.

## Keys to the Strategic Solution

***Public-Private Partnership*** combines internal hospital expertise with supply chain and logistics expertise.

***Integrated Technology Platform*** results in a fully integrated end-to-end supply chain, starting with the nursing unit.

***Stockless Inventory Program*** enables hospitals and the healthcare industry to benefit from cost-savings available to other industries.

## Future Opportunities for Supply Chain Improvements

The Hospital Logistics operation will be fully transitioned for the University Health Network and Mount Sinai Hospital by October 2002. In the short term, the hospitals will benefit from new cost-saving opportunities and high service levels.

Over the longer term, this model holds the potential for continued value-added improvements in the supply chain. For example, data captured by the system will be used for vendor performance management and will enhance the ability to make purchasing decisions. Also, manufacturers and distributors could use the data and information to optimize their own operations and enhance the service they provide to hospitals.

Looking ahead, this supply chain model may help other hospitals and the healthcare industry on a national basis.

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(Leadership in Logistics, *continued from page 15*)

Many new product families are introduced in America via the Canadian market. One of the latest successes is Fructis with five million units sold in Canada in 10 months. L'Oréal Canada has had a steady growth in sales since its establishment in Canada, with over $550 million in sales for 2001.

**The Product Quality**

Established in 1968, the manufacturing plant in Saint-Laurent, under the L'Oréal Global manufacturing strategy, specializes in hair coloring products. The products are destined for the Canadian market and also exported to over 15 countries around the world. The production will increase by 60 percent over the next three years, to reach up to 150 millions units per year. The St-Laurent plant has become one of the key manufacturing assets for the group and is renowned for its quality, flexibility and cost efficiency. The plant is certified ISO 9002 since 1997.

**The Logistics Efficiency…**

Centrex, the new logistics center is the home of the supply chain management team. All logistics activities are performed or controlled through this facility.

The customer service team is mandated to define the customer requirements and to monitor the orders and the promotional activities until completion.

The procurement group translates the sales forecast and marketing activities into procurement plans. The purchase orders are placed with the manufacturing plants on a timely basis. The inventory replenishment orders are monitored and expedited to assure required service level is attained.

The operation team prepares more than 600,000 orders a year with the 9,600 SKUs of the 12 business divisions. These orders, representing 3,500,000 cases, are shipped in trailer load, less than truck load or by courier service to more than 4,000 customers/ retailers in Canada.

With a large variety of orders (units and case picking) of different volume and type (regular or promotional), the operation needs to be highly flexible.

The newly implemented integrated SAP system supports the operation. Order entry, EDI transactions, receiving, quality control and directed putaway activities, inventory allocation, order prepackaging, wavepicking, and assisted order preparation, including kitting and shipping activities are controlled by the system.

At Centrex the emphasis is put on the empowerment of the 300 employees to meet customer requirements. The focus is on operation efficiency and agility.

**The Qualified Workforce and its Well Being…**

L'Oréal Canada is living up to the group commitment to recruit talented employees and to give them careful attention. In addition to the modern environment, including cafeteria services and an internet café offered to the employees, it is now the first subsidiary in the L'Oréal Group to offer a daycare service with a capacity for 36 children in the workplace.

Conclusively, the announcement of L'Oréal Canada on June 17th confirms the company can pursue its mission with the full support of the L'Oréal group. L'Oréal has definitely succeeded to apply the global vision and strategy into a local reality of its subsidiary, L'Oréal Canada.

In the next editorial we will write about government initiatives and programs to support logistics projects development in Québec.

Pierre Massicotte, *P.Log, Vice President Supply Chain, L'Oréal Canada Inc., Director, CLM Quebec Roundtable.*

*by Paul Ragan*

# *Focus – Means You Must Be Able to Say "No"*

In an outsourcing company, which is in the logistics business, the conventional method of operation is to acquire as many clients and as much revenue as possible and worry about the bottom line later. A number of organizations have taken that train to an unfortunate demise. There is a better way! It demands a disciplined focus, a top of mind consistent message and the willingness to say "no."

This is difficult to do for many reasons:

• It is difficult to find a skeptical or pessimistic sales person or train them to be that way.

• You have to say "no" where the client operates outside of your industry focus, outside your geographic focus, outside your service focus, etc.

• You have to say "no" where the client is small or the likely business with the client is small.

