Need to know the best way to select an ocean carrier? Outsource retail logistics? Locate a contingency port?

HELP IS ON THE WAY!


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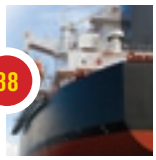
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Every day, *Inbound Logistics* readers are challenged by the rapidity of change in the industry and the complexities of globalization. To help, we have created a compendium of best logistics practices designed to fulfill your need for up-to-date, practical information. We will incrementally build a library to address logistics, transportation, supply chain management, and related technology challenges.

The next seven installments appear on the following pages:

You'll also find these articles on our web site: **inboundlogistics.com/how** and in digital format: **inboundlogistics.com/digital**.

What specific "how-to" would you like us to cover? Let us know: **editor@inboundlogistics.com.**

How to Tackle Mission-Critical Logistics in an Emerging Market

Mission-critical logistics in the United States is manageable; acceptable in Western Europe; and nearing acceptability in maturing Asian markets, yet still manageable. In emerging markets such as Latin America, service parts logistics is incredibly immature. Businesses looking to grow in these areas must balance the risk/reward of supporting customers efficiently and cost-effectively.

Service parts represent the second-largest service operations expense after skilled labor. Therefore, optimizing inventory and satisfying customers from the beginning by ensuring the right parts arrive at the right time–and in the right location–is crucial to growing business and driving profitability. This requires a complete logistics infrastructure that links robust, integrated systems throughout the service parts supply chain.

In mature markets, businesses routinely look for ways to optimize and streamline their service parts supply chain to reduce costs and drive efficiency. This requires a responsive and efficient pipeline that can scale part supply to manufacturing demand on the front end, and accommodate customer service demand with aftermarket support and reverse logistics processes on the back end. This integrated, end-to-end supply chain through the entire lifecycle of the finished good is critical. Ensuring process and technology are properly aligned and connected to communicate mission-critical information and visibility between parts suppliers, manufacturing sites, customers, and field service facilities is no small task.

Imagine the difficulties in emerging markets, where manufacturing and distribution capacity is constrained by geography, transportation and logistics sophistication, government regulations, and protocol. The challenges of creating an efficient and responsive distribution network that can deploy mission-critical service inventory so that the bank's mainframe remains operational and the 911 telephone switch remains functional 24/7 are great. Without this internal infrastructure, typical overnight transportation services and other "standards" we expect don't exist. Businesses often build expensive inventory buffers into their supply chain to offset potential bottlenecks in matching supply to demand; or seek outside consultation simply to identify the problems and pitfalls they need to consider, then avoid.

FOUR STEPS TO FOLLOW

- **KNOW YOUR OBJECTIVES:** Sometimes businesses open new markets after all the challenges have been considered, perhaps following a customer lead. Manufacturers need to be wary of whether the economy of scale in a new market can expand to support long-term growth needs. New markets don't have infrastructure and service support density, so initial costs per transaction will be high. Businesses need to be mindful of how they intend to push product to market as well as handle the reverse flow of parts for repair and refurbishment. Will the expense of doing business outweigh the potential reward?

- **KNOW WHAT TYPE OF PRESENCE YOU WANT AND WHO WILL HELP SUPPORT YOUR ACTIVITIES:** Businesses need to consider who will assume fiscal responsibility and take ownership and liability for product. Who will be the importer of record? Will you register with an in-country agent to act on your behalf and facilitate contact and interaction with local authorities?

- **UNDERSTAND THE TOTAL COST OF TRANSPORTATION AND LOGISTICS:** Manufacturers need to perform necessary due diligence to understand the forward and reverse transportation requirements to meet customer service needs–both to and from market as well as within. Potential tax and tariff ramifications of moving a product into a new market as well as documentation to accommodate shipments within the country also need to be considered. Will taxation of product be more than the product itself? Will it be worth sending a product out of country for repairs and support?

- **THINK BACKWARD:** Consider how you will support product and components in the aftermarket. How and where will you repair parts? How will you consolidate returns? How will you return product to market to ensure tax breaks? Given these difficulties, businesses may be inclined to leverage the expertise of a company that specializes in providing these services on a global basis.

