Supply Chain Management

Viewpoint

West Coast port congestion: Serious problem or significant opportunity for supply chain masters?

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In this issue

By Allen J. Delattre

Overcrowding at Southern California's largest ports, rising fuel costs and a lack of legislative action are creating a logistics nightmare. Accenture author Al Delattre assesses the problem and offers some strategic supply chain moves that companies can use to weather the storm and accelerate their evolution to high-performance businesses.

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It's the equivalent of Starbucks and every other coffeehouse opening at the crack of noon. Downstream, everything is suddenly different. Productivity plummets. People rush to find different sources. Some make do without. Such is the case at Southern California's largest ports—Long Beach and Los Angeles—where products headed for manufacturing plants and retail shelves are backed up dozens of ships deep. These ports, according to the *San Francisco Chronicle*, handle 75 percent of the total dollar value of products imported to the West Coast.[1]

Also noted in the report: Overall cargo volume at Southern California ports was up 17.5 percent in June 2004 and 24 percent in July 2004. For the year, cargo volume was up 8 percent to 9 percent at the port of Oakland, and 8 percent to 11 percent at the ports of Seattle, Tacoma and Portland. Ships calling at Los Angeles-Long Beach may wait up to four shifts before being assigned labor. Additionally, containers can sit for two or three days once they leave the ship, because so many railroads are under-equipped and understaffed.

Business growth at the United States' West Coast ports may indicate an improving economy, but it's a considerable negative if capacity issues are causing significant problems. The simplest and most obvious of these is cost. According to ABC News, "congestion is so bad in Los Angeles, the port has a $40 surcharge per container that is refunded if the shipper loads or unloads after peak hours."[2] Mitsui OSK Lines, Neptune Orient Lines and other shipping companies expect costs on Asia-US trade routes to rise by at least 10 percent in 2005 because of congestion at ports in the United States."[3] Other ramifications are more far-reaching. For example, by failing to accommodate corporate forecasts for the movement of goods, West Coast ports could launch a supply chain ripple effect that is reminiscent of the work stoppages that closed them a few years ago. Across the country, companies relying on imports arriving by ship do well (or poorly) in relation to the efficient (or inefficient) operation of ports. In some quarters, it is estimated that shippers and customers face transit delays of up to nine days because of overcrowding at US ports.[4]

A multifaceted logistics problem

More and more commodities are coming to the US by boat. For example, while most personal computers imported in 2001 came by air, a majority now are shipped by boat on 10- to 12-day transit schedules. As a result, virtually all the mega-ships entering the West Coast's major ports are loaded up, and many are arriving with up to twice the load they carried only five years ago (10,000 containers vs. 5,000 containers). In turn, congestion and capacity are severely taxing the flow of intermodal traffic.

Soaring fuel prices are another part of the problem. With oil prices high and the price of diesel fuel on the rise, fewer truckers are willing to haul containers. Truckers say they're burning so much fuel by idling and waiting for containers to be unloaded from ships that waiting isn't worth it.

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Simply put, truckers are paid a flat fee to haul loads, so rising fuel prices pinch their profits. And they're responding by turning away jobs or thinking about leaving the business altogether.[5]

Using alternative, deep-water ports in places such as Mexico; Mobile, Alabama; or up the Eastern seaboard may be a consideration. But such moves may not ensure freer or faster movement of goods. This is because alternative ports are accompanied by alternative realities. Some are logistical, like the port's surrounding rail structure or warehouse availability. Other realities are geographic, like having to route shipments through the heavily taxed Panama Canal.[6] Lastly, the problem is not just inbound. With US exports increasing (the Commerce Department reported that they reached a record $97.5 billion in September 2004), there's also more outbound cargo for the ports to handle.[7]

Few legislative responses

Accenture has learned that shipping companies are forecasting Asia-to-US cargo growth of between 10 percent and 12 percent in 2005.[8] Another report also reveals that: "With the relentless shift of global manufacturing to Asia, particularly China, container volumes will triple by 2020. Without expansion, the ports and infrastructure will soon reach capacity and cargo will be diverted to other regions."[9]

Unfortunately, California facilities have scant potential to respond to these inevitabilities because they have almost no ability to expand. Enlarging ports and intermodal infrastructure is extremely expensive, and is beyond the capacity of most states to handle on their own. A few authorities are looking into expansion opportunities that, realistically, would take several years to complete. But many others are finding that it actually makes better business sense to develop land for residential or other non-logistical uses. All in all, local concerns about nationwide toy shortages and other logjams appear to be taking a backseat to other, more tangible worries. For example, citing broad-based concerns over pollution and traffic from the region's two seaports, the Lomita City Council recently voted unanimously to oppose future expansion of the port of Los Angeles.