• You have to say "no" where it is clear that the client is not really committed to outsourcing because strong groups within the client are against it or because senior management is not involved in the process.

• You have to say "no" where it is clear that the client does not know what it is doing because it can't, for example, provide data on volumes of transactions or the like.

• You have to say "no" when the client's buying team reflects a culture that you don't feel you could interface or integrate with.

• You have to say "no" where the client is only interested in unloading assets to improve ROA or in getting out of a difficult labor situation.

• You have to say "no" when the client itself presents a risk because its financial situation may be tenuous.

…and you often have to say "no" because, otherwise, you will chase a lot of dreams.

An interesting side effect of saying "no" a lot is that potential clients can become impressed by your focus and plead with you to work with them. This really changes the dynamics of such a relationship.

The ability to take such a strong position and prosper as a result requires a go-to-market strategy that will meet your growth targets and create the situation, within the organization, that is focused on value generation for all clients. There is an ever-building confidence that is derived from a knowledge-based and disciplined position in your chosen market. It's called success.

To achieve growth in this focused environment you need to continue to develop business from existing clients. Each year a target of 15 percent should come from the people you currently do business with. Planning sessions should be held with each major client, at least annually, to identify and create opportunities to grow the relationship. In addition, these sessions emphasize to existing clients that they come before new clients.

Consistent with the concentration on existing clients, you will only selectively respond to RFQ's/RFP's received in the mail (other than with a polite form letter). There is no time for opportunism. The only RFQ's/RFP's you should respond to are those you helped draft and are very likely to win as a result.

In the outsourced logistics business, you must build relationships, identify or create a need and then fill that need. Every client has an "A" list of requirements. Find it and fill it.

Marketing expenditures should go to case studies of relationships which will promote your company as being the logistics expert and give the perception of leadership in chosen market sectors and technology.

A case-study approach is very popular with clients and with individual(s) within the client organization responsible for the relationship, because it bolsters their reputations and images, too. It is the old art of story telling, easy to read, easy to understand, with a positive and logical outcome.

No marketing expense should be spent on researching competitors. If you have good client relationships you needn't worry about the competition, or at the very least, your client will tell you all about the competition.

Frequent seminar participation by a broad cross-section of management is the other major marketing vehicle. This is also case study and technology focused. If this can be teamed with an existing client the power of the message increases many times and the relationship grows.

Building a reputation in carefully selected market sectors and being acknowledged as the superior service provider is a long journey that never ends, but you will enjoy the milestones along the way. They will be recognized by the growth and earnings achievements of your organization as it matures.

Typically, there are few guardians of such a true focus in an organization and they are constantly battling the forces that won't understand and lack direction. Just say "no." It sends a powerful message.

PAUL RAGAN *is President of Nadiscorp Logistics Group Inc.*

(CSCB Report, *continued from page 16*)

importers cannot avoid entirely, no matter how determined they are to comply with customs requirements.

That risk can be minimized, however, by turning to a specialist who knows the business inside out. The Customs Certified Specialist program is designed to meet the business world's need for such a specialist.

### Meeting the Industry's Human Resource Needs

As importers demand increasingly complex customs services, the need for highly qualified, well-trained people keeps growing. The new certification program will help ensure that there is a good source of qualified candidates for those who hire customs brokers, including brokerage firms and companies with in-house customs departments.

No business today is more knowledge-intensive than the customs business. Companies who provide customs services need people who can manage, coordinate, automate, communicate and apply vast amounts of information, in a business environment where time and expertise are critical. They need people who can turn the constant flow of information into valuable knowledge for their clients.

The CCS program will help meet that need. Certified Specialists will know the fundamentals of the business, like tariff classification, valuation, and release procedures. And they will have the skills required to stay on top of changing customs policies and procedures, administrative programs, and international trade agreements.

That kind of knowledge – skilfully applied – can make a bottom-line difference for a brokerage firm's clients. And that is the kind of difference that makes a broker's business flourish – if there are enough qualified people available to do the job.

The CCS designation will assure those hiring staff that they have found someone who has what it takes – someone who is committed to a career in the business, and has the credibility and experience to deliver high-value service to clients.

### The New Standard for the Industry

The CCS program is designed and delivered by people who know their business, with years of hands-on experience in the field. It is a program created by those who know what it takes to thrive and prosper as a customs broker, and what it takes to deliver the best possible service to importers.

