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Supply Chain Survival Guide, Part IV

by Gail Dutton
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Can warehousing really, truly be strategic?

Warehousing has come a long way from a place to store product. Value-added services combined with some savvy upgrades are making them strategic players in shippers' quest to do more with less.

During the past decade, "companies may have shifted their manufacturing base, and demand patterns may have changed, but not their warehousing," points out Bob Spieth, president of OH Logistics. To prosper in tough times changing the way you do things to become more effective in the existing reality vital.

On the technology front, software as a service (SaaS) is a fairly new offering with great potential, especially for cash-tight businesses. With SaaS, users can access the software they need from an application service provider, when they need it, with the same ease as accessing a desktop application, and only pay for what is actually used. This means that users can access software to build highly complex, dynamic models of their supply chain at a small fraction of the cost of buying the application or the heavy-duty computing power needed to run it. SaaS also avoids the headaches of installing and implementing an application that may be needed once every few years.

SmartTurn Inc. launched the first SaaS global inventory collaboration platform last June. "It runs over the Internet. You just need a browser," notes Richard Yim, vice president of products and marketing. Designed for small warehouses and large supply chains, the SmartTurn Inventory Grid offers joint logistics planning, real-time visibility, permission-based inventory visibility, adaptive fulfillment, exceptions management and multi-warehouse inventory planning and distribution.

To determine who can see what information, the information owners set the security and access levels in much the same way LinkedIn or Facebook users determine access—levels of permissions. For a price of $500 per month per warehouse, SmartTurn lets clients support an unlimited number of users. Yim says it's becoming a popular option for 3PLs, who can now get their clients up and running in two to three days, compared to about three weeks for a traditional system.

RFID is becoming increasingly common for high-end goods. Although the "let's tag everything" mindset is employed by only a few major chains, according to Scott Burroughs, director of IBM's Sensor and Actuator Solution Software Strategy, RFID is entering the business transformation stage where the question is, "how can RFID help businesses gain an advantage from technology?"

Airbus is at the forefront of RFID implementation. "Airbus made a strategic decision to look across multiple areas in the supply chain," Burroughs says. At an April Webinar, Carlo K. Nizam, the head of value chain visibility and RFID for Airbus, outlined the enterprise-wide rollout plan. Initially, it implemented RFID to track containers and to manage received goods in the warehouse. The company plans, eventually, to integrate RFID into manufacturing and to use that information to automatically generate billing based upon the actual materials used to build each plane. In the pilot project, Airbus found it lowered labor costs and increased accuracy. "The biggest benefit," Burroughs says, "is that it decreased inventory requirements."

Harvey says some companies are sitting down with their supply chain partners, including logistics organizations, carriers and warehouses, to develop a system that is effective for all players and then automate it for a fully integrated supply chain. "The goals are to move information faster, ensure information is correct and put a business system atop data flow to allow exception management so you have actionable information," he says.

In the movement towards a "touchless" inventory information system, shippers, carriers and 3PLs often found that integrating their stand-alone systems rarely yielded a seamless supply chain information system. Bill Harvey, director of logistics for Elemica, says the disparity among systems is causing noticeable delays. The current challenge is to take advantage of the built-up IT infrastructure, optimizing it for enhanced visibility throughout the supply chain.

Supply chain reinvention

Technology is just one part of the solution, though. One of the goals is to minimize the time to get products to the shelf. "The product life cycle—the time between new model introductions in-house or from competitors—has shrunk to a few days or weeks from six months to a year," notes Steve Sensing, VP Operations, Supply Chain Solutions, Ryder System, Inc. To maximize sales opportunities, "Retailers are demanding products reach their shelves within days," he says. The luxury of a six week ocean transit is reserved for less time-sensitive goods.

"The objective is to get warehousing closer to the customer," emphasizes Walter Gruener, partner at Grant Thornton. Doing so has the overall effect of lowering shipping costs and speeding delivery by using more direct routes; having warehousing in similar time zones also helps the manufacturer and the customer work with the warehouse in real time. Carriers know this and are improving their routes into Mexico, and their facilities near the border. And to relieve the acknowledged congestion around major ports, some carriers and developers are expanding facilities near secondary ports like Tacoma or moving into more rural areas.

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By moving to places like California's Moreno Valley, about 30 miles from Riverside, companies avoid the moratorium on freight movement during much of the day and gain more affordable and more available real estate.