How to Select an Ocean Carrier

Ocean freight buyers are often limited by the geography of their offshore suppliers/manufacturers and stateside customers and the urgency of the shipping season when they consider making changes to their carrier networks. But there is always room for optimization. Shrewd logistics professionals periodically research and take advantage of new carrier products or changed services to leverage improvements. As the global tide continues to break over new manufacturing and logistics markets and ports of call, and cargo flows shift currents into emerging trade lanes, ocean freight buyers are awash with options and avenues for matching supply to demand and meeting customer needs.

While speed, capacity, and cost are top priorities for ocean shippers, navigating the minutiae of carrier selection can help unbundle less-visible economies and efficiencies. Shippers that are proactive in vetting potential carriers can develop partnerships that address their cargo's specific needs, leverage services and networks to streamline their supply chain, and conceivably grow their business globally and domestically.

BEFORE YOU CHANGE COURSE

FORECAST DEMAND. Before identifying possible carrier partners, shippers need to identify where their customers are and will be, and where offshore supply is coming from or migrating to. For example, a company sourcing product from Asia, but considering Eastern Europe as an alternative for moving product to the U.S. East Coast, should consider negotiating an extended contract with a carrier serving both Trans-Pacific and North Atlantic trade lanes.

Regardless of the lane in which you ship, the total cost will be impacted by the frequency of shipments with a particular carrier. Appropriately forecasting where demand will be and how much capacity you will need can help in negotiating longer-term contracts at "discounted rates."

SAILING FREQUENCY. Finding a carrier that offers multiple sailings in a particular trade lane provides greater flexibility in aligning offshore production schedules, capacity needs, and time requirements with available transportation. This way shippers can receive raw materials or product over different days, ship goods to market as demand dictates, and avoid shipment delays and associated costs.

Savvy shippers can similarly leverage a carrier's service frequency to circumvent unnecessary carrying costs and better manage the flow of product through the supply chain.

INLAND TRANSPORTATION. Responding to growing customer demand and emerging logistics hotspots, ocean carriers routinely add new ports to their scheduled rotation. Cost-conscious shippers can look closely at their cargo's final destination to birddog alternative routings. In each lane, a carrier generally has a certain number of base ports, and shipments moving from base port to base port will always prove to be a more economical option.

Importantly, shippers and consignees should evaluate stateside distribution capabilities from partner ports to inland DCs to devise better strategic means for moving product to market. Emerging intermodal options at U.S. ports provide access to additional capacity, more reliable transport options, and opportunities to drive costs down even more. For example, identifying a smaller port with better intermodal infrastructure and service capabilities farther away from an inland DC may prove more valuable than importing through a congested port closer to demand.

Shippers should also consider whether carriers have existing partnerships with inland transportation providers and if they can leverage their connections to access capacity and reduce intermodal costs.

COMPARE INFORMATION. Ocean carriers increasingly post services, schedules, equipment, and rates on their Web sites. The Internet is a good place to begin matching potential carriers with your requirements.

DATA SUPPORT. EDI or Web/Internet-based data to capture key events need to support the cargo owner's supply chain system.

How to Streamline Import Documentation

Businesses continue to turn to offshore manufacturing locations and strategic global outsourcing partnerships to exploit cheaper production and labor costs. Often lost in the process, however, is the value global businesses can extract by capturing data deeper in the supply chain to scale inventory demands with capacity, rationalize costs, and manage exceptions when and where necessary.

Not all businesses are equipped with the processes and technologies to accomplish this and the vine for picking has ripened. If the U.S. government has any say, shippers and carriers will soon be required to communicate more than just the standard Automated Manifest System (AMS) shipment information to Customs authorities before ships and airplanes depart foreign countries.

When complying with U.S. Customs' AMS, shippers have everything to gain by reusing and integrating data generated at point of origin. Consignees, for example, can work collaboratively with overseas agents to capture their AMS data feeds and leverage this information to populate data further along the pipeline – thus eliminating redundant data entry.

