





SHIFTING THE LOAD

TO LOWER COSTS

By Bill Mongelluzzo

As they reconfigure supply chains, shippers consider transloading more imports at West Coast ports

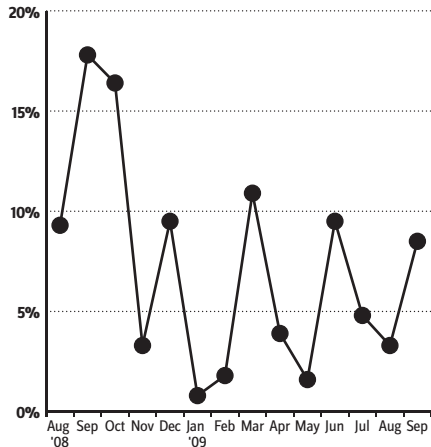
TRANSLOADING VOLUMES AT West Coast ports are down, but importers' interest in transloading is up as companies look to take cost out of their supply chains.

"Our requests for proposals are at an all-time high," said Mike Epeneter, senior vice president of logistics services at Weber Distribution in Southern California.

Josh Owen, president of Ability Tri-Modal, which also offers distribution and transloading services in Southern California, believes shippers have long been convinced about the logistical advantages of transloading cargo from marine containers to domestic containers and trailers on the West Coast. However, some shippers could not make the numbers work for them because of labor costs.

INTERMODAL SHIPMENTS

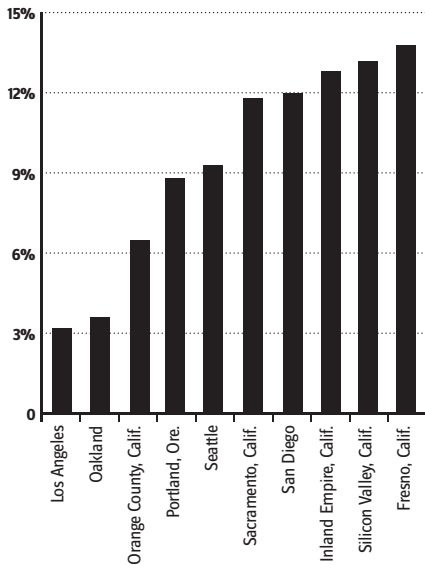
■ Year-over-year percentage change in U.S. shipments moving in 53-foot containers.



Source: Intermodal Association of North America, www.intermodal.org

WEST COAST'S EMPTY SPACES

■ Third-quarter vacancy rates for industrial real estate in major West Coast markets.



Source: Grubb & Ellis, www.grubb-ellis.com

Changes in the economy, such as significant reductions in warehouse rental rates and higher costs for fuel, have these shippers redoing their cost-benefit analyses, Owen said. "Now they're trying to see if the price works," he said.

"We are making more use of transloading off the West Coast," Ray Burgett, supply chain director at Pier 1 Imports, said at The Journal of Commerce's 3rd Annual Trans-Pacific Maritime Asia Conference in Shenzhen, China, last month. "For us, it makes sense for efficiency and cost. It means we have to have the right equipment set

hours of receipt of the marine container at transloading facilities.

However, retailers were stuck with huge inventories when the U.S. economy tanked last fall, so some retailers pulled 2008 back-to-school and holiday merchandise out of storage this year, repackaged the items and then loaded the goods into domestic containers and are also calling those shipments transloading.

In the late 1980s and throughout the 1990s, the West Coast, and especially Southern California, dominated transloading in the United States. The

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up. But the intermodal rates have been low enough where it makes sense."

However, uncertainties about cargo volumes, transportation services, labor costs and industrial real estate trends are forcing many companies to delay turning their requests for proposals into contracts with vendors.

"What cargo interests are doing now is part of their corporate mission to reduce costs," said Jon DeCesare, president of WCL Consulting in Long Beach. Shippers are asking the right questions and modeling costs and benefits, but they're still not convinced they have all of the answers they need to make a major logistical shift, he said.

Charlie Kantz, vice president of logistics/warehousing at Bakers Footwear Group in St. Louis, said shippers are revisiting their supply chain strategies in anticipation of the new budget year. "They're asking questions now to get themselves ready for when their capital expenditures will be available after Jan. 1," he said.