Even solutions as (apparently) simple as combating congestion by expanding hours have become complicated and contentious. One good example is a Los Angeles city councilwoman who recently launched a plan to expand port hours. Terminal operators responded that labor shortages would make such a move impossible. The longshoremen's union then weighed in, claiming that the ports simply weren't hiring enough workers. However, 500,000 applicants had responded to a summer 2004 ad soliciting 3,000 temporary employees.

Port congestion doesn't appear to be at the top of the Federal government's priority list either. Its premier port-related interest is, of course, increased security. Of the nearly 8 million containers that enter US ports each year, only about 6 percent are closely inspected. That's a low number, say terrorism experts, who warn that this is where the United States is most vulnerable. Experts also say that increasing inspection levels to 10 percent would create a quantum leap in protection and would be relatively inexpensive (perhaps a few hundred million dollars).[10]

So legislatively speaking, the only relief may come from a break in the hours—expansion logjam or, perhaps, from the forward—thinking actions of a non-US government. According to

The crisis in context: Using the tenets of supply chain mastery to help relieve congestion

In late 2003, Accenture published a seminal white paper on achieving high performance and the extent to which high-performance businesses practice "supply chain mastery." Among the paper's most notable findings was clear evidence that financial success is nearly always linked to supply chain excellence. Put another way, supply chain leaders also tend to be market leaders.

Additionally, the paper describes the principal characteristics of supply chain masters: companies that have achieved supply chain excellence. Within each of these attributes is a clear message about the responses of supply chain leaders to difficulties such as those presented by "West Coast Congestion":

Supply chain masters know that innovative strategies and operating models enhance shareholder value and competitive differentiation.
Leaders develop supply chain strategies that create—not just support—competitive advantage. Most of those strategies are designed to accommodate crises (such as port congestion) because vision, imagination and most of all, flexibility, are built in.

Supply chain masters embrace end-to-end process integration.
Today's most-effective supply chains are actually "supply webs." Just as a tear in its web doesn't prevent a spider from reaching its quarry, so too are "web masters" better positioned to respond to crises by enabling alternative supply lines, secondary sources and backup delivery modes.

Supply chain masters execute supply chain initiatives selectively.
With better planning, forecasting and total cost of ownership (TCO) models, supply chain masters quickly grasp the cost-management and relationship-management implications of every supply chain alternative. More than most, they respond effectively to logistical challenges because they understand the outcome of each alternative.

Supply chain masters challenge the status quo regularly and aggressively.
Accenture has observed that supply chain masters generally refuse to accept "what works now" as a permanent solution. Instead, they weave change, innovation and continuous improvement into the fabric of their companies. As a result, crises and challenges are more likely to be anticipated, planned for, and even resolved before they happen. With better intelligence, high-performance businesses learn about tie-ups more quickly. And with superior planning, they exit the freeway (or harbor) before reaching the slowdown—knowing precisely how to continue on with minimal disruption.

In Accenture's view, high-performance businesses recognize opportunities where others see barriers. Using those insights, they work to develop innovative and preemptive strategies that limit the inroads available to later-arriving, less-visionary competitors.

The Globe and Mail (a Canada-based publication), the Vancouver Port Authority is poised to unveil key parts of its $1.4 billion, 16-year expansion plan to regulators. By 2020, these actions could raise capacity to 5.3 million TEUs ("20-foot equivalent units"—the standard industry measure for containers). This amount is more than triple the port's current capacity of nearly 1.7 million TEUs.[11]

Supply chain responses: making progress happen

Given the current state of legislative lethargy, it's not surprising that some companies have reacted more strongly than state or Federal governments. A few actually have opted to reduce shipments. According to an analyst, "If stores can't get it in the right place and at the right time, they would rather do without."[12] Other companies, such as the GM-Toyota joint-venture firm, New United Motor Manufacturing, Inc., have made similar observations. They know how their just-in-time supply system relies on timely parts delivery. On the proactive side, however, Wal-Mart opted to ship its 2004 holiday merchandise particularly early: By September 2004, a fair percentage of Wal-Mart's holiday merchandise was resting comfortably in the company's distribution centers.