Moving forward, U.S. Customs' "security filing 10+2" proposes to expand the AMS protocol and require consignees and carriers to provide nearly 100 percent of import documentation data prior to shipment transport. With such compliance comes greater opportunity for shippers and consignees to automate documentation and streamline processes. Among the potential advantages, companies can:

- Receive faster identification and release of low-risk shipments through interfaces with Customs Cargo Selectivity system, In-Bond system, and Automated Broker Interface (ABI).
- File or amend manifest or bill of lading data electronically.
- Establish electronic links to common carriers and auxiliary services.
- Receive status notification when an entry has been canceled or deleted.
- Receive cargo status and advance notice of General Order (GO) eligibility.
- Receive notice of other government agency holds.
- Receive exam notification.
- Reduce paper costs.
- Electronically interface with other agencies.

While U.S. authorities may soon mandate shippers and consignees to share this information, thereby forcing compliance, businesses should proactively look at streamlining inbound shipment documentation to better integrate with offshore partners, drive visibility, manage variability, and further reduce costs.

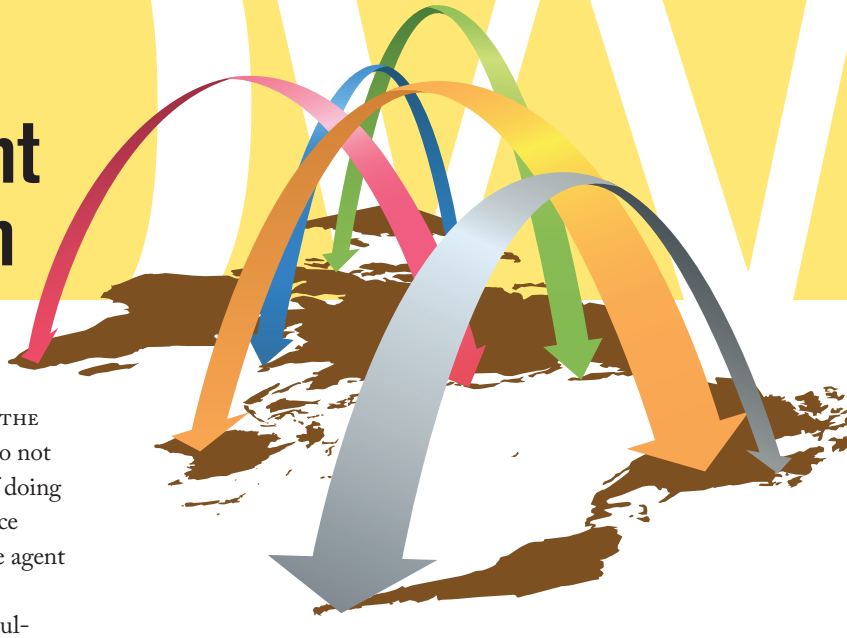
THE 411 ON AMS AND 10+2

THE AUTOMATED MANIFEST SYSTEM (AMS) is a multi-modular cargo inventory control and release notification system. It interfaces directly with Customs Cargo Selectivity and In-Bond systems, and indirectly with the Automated Broker Interface (ABI), allowing faster identification and release of low-risk shipments. By reducing reliance on paper documents and expediting the processing of manifest and waybill data, AMS increases cargo flow, simplifies entry processing, and provides participants with electronic authorization to move cargo release prior to arrival.

SECURITY FILING 10+2 would require 10 additional data elements from U.S. importers prior to vessel loading at non-U.S. ports, and two data set items from carriers. The additional information will enhance the Automated Targeting System for cargo screening. Under the provision, the importer would be able to designate an approved agent to submit the 10 elements. These additional pieces of information include: manufacturer, seller, consolidator, buyer and ship to names and addresses, container stuffing location, importer and consignee record numbers, country of origin of goods, and the commodity harmonized tariff schedule number. The 2 additional data sets are: Vessel Stowage Plan (or BAPLIE) and container status messages – both of which will be filed by the carrier.

Source: U.S. Customs and Border Patrol

How to Find The Right Outsourcing Solution



As the rules of engagement for operating in a global world continue to shift and expand, businesses increasingly find that the myriad pressures of running a core business do not lend themselves to doing all things well. In the interest of doing what they do best and providing customers with the service level they demand, outsourcing has become both a change agent and a competitive differentiator for many companies.

