

Supply Chain Strategies For A Down Economy

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We've all heard the definition of insanity, "*Doing the same thing over and over again and expecting a different result.*" Apart from describing my golf game, this definition also hits home for many shippers who understand that the downtrodden economy requires different strategies for survival and yes, even growth.

Let's start with something relatively simple. Say you are primarily a truckload shipper. In a poor economy, does it make sense to switch from truckload to LTL as shipment levels fall? More importantly, shippers may be forced to revert to LTL because order sizes are smaller. The thing to consider may be old-fashioned consolidations or what we used to call pool distribution. At the heart of the matter is the factual statement that truckload freight costs less than LTL on a cost per pound basis, it has less handling and generally faster transit time. So if you are a truckload shipper whose order sizes are being forced into the LTL model, consider whether you have the geographic density of orders to place all of those LTL shipments into a truckload with a manifest destined to a cartage company in the destination region. In essence, you are creating your own LTL operating model. This comes with a little bit of operating pain but there are third parties who will manage these consolidations for you with the appropriate level of shipment visibility.

If this is not possible and LTL is where you must be, then another strategy to consider is optimizing your current belief system relative to LTL and parcel rates. Take the fully appropriated parcel rates (including projected, rolling average incentive discounts) for hundredweight/multi-weight service and compare them to discounted LTL rates with consideration to the LTL minimum charge floors. Then, see if your parcel carrier of choice isn't a better alternative for heavier shipments than what you presently give them.

At the end of the day, most industry experts feel the economy will, to a large degree, claim many casualties in terms of failed LTL providers. When this occurs, it may very well coincide with the beginning stages of the nation's economic recovery. This could mean escalating shipping volumes in a time when LTL capacity is deteriorating. So what can you do to keep your costs in line?

The answer to this questions lies solidly in the heart of your overall supply chain strategy. The point to ponder is not whether you can negotiate effective LTL pricing during this period, if you are a good negotiator, your efforts will yield the best of what's available regardless of the economy. The key is taking LTL service during a tough economy and comparing it to the few minutes of breathing hard after a jog in the park. After many of these jogs, your cardiovascular system adapts to the tougher conditions and your overall health improves. In this analogy, the overall health of your business compares to your supply chain strategy that is the lifeblood of a healthy company. If you can get good at jogging through cold, winter weather, your jog is a little easier when the weather begins to warm.

It is worth mentioning that strategies including third party distribution center management in a regional depot format may offer some benefit in terms of maintaining competitive balance in the marketplace and keeping more product running through truckload most of the way. Another strategy to consider is taking a hard look at how good you really are demand forecasting. We routinely point out to clients the freight dollars wasted moving product from one D/C to another because proper forecast methodology wasn't employed. I have seen examples of seven-figure waste in this category alone.

Finally, a shipper might be able to make headway in these difficult times and beyond by employing some form of vendor managed inventory to reduce or eliminate the need for maintaining their own distribution centers around the country. Retailers who cannot effect a direct-store-delivery concept could have vendors ship to a regional, third party depot, which, in turn, arranges final mile delivery for stores within a 150 mile radius. This way, vendors are shipping full truckloads and you avoid D/C costs and the higher cost of LTL transportation. Pure vendor managed inventory scenarios for retailers and other shippers are also worthy of review.

LTL will continue to be a higher cost alternative, even in the face of a recovering economy. Savvy shippers will undertake the use of alternative strategies utilizing other modes of transportation and overall supply chain review to manage through the remainder of the recession and beyond.

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