Transloading, in its most basic form, is the transferring of cargo from 40-foot marine containers into domestic 48- or 53-foot containers or trailers to reduce inland transportation costs. Normally, that work is performed within 24 to 60

hours of receipt of the marine container at transloading facilities.

However, rail congestion in the late 1990s, the West Coast employer lockout of dockworkers during 2002 contract negotiations and labor shortages in Los Angeles-Long Beach caused retailers and large importers to adopt a two-coast or even four-corners logistics philosophy. The biggest shippers established import distribution centers on the West Coast.

"They need that flexibility," DeCesare said. "It's risk mitigation. Some of the cargo now goes to other gateways, and it probably won't swing back to Southern California," he said.

However, cargo interests have different needs based on the location of their import distribution centers, domestic distribution centers and the stores they serve. Changing transportation costs are forcing them to rethink their supply chains.

Bakers Footwear, for example, has found that zone-skipping offers reductions in transportation costs. Baker brings 90 percent of its shipments into the U.S. through the West Coast, but 66 percent of its stores are east of the Mississippi River.

Federal Express handles much of

Bakers' inland distribution. Rather than having FedEx transload everything in Southern California and serve its national network from there, Bakers can save significantly on transportation costs by shipping Midwest and eastern cargo to distribution facilities in a zone closer to the end market, Kantz said.

Conversely, some shippers that previously sent all of their marine containers to a single import distribution center in the Midwest and then redirected West Coast merchandise back to Los Angeles or Seattle are intercepting containers on the West Coast and peeling off the local cargo before sending the remaining freight to their import DCs, said Scott Weiss, senior account solutions executive at APL Logistics.

Logistically, this process is relatively easy to do with the right systems and information technology. "It's all about the programming," he said.

Declining rents in the industrial real estate sector have cargo interests with multiple DCs looking at consolidating their import and domestic warehouses into one large facility and performing import and regional distribution functions at that single facility.

"The realities of business are that we may not get back to the old volumes any time soon," said Mike Peters, president of Peakview Strategy Group and a former executive at industrial real estate firm ProLogis.

Some shippers seek to reduce costs by eliminating one or more distribution facilities in their network. They also can leverage the freight from fewer DCs to generate better utilization of their inland transportation capacity, he said.

Tri-Modal has a customer that recently consolidated its import and domestic distribution functions from multiple smaller facilities into a 500,000-square-foot facility and is reducing transportation and real estate costs, Owen said.

Weber Distribution's Epeneter said the favorable lease rates for industrial real estate are an especially significant driver in making changes to the supply chain. "Vacancies are high. It's a good time to do a deal," he said. Depending upon the parties involved, it is possible today to negotiate favorable lease rates for three to five years, he said.

After reviewing key transportation issues such as transit time and time to market, cost of real estate, fuel prices and cost of labor, some shippers are opting to transload on the West Coast. An important factor in reaching this conclusion is the ability to postpone the choice of the final destination.

While it is obvious that labor costs for value-added work such as labeling and price tagging of merchandise are much lower in Asia, a retailer that bases routing decisions only on the labor factor is forced to choose a destination three or four weeks out. Performing those func-

tions during the transloading process on the West Coast costs more, but it reduces inventory in the supply chain, reduces transit time and allows shippers to direct their merchandise to the best-selling locations within a week of reaching the U.S. port, DeCesare said.

Bakers Footwear runs a hybrid model of postponement by doing much of the labeling in China but relabeling maybe 10 percent of the merchandise on the West Coast to respond to changes in routing, Kantz said.

While volumes are down during the recession, many shippers want to retain the efficiencies and flexibilities inherent in transloading on the West Coast, so transloading's share of total U.S. imports hasn't dropped much, if at all, said Ron Sucik, principal at RSE Consulting in Naperville, Ill.

"People who were transloading are still doing it, but the volumes aren't getting any bigger right now," he said.

Even if more shippers don't choose to transload, they are certainly doing cost-benefit analyses during these tough times to see if they can benefit from transloading at least some of their cargo. "Change is the word," DeCesare said. "Shippers are looking everywhere to reconfigure their supply chains. These are exciting times." **joc**

Contact Bill Mongelluzzo at bmongelluzzo@joc.com.