The CSCB is committed to making the CCS program the best professional development program possible. It will become the most recognized, and demanded, qualification for brokerage services throughout the country.

To find out more about the Certified Customs Specialist program, visit the CSCB web site: www.cscb.ca.

Carol West *is President, Canadian Society of Customs Brokers. www.cscb.ca.*



(editor's Viewpoint, *continued from page 38*)

acquisition and implementation costs of a common system and the existence of a want of interfaces between logistics, business and clinical systems.

Not surprisingly, a lack of government funding and storage space at hospitals clearly was irksome to some professionals. There was also a "perceived lack of control in decision making by hospitals working together." In step with this concern was the shortage of consolidation of warehouses within regions and a view that the consolidation of order information within province(s) could be used collectively to create cost reduction and product standardization. Decentralized purchasing was repeatedly mentioned as a concern. Another primary challenge included the diverse locations of customers and the need to find one carrier to provide a comprehensive set of services (parcel and LTL) for the special requests and requirements unique to healthcare customers.

There were, of course, many other concerns, too numerous to mention here. In this issue of LQ, David Yundt, CEO of Hospital Logistics Inc. (page 13) and Sarah Friesen, director of Supply Chain Services and Biomedical Engineering, Sunnybrook & Women's College Health Sciences Centre (page 21), provide two insightful articles about trends in this sector.

In future editions of LQ, we're looking forward to publishing more information about our healthcare survey in tandem with other well-researched documents about this vital sector.

Fred Moody *is publisher and editor of LQ™. fmoody@LogisticsQuarterly.com*

*Who Reads Logistics Quarterly?*

# New Professional Logisticians

**Mr. Eric Moen**, P.Log., Distribution Manager, Telus, Chilliwack, BC

**Mr. James Nesbitt**, P.Log., Team Lead, Canadian Tire Corp., Brampton, ON

**Mr. John Robert O'Brien**, P.Log., Operations Manager, Canadian Tire Distribution Centre, Bolton, ON

**Ms. Laurie Stapley**, P.Log., Senior Co-ordinator, Customs & Transportation, Johnson & Johnson Medical Products, Markham, ON

**Capt Resa S. Wade**, P.Log., DND, Shearwater, NS

## *New Professional Logisticians*

*whose photo was unavailable at press time*

**Maj Jacques Cabana**, P.Log., DND, LaPrairie, PQ

**Maj Dany Giguere**, P.Log., DND, Aylmer, PQ

**Maj George H. Gillam**, P.Log., DND, Sackville, NS

**LCol Stan A.F. Grabstas**, P.Log., Commanding Officer, DND, Ottawa, ON

**Maj Danielle M. Hards**, P.Log., DND, Ottawa, ON

**Maj David C. Irwin**, P.Log., DND, Callander, ON

**Maj Pierre D. Lemelin**, P.Log., DND, Barrie, ON

**LCdr Daryl G. Lowe**, P.Log., DND, Timberlea, NS

**LCdr Douglas R. MacKeen**, P.Log., DND, Ottawa, ON

**Lt(N) Lori McAllister**, P.Log., DND, Ottawa, ON

**Maj William J. McLean**, P.Log., DND, Cold Lake, AB

**LCdr Dana V.G. O'Connell**, P.Log., Marlant HQ N71, DND, Halifax, NS

**Maj Joseph Bernard Paquet**, P.Log., DND, Rockland, ON

**LCdr Kristina K. Patsula**, P.Log., DND, Victoria, BC

**Maj Robert Leo Proulx**, P.Log., DND, Orleans, ON

**Capt Sylvain Rocheleau**, P.Log., DND, Lazo, BC

# P.Log. Designation Program

Our six P.Log. designation modules offer a comprehensive program for developing the key skills you need to meet the increasing challenges in logistics. The modules, whether face-to-face or web-based, are built on simulations, case studies and real-life experiences. You will interact with your colleagues and with workshop facilitators to ensure you get the most out of this learning experience. By participating, you will develop skills and capabilities you can apply immediately in your workplace to begin making a difference in terms of logistics performance.

A minimum of five years of experience is required to qualify for the P.Log. designation.