The lessons of a few years ago clearly were not lost on New United Motor Manufacturing or Wal-Mart. During the port work stoppages in early 2000, many manufacturers that had grown accustomed to operating with leaner supply chains were forced to close. There wasn't a buffer inventory in storage on shore. Yet getting stock in early isn't always possible or—for cost and inventory reasons—even advisable. However, there still are many ways that companies can pursue high performance by responding creatively to "West Coast congestion." The following list includes supply chain suggestions that Accenture has made to its clients and business partners. Companies can seize these opportunities to apply, combine and maximize high-performance tenets, such as strategic innovation, operational excellence and creative collaboration.

Ship more in less space

Hewlett-Packard thought inside the box when it set out to bring more products to the United States. HP designed its products so that they can be packaged in smaller boxes, enabling the company to ship more in less space.

Be specific with suppliers

Computer maker eMachines tells suppliers precisely what to ship—right down to individual parts. And international apparel manufacturer/retailer Zara keeps close tabs on sales. By size and color, it knows exactly what products its retailers need—and are likely to sell—each week.

Be less emotional with forecasts

In some cases, if a company thinks it can sell 10,000 products, it should import 9,000 products to avoid costly returns. For most PC manufacturers, returns cost the company $200 per product—more than the company makes on each unit ($150). Companies should look at the economics of being out of stock infrequently versus having too much product frequently. This sort of holistic view is typical of companies that have achieved high performance in planning and forecasting.

Re-examine your outsourcing programs

Outsourcing supply chain management functions is an effective solution only when companies integrate superior strategies with superior service providers. A couple of years back, Sony's PlayStation 2 debuted less spectacularly than Microsoft's Xbox. Figuring prominently in the 1:5 sales ratio were issues up and down its heavily leveraged supply chain. Without PlayStation 2 systems on store shelves during the holidays, potentially loyal Sony buyers switched to the Xbox.

Pay extra (occasionally)
In today's sellers' market for water container traffic, the high cost and availability of containers and container ships may require periodic diversion to alternative forms of transportation, such as FedEx and UPS premium service. For occasional higher-priced and time-critical items (such as fashion items and key industrial parts), availability rules.

Be more strategic about pricing
Retailers that keep close tabs on what sells and why it sells (fashion, price, color, something similar worn by a celebrity) are empowered to adjust prices—i.e., raise them—in response to supply issues. To improve margin performance, manufacturers could do the same thing, provided that such moves have been pre-specified in contracts or sale agreements.

Lesson learned

Most important, however, is the need to integrate all, or at least several, of the above suggestions. That's because high performance is nearly always the result of successfully combining and achieving strategic, collaborative excellence. In Accenture's view, high-performance businesses recognize opportunities where others see barriers. Using those insights, they work to develop innovative and preemptive strategies that limit the inroads available to later-arriving, less-visionary competitors. Furthermore—while ensuring that their strategic moves are supported by effective, differentiable operating models—they partner with other innovators to ensure that core competencies are always brought to the fore, and that flexibility and responsiveness are always preeminent. In short, high performers sail farther and faster when breezes are favorable. And when ports are jammed, they quickly take new routes to capturing marketplace advantage.

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About the Author

Allen J. Delattre is the managing partner of the Accenture Electronics and High Technology industry practice. Al has collaborated with numerous large and entrepreneurial companies to help them achieve high performance-often managing large-scale strategic supply chain initiatives and temporarily assuming executive-level line-management positions during business turnaround engagements. A popular commentator on technology, supply chain management and business-strategy topics, Al has appeared on CNBC, Bloomberg and NPR business broadcasts as an expert analyst. His articles and insights have been published in *BusinessWeek, Electronic Buyer's News, FORTUNE, Supply Chain Management Review, The Economist, The New York Times* and *The Wall Street Journal*. Based in Los Angeles, Al Delattre can be reached at allen.j.delattre@accenture.com

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