Ideas to help ease the pain of the carrier capacity shortage

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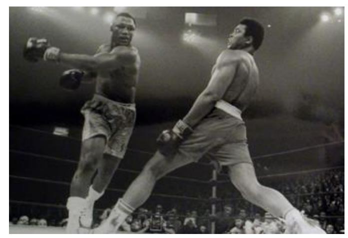
The One-Two Punch (And How to Duck It)



We're working with manufactures to head off trouble using a One-Two Punch of our own

In case you missed it, the ongoing trend of grocery customers assessing fees (or fines) to their suppliers for delivery failures has made it to the Wall Street Journal and MSN.

This issue has been bubbling up for several years in both the Retail and Foodservice channels, and the article does a nice job of articulating (and even quantifying) the high cost of late shipments and out-of-stock situations for the customer.   The Food Marketing Institute estimates that out-of-stocks on store shelves contribute to $75 Billion in lost sales every year(!), and it's generally acknowledged that lack of availability can result in "thousands of lost customers."

The article also points out that most manufacturers are working hard to improve performance, and that “shipping complete orders on time is a completely reasonable request but it turns out it’s harder than it sounds.”

While this particular article focuses on the Grocery channel the same issues and cost drivers are found all over Foodservice as well, from the distributor to the operator to the consumer.

Late shipments and short shipments have been a problem forever, but it seems the “Amazon Effect” has forced traditional retailers and foodservice distributors to up the ante for their suppliers. With consumers conditioned to expect 100% availability and almost instant delivery, customers of all stripes are pushing the pressure upstream (Punch #1)

We’ve written in the past (see "Chasing the Wind' commentary) that manufacturers are somewhat at the mercy of outside forces beyond their control when it comes to meeting “OTIF” (On Time In Full) demands. For one, the customer’s order behavior (lead time adherence, order changes) can screw up shipping schedules and create an unreasonable delivery date target. Then there is the issue that the customer’s tracking and reporting data often don’t synch up with the manufacturer’s data. And of course once a shipment leaves the manufacturer’s dock, responsibility for On Time Delivery falls on the third party carrier.

Customers who insist on frequent, small orders to support high inventory turns are helping to drive On Time failures by creating LTL and Multi-stop shipments. With several drops, traffic issues, dock delays, and re-handling of products each successive order has a higher probability of arriving late.

If a carrier routinely fails to meet delivery targets, the knee-jerk reaction is “get a better carrier!” But this is where “Punch #2” comes in.

“Shrinking Carrier Capacity” has likewise received a lot of press in the past year or two, but it seems to be reaching a tipping point. Between driver shortages, regulation and other factors, all manufacturers are feeling the heat in higher freight AND the challenge of finding carriers to cover all of their loads.

We’re hearing about major foodservice distributors notifying their suppliers that they will no longer pick up orders, insisting on delivery instead. (It wasn’t long ago that distributors were aggressively pursuing all Customer Pick Up opportunities as a means of controlling transportation). Whether CPU’s represent a small or large portion of your outbound freight, this is a loud warning signal that more trouble is on the way.

We're working with manufactures to head off trouble using a One-Two Punch of our own:

1. Optimizing the Supply Chain to reduce the number of shipments
2. Modifying price structure and order policies to incent order behavior and recoup costs

"Supply Chain" solutions potentially include:

- Serving more customers through redistributors such as Dot Foods
- Setting up consolidated shipping programs through companies such as Kane is Able, the Sysco RDC and PFG Warehouse
- Reducing the number of ship-from locations

While the "Price Structure and Policy" solutions include:

- Raising and enforcing delivered order minimums
- Rethinking bracket definitions and price premiums
- Rethinking Zone vs. National Price lists
- Structuring allowances and policies to encourage more CPUs

It all starts with rigorous analysis of shipment and cost data by order size, shipping location, geography, and customer. We then compare this to current price structure, order policies and freight charges to identify opportunities to drive more efficient order patterns and/or recover the cost of inefficient orders. ***If you haven't done this type of analysis lately, what are you waiting for?***

Sophisticated buyers always look at the balance between paying less for larger orders vs. carrying less inventory via smaller, more frequent and higher-priced orders. I don't have the numbers but my sense is that the combination of properly-structured prices which truly reflect logistics costs, low interest rates which reduce inventory carrying costs, and the reality of limited carrier capacity will force customers to consider placing fewer, larger orders in the future.

As with so much of our business both the customer and the supplier have a role to play in adjusting to the new realities of high service demands and low carrier capacity. We think manufacturers must lead the way by finding and implementing effective solutions that work for all.

If you're interested in further discussion, please click here and I'll give you a call.