

Total Value of Compliance

GET BEYOND COST WITH HAZMAT COMPLIANCE THAT ADDS VALUE TO THE BOTTOM LINE

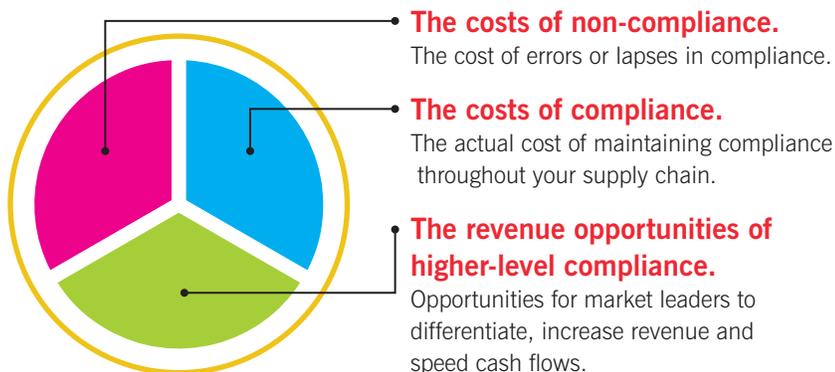
INTRODUCTION

What is total value of compliance?

Dangerous Goods shippers often view hazmat compliance as a cost of doing business. Compliance is simply a legal requirement with costs that reduce their profits.

But compliance can be viewed another way—as a **value-added component of supply chain operations that contributes to profitability.**

Total value of compliance (TVC) is not just a philosophy—it's a business principle. It takes into account three factors relevant to any business engaged in Dangerous Goods transport:



When companies combine reduced costs with increased revenue, hazmat operations create a positive contribution to company earnings.

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The costs of non-compliance

The first way a comprehensive compliance program can help your bottom line is by simply reducing the errors and gaps that result in non-compliance.

Compliance errors and gaps can trigger a domino effect.

Some of the costs of non-compliance are obvious—civil penalties, customer fines and remediation for shipments that get flagged by inspectors. But compliance errors and gaps can trigger a domino effect.

Small errors, big consequences

Dangerous Goods compliance errors rarely end in catastrophe, but even small errors can be costly to correct—and they can compound into more significant consequences than many shippers realize.

These expensive consequences can include:

- **Civil penalties** assessed by regulatory bodies
- **Carrier refusal** of shipments
- **Customer fines and remediation** caused by delays
- **Return shipping costs**
- **Disposal of materials** from returned shipments
- **Damage or contamination** of trailers, tankers, containers or vehicles
- **Replenishing the supply chain** to replace seized or damaged items
- **Incident reporting and cleanup costs**
- **Higher insurance premiums** resulting from failed inspections or incidents
- **Potential liability** for damages or injuries
- **Added training, documentation and processes** to address the cause of compliance errors
- **Bad publicity** from a hazmat-related incident

What's even harder to predict and calculate is the negative impact non-compliance can have on customer loyalty and the value of your brand. If a small infraction delays a critical shipment in customs, for example, what's the likelihood of that customer turning to your competitor for the next shipment? And what can that cost your business?

Civil penalties can add up

In isolation, an individual penalty doesn't sound so large. But civil penalties can add up.

Consider:

- Federal penalties for knowingly violating federal laws have increased from \$55,000 to \$75,000 per violation.
- Civil penalty maximums have increased from \$110,000 to \$175,000.
- A distribution company was fined \$63,000 for failure to properly mark, label or complete shipping papers for an air shipment.
- A container company was fined \$57,400 for failure to meet 49 CFR and IATA DGR requirements.
- A medical device supplier was fined \$91,000 for shipping medical-grade silicone fluid that was improperly marked and packaged.

Are these isolated examples? Perhaps. But a recent large national distributor had more than 12 instances of penalties across its sites for a total of over \$1 million dollars in fines. Penalties can add up.

A recent large national distributor had more than 12 instances of penalties across its sites for a total of over \$1 million dollars in fines.

Reducing the penalties and other costs that result from non-compliance is the first and most obvious way a comprehensive compliance program can help your bottom line. But you can also realize significant benefits by rethinking how your organization purchases compliance-related resources.



