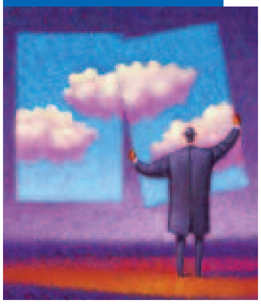
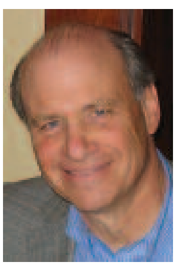


Strategies and tactics for reshaping North America's supply chains



Dan Goodwill, president, Dan Goodwill & Associates Inc. has over 20 years of experience in the logistics and transportation industries in both Canada and the United States. He has held executive level positions in the industry including president of Yellow Transportation's Canada division, president of Clarke Logistics, general manager of the Railfast division of TNT and vice-president, sales and marketing, TNT Overland Express. Goodwill is currently a consultant to manufacturers and distributors, helping them improve their transportation processes and save millions of dollars in freight spend. He can be reached at dan@dantranscon.com.

There have probably been more changes in the world of logistics in the past year than perhaps in the past 10 years combined. The rapid rise in fuel costs combined with the deterioration in the US housing and auto markets, the US credit crunch, the soaring prices for raw materials, the rise of the economies in China, India and South America, the decline in the value of the US dollar, and just recently, the Canadian dollar, have changed the logistics world in ways that we are just beginning to comprehend.

Smart shippers are rethinking their current logistics paradigms and seeking ways of improving their companies' profitability. They are responding on a tactical and strategic basis. On a tactical level, manufacturers and retailers are taking action to reduce their logistics costs. These initiatives include:

- Shifting production cycles, transit times and modes (e.g. rail to barge, truck to rail, LTL to truckload, expedited to standard ground, etc.) to take advantage of lower costs of transportation;
- Benchmarking their freight costs to ensure they are paying rates that are less than or equal to market rates for freight and fuel;
- Conducting freight bids to ensure they are paying the lowest possible market rates;
- Changing packaging to minimize shipment sizes;
- Moving warehouses closer to customers to reduce travel distances and freight costs; and
- Acquiring TMS (Transportation Management Systems) to optimize their load factors.

Carriers are responding on a tactical basis as well:

- Parking trucks to remove excess capacity;
- Utilizing speed limiters to optimize miles per gallon;
- Reducing miles driven by eliminating LTL hubs and implementing more point-to-point shipping;
- Focusing more on regional truckload markets where there is more freight density, less out of route miles and less empty miles; and
- Testing hybrid vehicles.

On a strategic level, shippers are considering changes to their supply chains in ways that would not have been thought about a few years ago. For several decades, factories and jobs were moved to low labour cost countries, since transportation costs were low and the US dollar was high. That has all changed. Manufacturers and retailers are now bringing production back to North America.

Eliminating 12,000-mile supply chains and shifting production back to North America cannot and will not occur overnight. Lee A. Clair, a partner at management consultancy Norbridge, recently stated that redesigning supply chain networks "is the only place you can get big dollars, but it comes with a tremendous amount of pain and lots of change inside the company."

While the return to North American manufacturing is underway, overseas markets are becoming more attractive, and in some cases, more profitable than domestic markets. The size and growth potential of these markets, brought on in part by the decline in the value of the US dollar, is making offshore customers more attractive.

What is the starting point for North American shippers and carriers seeking to refocus their strategies? For shippers this means a fundamental rethinking of their entire business with the customer as the starting point. The three key questions are:

1. What are your current contribution margins on your portfolio of products and how are they being impacted by the various environmental factors outlined above?
2. Where are your customers with respect to your current manufacturing and distribution facilities?
3. Where are your vendors with respect to your current customers, manufacturing and distribution facilities?

You then need to create a network model that adds the cost of manufacturing to the cost of logistics across all of your facilities. The model must be able to look at various internal (plant capacities) and external (fuel cost projections, currency value projections) variables and weigh these against the cost of serving your various clusters of customers on a geographic basis. The results of this modeling exercise should guide the restructuring of your supply chains.

Carriers need to look at the distribution of their customer base and determine the expected change in shipping patterns and modal requirements. This is very challenging since many shippers are in a state of flux and trying to figure out what to do themselves. Nevertheless, ongoing dialogue with shippers through customer meetings and possibly focus group exercises will allow carriers to plug into their latest thinking.

Shippers that cling to current business paradigms and carriers that rely on defending their old battlegrounds and refuse to "tune in" to the new realities brought on by the changes outlined above will likely be casualties of the new realities that are reshaping North American business activities and supply chains. CT&L

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