



Logistics Association of Australia Ltd

INSIGHTS ON WEST COAST LOGISTICS

The Logistics Development Award is sponsored by CHEP Australia

BREAKING NEWS

Brambles Industries owns the CHEP pallet business. In late November 2002, Brambles advised the market of concerns with CHEP Europe. At the time, Robert Gottliebsen reported in 'The Australian' that because of Europe, few noticed, "returns in the United States were improving dramatically". In the US, CHEP has a different strategy, servicing retailers not manufacturers. It started with the largest retailer, 'Wal-Mart' then followed with 'Home Depot'. The pallet market in the United States is worth US\$3bil pa and according to Gottliebsen, CHEP "has a chance to be the leading player".

INTRODUCTION

This article aims to provide some insights on West Coast logistics. The CLM Conference was held during the 10 day lockout of West Coast ports. The lockout highlighted to me the significance of these ports to supply chains in the United States. I will also provide some insights from my visit to the Meyer Corporation Distribution Centre (DC) at Fairfield (south of San Francisco). The Meyer Corporation is illustrative of many United States supply chains. Additionally, the Meyer Corporation DC helps to explain CHEP's strategy in the US.

Significance of the West Coast Ports

The President of UPS, as the keynote speaker at the CLM Conference, remarked that "global commerce is simply supply chain choreography". The architecture of supply chains on the West Coast provides substance to this remark.

The West Coast is the funnel into the United States for the goods produced by low-cost labour in Asia. For example, the West Coast ports receive 75% of Hong Kong exports to the United States. The typical supply chain architecture is as follows:

Shipping – Portside Deconsolidator – Trucking – Distribution Centre – Trucking (perhaps Modal Transfer) – Vendor Inbound

From the following table it can be seen that the value of goods shipped through West Coast ports has quadrupled in the past 20 years. Furthermore, the share of the United States economy these goods represent has increased.

Serial	Year	Value US\$	Share of US Economy
1	1980	474 bil	17%
2	2000	1.9 tril	20%

The current choreography challenge for the West Coast is to identify and address constraints upon the funnel. These manifest as flow, channel or volume issues.

The Lockout

On 27 September 2002, the Pacific Maritime Association (PMA) locked out 10 500 dockworkers as part of a contract dispute. Twenty-nine ports from Seattle to San Diego were closed stranding about 200 ships laden with cargo from Asia and the Pacific.

The immediate impact included:

- assembly and manufacturing plants shutting down
- perishable agricultural products spoiling
- increased costs to shippers resorting to air freight
- losses by trucking and railway operators
- US\$1bil per day in lost wages

After 10 days, President Bush ordered an 80-day cooling-off period, effectively ending the lockout.

The Constraints

In the headlines, the contract dispute was about future jobs and the introduction of technology. For the dockworkers, who often pass their job from father to son, it was about job security. More fundamentally, the lockout was about addressing volume and flow constraints.

Of the workers locked out, 1600 were shipping clerks, who log cargo movements and organize storage of goods with portside deconsolidators. They use manual records. The work has not changed since the advent of computers, so they are slow and there are mistakes, which can be expensive. There are also incompatibilities between the shipping clerk systems.

The PMA members want to introduce high-speed, computerized systems to handle cargo and they want to link their inventory control systems.

There will be fewer clerical jobs and contractors may perform those that remain. But the improvements to the volume and flow from the ports to the deconsolidators will be significant.

The similarities with the fundamentals of Australia's waterside dispute a few years back are profound.

Meyer Corporation DC

On the afternoon of 30 September 2002, I had the privilege of participating in a site visit to the Meyer Corporation DC in Fairfield, California. Meyer Corporation imports small household appliances from Asia. It then sells and distributes these appliances to retailers throughout the United States.

The appliances are shipped in via the West Coast ports to minimize cost; trucked to the DC from a portside deconsolidator; and trucked out from the DC to vendors on demand. Meyer Corporation does not undertake any retail activity itself. It is illustrative of many US supply chains transiting through the West Coast ports. There was an evident concern from management regarding the lockout.

The DC comprises 500 000 sq feet of storage space and maintains between 14 and 28 days of a limited range of inventory (approx 800 SKU) in medium density racking. The DC was showcased for its technology.

There is an automated sortation system; abundant RF scanners; all inventory is bar coded; and all outgoing goods have Uniform Commercial Code labels (UCC128) and are listed on industry compliant shipping documents. The WMS is so accurate the DC no longer conducts physical stocktakes.

However, two insights were notable – the extensive outsourcing of logistic functions and the absence of CHEP pallets.

I came to the conclusion that whilst Meyer Corporation ran the DC, it did not undertake logistics. Third party logistics providers delivered the following functions:

- WMS (Manhattan Associates);
- labeling (Peak Technologies);
- MHE;
- racking;
- inbound and outbound trucking; and
- surge staffing requirements.

Meyer Corporation owned the warehouse, employed core staffing requirements and interestingly, owned all the pallets. The rest was contract logistics.

Pallet ownership was the second notable insight. Less than five years ago, the Meyer Corporation DC purchased 22 000 black plastic pallets from Tri Enda Corp of Wisconsin. It purchased a mix of 2 000lb load limit and 3 000lb load limit pallets.

The company was emphatic about its justification:

- No nails or timber on the warehouse floor
- Negligible losses as a result of fork lift strikes
- Able to load each pallet higher (most pallets were loaded to between 2.2 and 2.4m high)

Meyer claims to have already recouped its costs on pallets. I am skeptical, however. How does this help explain CHEP's strategy of servicing retailers in the United States?

Like many West Coast DCs, the Meyer Corporation DC discards the timber pallets the goods arrive upon from the portside deconsolidator; cross load goods to its own inwarehouse plastic pallets for storage; then take goods off its pallets to distribute consignments, which are shrink wrapped only, to retailers. The retailers must then place the goods on their own pallets ...or pallets they hire from a pooling business.

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