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| **Supply Chain Strategies** | November 20 - 22, 2002 | Vancouver |
| **Logistics Process Diagnostics** | November 4 - December 13, 2002 | Online |
| **Integrated Logistics Networks** | On Demand | Online |

Logistics Professionalism:

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|---|---|---|
| **Ethics & Leadership** | October 30 – November 1, 2002 | Calgary |
| **Leading & Managing Change** | October 23 – 25, 2002 | Toronto |
| **Team Dynamics** | November 4 – December 13, 2002 | Online |

## Executive P.Log. Designation Program

The Executive P.Log. Designation Program is specifically designed for logistics practitioners with a minimum of 10 years of logistics-related experience whose career profile includes dealing with strategic level responsibilities.

| | |
|---|---|
| **Next Session:** | **November 24 - 29, 2002**<br>Banff, Alberta, Canada |
| **Spring 2003** | **April 27 – May 2, 2003**<br>Toronto Area, Ontario, Canada |

If you would like to receive an invitation package for the Executive P.Log. Designation Program please contact Karyn Ferguson, Program Director by telephone, toll free 1-877-3005, Ext. 13 or by email kferguson@loginstitute.ca

(Superior Agreement, *continued from page 26*)

may involve financial cost implications to the logistics service provider or contract termination.

Documenting specific responsibilities and performance measures: The LSA should document, in detail, the full scope of responsibilities for both parties. These responsibilities may include, for instance, the ordering process, payment terms, and the more sophisticated elements such as defining the governance process (the governance process will be discussed in the fourth step). Responsibilities should also include issues such as specific loss and damage of property provisions, as well as identify any interdependencies that require each party to meet certain deliverables in order to be able to fulfill the service requirements.

It is also critical that the logistics manager identifies and incorporates into the LSA the key performance measures that indicate whether the logistics service provider is performing the services at an acceptable level. It is the logistics service provider's responsibility to fulfill or exceed these minimum service levels. Failure of the logistics service provider to meet these performance requirements could lead to a variety of negative consequences, including notice periods that allow for corrective action plans and financial repercussions for failing to perform.

***Embed the committed transition plan:*** Successful integration of the logistics service provider requires a commitment to key milestones that must be achieved within a specified timeframe (transition phase). Several dependencies may exist between your company and the logistics service provider that may significantly impact either your ability to deliver to your mandate, or for the logistics service provider to deliver the required services as per the LSA. Ensure that the transition phase and key milestones are clearly documented and agreed to in the LSA.

## Establish an Effective Governance Process

The final step is managing the logistics service provider to the standards set out in the LSA. Once negotiations are completed and the LSA is signed, the terms and conditions are only as good as the leadership team that will be managing the relationship and the agreed upon deliverables. The activities involved in effectively managing the relationship, deliverables, and the success of the logistics service provider, are all part of the governance process. Governance refers to the methodology and processes involved in exchanging and aligning business strategies; monitoring performance from a service, quality, and cost perspective; and continuously reviewing the overall business relationship. More specifically, governance should entail routine interactions to manage daily operational interfaces and to ensure that the strategic directions, as a result of these interfaces, are aligned to common goals and objectives.

Governance can, and should, be facilitated through most of the following forms:

- Quarterly executive business reviews
- Monthly operational reviews
- Description of services
- Performance metrics reporting
- Contract management
- Change / transition management
- Dispute resolution process
- Minimum expected service levels

These tasks of the governance team are the essential tools and processes that enable the logistics manager to ensure that the services are delivered to the standards required by his or her company.

For example, it is critical to put in place a change management process that would require both the service provider and company to approve and mutually agree to any changes in the service requirements. Because service requirements will evolve throughout the term of the LSA, it is important that the LSA be continually updated to reflect those changes.