Still, the complexity of global outsourcing and the multitude of logistics solutions providers courting your business can make the process of finding a partner capable of engaging supply chain stakeholders and customers as an extension of your enterprise a daunting task.

Finding the appropriate logistics solution and service provider requires a collaborative and thorough search that matches your current and future growth agendas with a partner that is attuned to your needs.

PICKING YOUR PARTNER

- **DETERMINE THE VALIDITY OF OUTSOURCING YOUR LOGISTICS NEEDS** based on your current systems and business model. Identify the type of function you want to outsource by defining your need – whether it is transportation, freight bill payment, customs clearance, or all of the above – then drill down the specifics for each function. So if you are outsourcing transportation, what modes and services will that include? Make sure you know who your 3PL candidates are and whether they have the capabilities to meet your needs.

- **DECIDE ON A LIST OF MANDATORY COMPONENTS** an outsourcing solution must provide. If your intention for outsourcing is to leverage a third-party's technological capabilities, make sure you understand your IT needs and whether the solution provider has the flexibility to grow with your business. Also consider visiting the service provider's facility to see people using the solution on their turf. Define your requirements: do you want a 3PL to provide on-site personnel? Will it integrate its technology with yours? If not, how much access will you have to its technology? Creating a checklist of your solution needs will enable you to cut through the list of outsourcing providers quickly, without wasting time on vendors who cannot provide exactly what you need.

- **CREATE A LIST OF FOUR TO FIVE OUTSOURCING SOLUTIONS** as potential vendors. Following the first two steps, outsourcers should be able to pare down to four or five favorable candidates pretty easily. Don't always think bigger is better. If technology is involved make sure you see a Web demonstration and, where possible, talk to existing customers and ask for references.

  Once you have narrowed your list down to two or three companies, once again compare potential vendors. Keep in mind pricing models and estimated roll out/implementation schedule. At this stage in the process make sure that you aren't just speaking with salespeople, but also interacting and asking questions of the operational people who will be tasked with managing your outsourcing functions.

- **DETERMINE THE RIGHT PARTNER** and help implementation run smoothly. Choosing the right solution is one thing, making sure the implementation occurs without undue problems is another. A 3PL will often be selling to a CEO or CFO, but once the executive signs off on the agreement, the onus is then placed on logistics personnel to follow through and facilitate the arrangement. Without proper communication, the corporate culture may feel threatened by the presence of a third-party provider and resist change. Make sure a proper transition process is put in place and that C-level management, operations, and the outsourced logistics provider discuss the roll out, its value, and how the integration will unfold. This way you can ensure there are no surprises and everyone understands what is happening and why.

How to Outsource Retail Logistics

Retailers are well attuned to the changing dynamics of consumer buying habits and the strategies necessary to ensure their supply chain can match inventory to demand. But ensuring product is staged in the right places at the right times is only part of the challenge; engaging the eye of the captive shopper with strategically placed product displays and storefronts keeps inventory moving and business growing.

Retailers intent on maintaining or gaining competitive market share are constantly looking for ideal locations to open new store fronts as well as remodeling existing locations with new fixtures and display cabinets, fitting rooms, and service areas. They might also introduce revised branding schemes through updated floor coverings, wall décor, and signage. The retail outlet is a revolving door spinning to the whim of customer preference and convenience.

But managing retail fixture movement presents an entirely different supply fulfillment paradigm – one that doesn't necessarily integrate with general merchandise flow because of greater variability and the special care

required in delivering, then setting up fixtures and displays.

Businesses typically include fixtures in their interior store designs, which are drafted by store planners, designers, or architects. These blueprints may then be shared among numerous parties (real estate, construction, consultants, public relations, and advertising) in addition to the vendors and transportation providers charged with managing the delivery.

With so many non-transportation vendors involved in the process, the number of variables increases dramatically as retailers consider necessary due diligence for moving forward with a retail logistics project: "What carrier/provider do I use?"; "What market rates for capacity are available?"; and "How do I handle fixture inventory from production to installation?"

