Read the information below and answer the following questions.

managers work closely with all of their outsourcing companies to ensure that those companies are the best option.

Offshoring is similar to outsourcing, but with a major difference. Offshoring does not contract out major business functions, but simply transfers those functions to a branch of the company in another country, usually to save on labour costs. Companies can also contract out functions to other businesses within their own country. This is called **inshoring**. Companies in the United States, for example, contract functions to other companies within the country, but often in another state where labour is cheaper or facilities are better.

Information Management

As the complexity and speed of business across the global supply chain increases—due to the effects of international competition, rapid fluctuations in the Canadian dollar, increases in the price of oil, enhanced border security, and the growth of outsourcing—effective supply chain management must rely increasingly on information technology (IT) to co-ordinate communication with various members of the distribution network. Each member requires instant access to information to support supply chain operations, and all members need to be networked to the same information sources. Information management can supply each link in the chain with daily production and distribution schedules so the other links can operate more effectively and efficiently. When a supplier knows exactly when its product is required as part of the production process, and has transport companies on the network that are made aware at the same moment that a shipment is ready, there is seamless co-ordination among the supply chain links that saves time and money for everyone involved.

Spin Master Toys, creator of Earth Buddy and Air Hogs, recently upgraded its information management systems by investing in an enterprise resource planning (ERP) software platform, administered by SAP, the world's leading provider of business software. The new platform created a computer network that included all of the company's supply chain partners, and it almost immediately saw the benefits.

Physical Distribution

Physical distribution concerns the movement of a finished product or service to customers. In most businesses, physical distribution plays a double role: **inbound distribution** and **outbound distribution**. Management of inbound distribution deals with receiving goods that are sent to the company, while outbound distribution refers to arranging the shipment of goods from the company to its customers.

Inbound Distribution

Most of the responsibility for inbound distribution rests with the buyer. At this point in the supply chain, the buyer actually takes possession of the goods. Legally, the buyer owns the goods once they have passed the FOB point (see page 232), but from the buyer's point of view, the work really begins when the goods physically arrive at the store, factory, or warehouse.

Most businesses have an established **receiving process** during which a receiving manager:

- Inspects the containers for obvious physical damage
- Makes sure that all the containers that the seller says were sent have actually arrived
- Does a physical count of everything in the shipment
- Fills out the necessary claim reports if any items are missing or broken
- Assigns stock numbers (SKUs) to new items
- Records the quantity of goods received in the inventory database according to the stock number of each item
- Records the location of each item (for example, warehouse, selling floor)
- Indicates to the accounting office that the shipment has arrived and the seller's invoice can now be paid

Shipping by rail is slower than shipping by truck, but also much less expensive.

Outbound Distribution

The outbound distributor is most often the seller, but it could also be a distribution centre or warehouse. The seller's task, normally, is to arrange the shipment of goods to the buyer. The seller, therefore, is responsible for preparing the necessary customs documentation for border clearance and selecting a carrier. A rare exception to this occurs if the goods are to be shipped **Ex Works (EXW)**, which means that the buyer is responsible for carrier selection, customs documents, and all charges.

Before the shipment is sent, the **carrier** (the company hired to transport the goods) must prepare a **bill of lading**. A bill of lading is the official document that indicates that the transportation company accepts the goods for shipment. A bill of lading describes the items, lists the quantity and weight, gives the value of the shipment, and provides the name, the billing address, and the shipping address of the buyer.

FOB Point

Responsibility for the shipment, both legal and financial, begins at the FOB point. Internationally, the FOB point has been defined by the International Chamber of Commerce's (ICC) Incoterm document to mean Free on Board. This is the point at which the costs and risks associated with the physical distribution of the goods pass from the seller to the buyer. Shipments within North America use the term FOB for truck, rail, air, and ship transport, whereas the ICC uses FOB only for maritime shipping. Incoterm lists several different FOB points:

- FCA—Free Carrier (named place, e.g., Vancouver)
  The seller hands over the goods, cleared for export, into the custody of the carrier (named by the buyer) at the named place.
- FOB—Free on Board (named loading port, e.g., Montreal)
  The seller must load the goods on board the ship nominated by the buyer. The cost and risk change hands at the ship's rail. The seller must clear the goods for export. (Maritime transport only, according to the ICC.)

- CIF—Cost, Insurance, and Freight (named destination port, e.g., New York)
  Seller must pay all costs, including insurance and freight, to bring the goods to the port of destination.
- CFR—Cost and Freight (named destination port, e.g., New York)
  Seller must pay the costs and freight to bring the goods to the port of destination; however, risk is transferred to the buyer once the goods have crossed the ship's rail. (Maritime transport only.)
- CIP—Carriage and Insurance Paid To (named place of destination, e.g., Halifax)
  The containerized transport/multimodal equivalent of CIF. Seller pays for carriage and insurance to the named destination point, but risk passes when the goods are handed over to the carrier.
- DDU—Delivered Duty Unpaid (named destination place, e.g., specific factory)
  This term means that the seller delivers the goods to the buyer at the destination named in the contract of sale. The goods are not cleared for import or unloaded from any form of transport at the place of destination. The buyer is responsible for the costs and risks for the unloading, duty, and any subsequent delivery beyond the place of destination.
- DDP—Delivered Duty Paid (named destination place, e.g., store address)
  This term means that the seller pays for all transportation costs and bears all risk until the goods have been delivered and pays the duty. Used interchangeably with the term "Free Domicile." These terms are the most advantageous for the buyer, as the seller pays all shipping costs.

Think About It!

8.13. Name five reasons for the increase in the complexity and speed of business across the global supply chain.

8.14. What are the two categories of physical distribution?

8.15. What is the FOB point?

8.16. What do the following acronyms stand for?

a. DDP

b. CFR

c. FOB

d. FCA

e. CIP