The Allen Group, a private real estate development company, is buying land in strategic positions for warehousing and industrial parks near major transportation corridors. "Having land in Kansas City or Dallas near intermodal facilities is as sexy as oceanfront property," Jon Cross, director of marketing, says. The heartland's 'inland ports' as he calls these hubs, can reach 70 to 80 percent of the population within one to two days and the remaining percentages in four to six days. And, he says, labor is more stable in the U.S. interior because unemployment typically is higher than on the coasts.

In Dallas, The Allen Group is building a 6,000-acre project with 60 million square feet of vertical storage. The industrial park is expected to create some 60,000 new and indirect jobs for the regions by the time it's built out 30 to 35 years from now. It has the benefit of being near Interstates 35, 45 and 20, and the Loop 9 rail corridor around Dallas, as well as the Dallas-Fort Worth airport. "It will be the first industrial park in the U.S. to have two intermodal facilities," Cross says, as Union Pacific and BNSF both have hubs there.

Near-shoring

To deliver shorter transit times, near-shoring is very attractive," Sensing adds. It puts manufacturing closer to the customer in time zones that are more amenable to normal business hours and in countries that share a common basis in Western philosophy and have more similar cultures.

"Some companies are coming back to the U.S.," Sensing says, while others are locating nearby. Although the topic of near-shoring arises in nearly any supply chain conversation, there's broad agreement that this strategy is, so far, the subject of more talk than action. "Such decisions involve contractual relationships and so are held close to the vest and normally aren't divulged until the decision is made," notes Robert Gahagen, managing director of operations for Latin America at Menlo Worldwide Logistics. "Things don't change overnight," he says.

Third-party resources

In a similar vein, though, Steve Bullard, director of logistics services for Pilot Freight Services, says more companies are performing final assembly in the U.S. from sub-components manufactured overseas. One, an international MRI manufacturer, works with about 34 suppliers and keeps their parts in a warehouse near its U.S. factory. This provides the benefit of inventory reduction without affecting availability, because the shippers maintain ownership of the components until they actually are needed. In that situation, the MRI manufacturer has complete visibility to the entire warehouse, but individual shippers can only access information about their own goods. For this instance, Pilot created a third-party mixed-use warehouse that handles about $10 million in inventory annually.

Such shared warehousing is most common among suppliers to a particular company in mature industries with mature product lines, and almost never among competitors. Although suppliers get paid later, it does help them transport more of their inventory by lower-cost carriers, saving more expensive modes for the last miles.

Using carriers' resources is a good way to optimize the supply chain—that approach is driven by retailers that are converting their own storage space to shelf space, pushing the storage burden, oftentimes, onto the vendors.

Crowley, for example, offers pick and pack services for its apparel customers, as well as quality control, re-tagging, re-labeling and cargo segregation for shipping. "We've been doing this about ten years," Carlos Rice, general manager, says. "Interest is picking up," and now constitutes about 50 percent of Crowley's revenue.

CellMax uses Pilot's value-added services to help it more effectively distribute cell phone tower equipment in the U.S. It exchanged air shipping on a per order basis with ocean transit and full container loads stored in local warehouses.

Shipwire, an e-commerce order fulfillment company, offers a similar service in the U.S., Canada and UK. "Companies send us inventory and we help move it globally, shipping it from the nearest warehouse to the buyer," explains Nick Gilmore, VP Marketing. This "store, sell, ship" model, he says, helps small companies compete globally with a level of shipping comparable to that of their largest competitors. That allowed one U.S. wind turbine company, RE Trade, to offer two-day delivery to its UK customers for the price of local ground transport.

Another option is "merge in transit" or "merge and delivery" services. Pilot Freight Services can holds components at Pilot's facilities until an end customer's order has completely arrived. Delivering everything to the customer at once minimizes the potential for misplaced components at the receiver's location and increases efficiency for Pilot by allowing one larger delivery rather than several smaller ones. Taking that a step further, Gruenes says, involves coordinating deliveries so they arrive at the warehouse simultaneously for consolidation, so nothing is actually warehoused. That's most useful for high end products, and is likely to be a growing trend.

Prospering in tough economic times is possible, but it requires taking a hard look at your own organization, your options, and the willingness to act. Warehouses aren't just for storage anymore and carriers don't just transport goods. Value-added services are making them strategic partners with skills that savvy shippers can leverage to their own best advantage. wt

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