PART TWO

The costs of compliance

There's no getting around it—Dangerous Goods compliance requires a financial outlay. While it's only natural to wonder if you're spending too much or too little to comply, the real question is whether you're getting the most value out of every dollar spent.

Get a clearer lens on the optimal investment level

To accurately assess costs, companies must look carefully at every aspect of their hazmat program across locations, including:

- **People**
- **Hazmat-specific processes**
- **Hazmat compliance products**
- **Supportive software and other technology**
- **Reporting and oversight**
- **Training**
- **Management**

When costs are hidden in fractured views across sites, verticals, channels, products and accounting reports, procurement and hazmat leaders cannot optimize cost.

Assess isolated purchases against program purchases

In some cases, the lowest-priced products fail to last or perform correctly, and procurement doesn't find out until it's too late. The challenge is to find the right balance, justifying higher prices only when durability, quality or productivity outweighs the per-unit price.

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Isolated purchases from different vendors can reduce your negotiating strength, increase your internal costs and increase your total cost per shipment.

Recommendation: Coordinate annual supplier negotiations to optimize price against durability. Measure or sample quality and productivity to stay lean.

Price vs. productivity—trade-offs exist

High-volume operations can trade lower costs per item for higher productivity. For example, in certain classes of products, lower per-unit costs translate into more work for companies—assembling boxes or creating labels manually, or validating compliance manually. These savings can easily be eaten up in lower productivity.

Here's a hypothetical example:

An e-commerce retailer requires special fire-resistant packages to ship its devices compliantly. Manufacturer A offers a box for \$2.50 and Manufacturer B offers one for \$2.00. On price alone, Manufacturer B is the clear choice.

The box from Manufacturer A, however, arrives pre-assembled and can be packed and sealed in less than 30 seconds. The box from Manufacturer B requires a complex assembly that takes workers more than three minutes to assemble, pack and seal.

The company multiplied its workers' wages by the time difference and realized the more complicated assembly would cost them about one additional dollar per box.

On a per-shipment basis, then, the box from Manufacturer A is actually \$0.50 less expensive than the box from Manufacturer B.

If a product costs \$0.50 less per box, but requires three more minutes to assemble and label, the modest per-unit savings are eaten up in lower productivity. At higher volumes, these savings add up to half-time or full-time roles doing unnecessary work. These costs, however, are hidden on the P&L, so they go unnoticed.

Costs of compliance can't be calculated simply by adding up your compliance-related purchases.

That's just one example of why the costs of compliance can't be calculated simply by adding up your compliance-related purchases. Hazmat professionals must consider all aspects of cost to make the best decision for the bottom line.

The revenue opportunities of higher-level compliance

In a recent study, brands perceived as the highest quality in their category outperformed their peer groups by more than 25% on growth, earnings and shareholder value.

A well-balanced compliance program can help your organization become a more valuable supply chain partner. That's how compliance becomes a revenue driver.

A compliant shipper owns a more potent brand

Say superior compliance helps your company achieve a 99% on-time delivery rate. A competitor might consider 95% pretty good, but compared to you, they're dropping the ball once every 25 deliveries.

Your compliance advantages can raise you above the competition.

Brands' value and quality perceptions suffer if their shipments are often delayed or if they appear to be unresponsive to regulatory changes. On the other hand, an organization that consistently keeps costs in line throughout the supply chain, regardless of changes in the regulatory environment, elevates its brand's reputation.

Your compliance advantages can raise you above the competition and make you a more valuable supply chain partner.

Compliance opens the doors to new revenue sources

There are several other ways a comprehensive compliance program can boost your revenues and deliver a positive total value of compliance:

- Product development teams can design new products aligned with regulatory standards, opening worldwide markets at lower shipping costs from day one.
- Businesses confident in their hazmat compliance may introduce popular products that other companies, less familiar with Dangerous Goods, may avoid.
- A reputation for Dangerous Goods compliance makes an organization a more attractive partner for joint ventures and other collaborative initiatives.
- An organization that simplifies transport and minimizes its risks will attract new customers and supply chain partners.

Total value of compliance—insights and investment

This total value of compliance framework helps Labelmaster's clients make Dangerous Goods compliance a powerful, revenue-positive aspect of their businesses.

As the industry leader in Dangerous Goods supply chain solutions, Labelmaster is the ideal partner to help your Dangerous Goods compliance program achieve optimal total value of compliance.