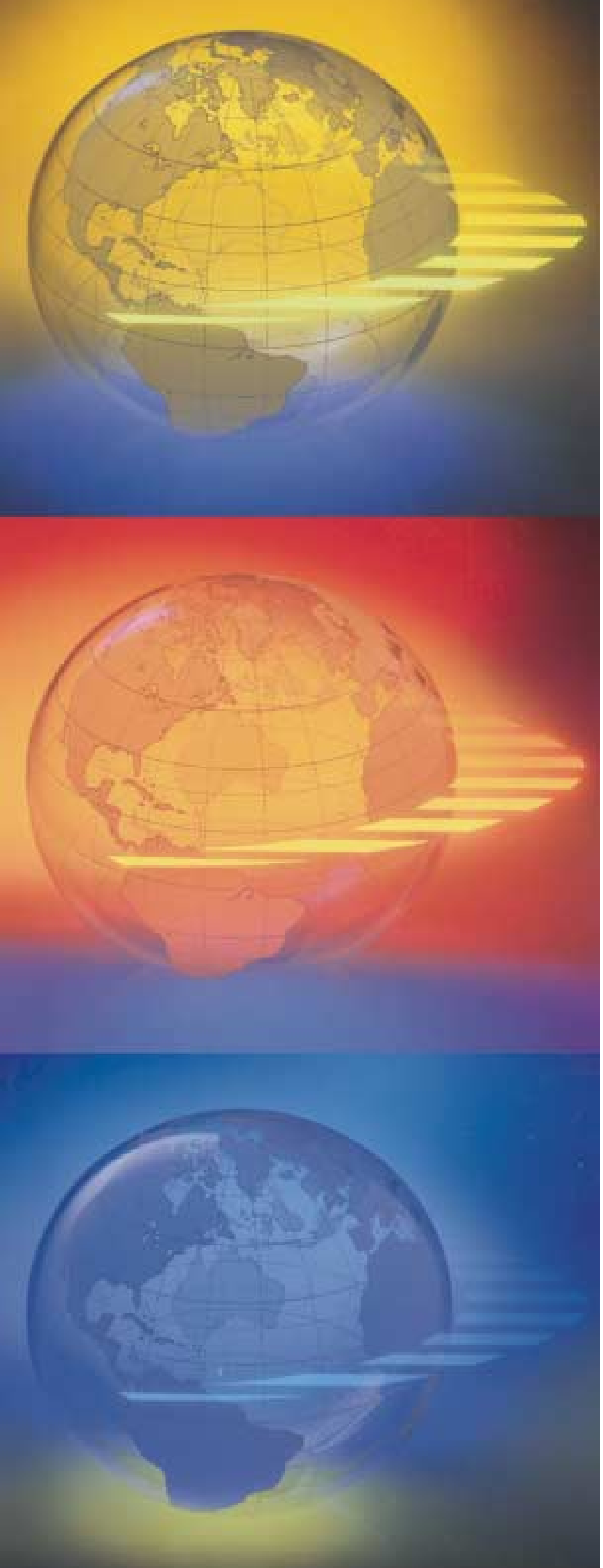
Performance measurement is another integral part of governance and should be monitored on a regular basis to ensure compliance to the service level agreement, and to identify and track trends to stay ahead of the curve. These performance requirements should be robust enough to ensure that the logistics service provider is performing to the level that you had expected when the LSA was negotiated.

In addition, you should put in place an ongoing governance process to protect your service, quality, and cost, if those levels are not achieved. For example, the two parties could agree to a probationary period, whereby the service provider must achieve the levels as set out in the agreement. As well, to prepare for situations where minimum performance levels are not maintained, it is advisable to establish a phased notice period and timeframe to bring the performance levels back up to the minimum expected service levels. In the event that the minimum service levels have not been conformed to, primarily after any probationary and notice periods, flexibility should be maintained within the agreement to terminate the relationship. This area requires a significant amount of focus as poor performance and service levels can have a negatively compounding impact on the relationships with your customers and their continued loyalty to you as a supplier.

Negotiating a superior LSA involves a combination of methodology, focused content, and an experienced and knowledgeable team. These are the key ingredients to successfully negotiate and implement an LSA that will endure the test of time and ensure continuous delivery and success of your selected logistics service provider.

Joe Grubic *is Senior Manager, Logistics Integration, Global Logistics, Nortel Networks*

Dale Thomson *is Global Contract Manager, Supply Management, Nortel Networks*



# Supply Chain Information ... the **Power** of Wheels Logistics.

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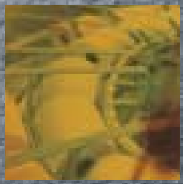


(President's Viewpoint, *continued from page 12*)

demands sustainability, not just accomplishments.

