TRUE COST OF POD FAILURES TO MANUFACTURERS

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According to Benchmarking Success[1], on average, manufacturers operate at a Gross Margin (Sales less Cost of goods sold [COGS]) of about 27%, giving a company with a turnover of a $100m a gross margin of $27m. If Cost of sales is estimated at 22% then Return on sales (ROS) is about 5%.

Revenue, and as a result profit, can be effected by a range of costs incurred by a business; e.g. variations in purchase price, labour rate increases and other cost variations that must be managed. One such cost is the loss of revenue resulting from the inability of the supplier to provide accurate proof of delivery (POD) to the customer; sometimes called a Written Off Value (WOV). WOV's are often treated as a cost of doing business. With carriers aiming for a POD retrieval accuracy of less than 100% (given usual service level agreement targets of 98% to 99%[2]) they are likely to remain that way. This is particularly the case where recovery costs exceed the invoice value.

In the example above, the lost revenue from POD failures is between $1m and $2m (given 1 – 2% WOV)! This lost revenue is actually a loss on the bottom line as the business has not only forgone the margin but has incurred all the costs associated with making and delivering the goods. So, if the manufacturer with a ROS of 5% wants to recover this loss it must create additional sales of 20 times WOV (e.g. $20m additional sales to generate $1m loss of profit).

Annual sales		$100,000,000		
WOV Level		**1.00%**	2.00%	True WOV
Potential lost revenue (loss)		$1,000,000	$2,000,000	$$$?
Additional sales needed if ROS is	2%	$50,000,000	$100,000,000	50 x WOV
	3%	$33,333,333	$66,666,667	33 x WOV
	4%	$25,000,000	$50,000,000	25 x WOV
	5%	**$20,000,000**	$40,000,000	20 x WOV
	6%	$16,666,667	$33,333,333	17 x WOV
	7%	$14,285,714	$28,571,429	14 x WOV

Table Supplied by Benchmarking Success.

To get back to where it should have been, the manufacturer must incur all these costs a second time; and all because the POD's were not available. If you know your WOV, use the table above to identify the impact. If you don't know your WOV, What is the true cost of POD Failures to your business?

A recent internal audit of a division of George Weston Foods showed how they were able to reduce Write Offs by implementing viper:online collaborative technology. Reducing WOV required a collaborative effort and strong communications between GWF and its carriers.

Viper:online was used to communicate information electronically across business partners and established an accurate baseline from which all transactions can be monitored.

Carriers then used viper:online to update Proof Of Delivery documents enabling early reconciliation of all transactions post delivery.

This collaborative approach enabled GWF to reduce its WOV, expedite payment to carriers and reduce losses for all concerned.

To find out more about reducing WOV and other benefits from using collaborative technology, contact sales@viperlogistics.com.au or visit www.viperlogistics.com.au and read the GWF case study in the latest news section.

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[1] Benchmarking Success Pty Ltd specialise in providing supply chain benchmarking information and improvement processes – www.benchmarkingsuccess.com.au

[2] Service level agreements of 98-99% are typical for companies with high freight volumes, greater error rates often apply for companies with smaller freight volumes.