Collins illustrates this point with the example of Dave Scott, six-time winner of the Hawaii Ironman. Anyone familiar with tri-athletes knows they are fanatical to an extreme (crazy by any other estimation); however, the real fascination with Triathlons is the stamina needed to complete the race (26 mile run, 2.4 mile swim, 112 mile cycle).

The discipline of training is an obvious necessity. But Collins points to the small things highly disciplined tri-athletes do to develop that extra edge. Dave Scott is a man who burns 5,000 calories daily. Yet, he believed that a low-fat, high-carb diet gave him that extra edge. He was so committed to be "best in the world" that he rinsed his cottage cheese to remove the extra fat!

The point here is not fanaticism, but sustainability. Good-to-great comes from "one more small step added to all the other small steps to create a consistent program of super-discipline." Good-to-great demands a culture of discipline, and not just a disciplinarian.

A culture of discipline begins with "self-disciplined people who engage in very rigorous thinking, who then take disciplined actions within the framework of a consistent system designed around the Hedgehog Concept (best in the world, drivers of the economic engine, and passion to succeed)."

## Fanatical Consistency

Good-to-great follows a simple mantra: Anything that doesn't fit our Hedgehog Concept, we will not do. The key is to consistently build within the three circles – best in the world, drivers of the economic engine, passion to succeed.

The real discipline is in saying "no," we will not launch unrelated businesses; we will not make unrelated acquisitions; we will not do unrelated joint ventures. The paradox is that by saying no, the right opportunities will actually emerge, one small step at a time, leading to greatness:

The more an organization has the discipline to stay within its three circles (consistently and without deviation), the more it will have attractive opportunities for growth. Indeed, a great company is much more likely to die of indigestion from too much opportunity than starvation from too little. The challenge becomes not opportunity creation, but opportunity selection.

Once in a lifetime opportunities are irrelevant, if they don't fit within the three circles.

## Being Right

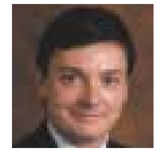
How do you know when you're right? Well, it's not about being right; it's about doing the right things and being on the right course of action:

*If you have Level 5 leaders who get the right people on the bus, if you confront the brutal facts of reality, if you create a climate where the truth is heard, if you have a team and work within the three circles, if you frame all decisions in the context of a crystalline Hedgehog Concept, if you act from understanding, not bravado – if you do all these things, then you are likely to be right on the big decisions. The real question is, once you know the right thing, do you have the discipline to do the right thing and, equally important, to stop doing the wrong things?*

Victor Deyglio *is President of The Professional Logistics Institute, based in Toronto, Ontario. vdeyglio@loginstitute.ca*

# Editor's Viewpoint

*by Fred Moody*



# A Survey of Healthcare Trends

To enable Canadians to become better informed about challenges to their Healthcare system, the Commission on the Future of Health Care in Canada, in partnership with the Canadian Health Services Research Foundation, developed nine e-surveys this summer. And recent studies by the commission have concluded that "the overwhelming majority of Canadians are definitive about their strong attachment to the current Healthcare model and its principles."

Given the importance of this sector, LQ has conducted the first part of an ongoing study of Healthcare logistics. This summer, the Professional Logistics Institute worked with LQ to conduct an on-line survey by recommending a select group of logistics professionals in the Healthcare sector as candidates for bench marking research that might be of value to each participant as well as our readership.

A total of 27 professionals responded to the questions that were prepared with direction from three Healthcare professionals. While this is, at best, simply bench marking and and not a substitute for formal research, some of responses and observations were instructive.

Logisticians noted a wide array of concerns, with many commonalities. One of the first recommendations was a call for dramatic change in the traditional distribution model, and the development of a means to abandon conventional distribution models in this sector.

Information management consistently ranked as an issue that most Healthcare logisticians viewed as challenging. One respondent asked the fundamental and pivotal question: "who should control the information?" and alluded to the frustrating position derived from an inability to access the information required to understand the total cost in the supply chain.

A lack of funding and a slow adoption rate of new medical technologies as well as lack of logistics strategies were cited with frequency. There was also considerable concern expressed about a dearth of proper replenishment processes as well as a lack of dedicated software platforms. One respondent registered the view that the software platforms currently used are often clinically-based for accounting primarily, with logistics of secondary importance within such systems. Another concern consistently on the radar screen was the high

(EDITOR'S VIEWPOINT, *continued on page 29*)


SCHENKER
Stinnes Logistics