Getting a new retail outlet up and running requires a collaborative effort that often leaves retailers outsourcing project management to third-party intermediaries. From providing "pop-up" warehouse space to locating carrier capacity, outsourcing retail logistics can be a big sell for growing businesses.

SHOPPING FOR SOLUTIONS

- Core carrier programs and routing guides are typically the culmination of a joint effort between a retailer and a carrier to **analyze historical shipping patterns and lanes, forecast future volume based on that analysis, and agree to mutual capacity and price** commitments for a specified period of time. Many retailers use these programs on freight with "predictable" characteristics: order quantity, equipment requirements or restrictions, and origin points based on manufacturing or inventory location as related to customer demand.

  The characteristics of "retail logistics" specific to new store openings, re-branding, and remodels are usually project-, geography–, and time-specific. As such, they are not necessarily predictable based on history and, to some extent, must consider the fickle consumer's expectations.

- The project-based activities inherent to retail logistics have extreme cost and time constraints that require **service providers who can provide extraordinary service:** night and weekend deliveries, specialized equipment, and "high-touch" product handling. As a result, retail companies may have to source providers from a completely different pool than their general merchandise freight.

- Retail logistics projects also have **unique warehousing and staging requirements.** Fixtures are often made in a JIT or near-JIT environment, moved from vendor production floor to a cross-dock or warehouse space, then finally staged for store delivery based on a construction or remodel schedule.

- Retail companies may choose not to route "fixture" freight through general merchandise channels, instead **relying upon the expertise of service providers who can contract short-term warehouse space**, assign dedicated resources for tracking and tracing, and select qualified carriers based on each project's unique requirements.

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How to Use Transportation Metrics To Drive Profit and Service

How do you measure efficiency when you are already doing the best job possible? Talk to any over-the-road shipper that finds itself increasingly handcuffed by institutionalized transportation and fuel-related costs and it would likely tell you the "best job possible" doesn't cut it anymore.

Invariably, that shipper may need to look outside its enterprise and consider outsourcing non-core transportation functions to a third-party intermediary or delegating more responsibilities to its core carriers to squeeze out hidden costs and further streamline its supply chain.

Outsourcing transportation functions can provide a more objective and relational context for understanding how transportation best practices can drive improvement elsewhere in the enterprise while simultaneously unbundling hidden efficiencies and costs in an otherwise tight market.

The sidebar below presents three problems and the strategic ways shippers, carriers, and 3PLs can work together to develop a methodology for tracking metrics, analyzing data, and setting goals – while creating a platform for continuous improvement.

WHAT TO DO IF YOUR COMPANY IS...

...HAVING DIFFICULTY MANAGING EXCEPTIONS AND DELIVERY DELAYS

- Schedule routine operating meetings with your support team and on-site carrier manager to review your approach to creating a continuous improvement strategy. After examining basic solutions such as revised routing, and advanced strategies including altered delivery times to relieve delays, devise action plans for improvement.
- Use these plans to help change how and when you manufacture product as well as improve the transportation department's standing in the eyes of the operations and sales teams. The transportation team is no longer told who and when to deliver product to; instead, the department works with customer service representatives and operations managers to plan its manufacturing schedule, leading to improved delivery times and volumes.

...FACING SEASONAL VOLUME DEMANDS AND HAS DIFFICULTY EFFICIENTLY SCALING CAPACITY TO DEMAND AND HOLDING CARRIERS ACCOUNTABLE

- Consider building better relationships with carriers by implementing key performance indicators (KPIs) to benchmark success. Carriers that don't want to participate are likely not meeting set standards; those that are doing their job and meeting expected service requirements would value the extra due diligence and your recognition.
- KPIs benefit the carrier and the manufacturer by allowing both parties to accurately forecast seasonal demand peaks as well as track and ensure that all orders are delivered on time.

...GROWING BEYOND ITS MEANS, BUT STILL STRUGGLING WITH SERVICE AND COST ISSUES THAT ARE IMPACTING PRODUCTIVITY

- Consider looking at replacing a local carrier with a dedicated carrier that is empowered to manage the entire shipping process. Let the service provider take responsibility for tracking deliveries, setting delivery appointments, and directing load building to maximize trailer cube.
- Schedule regular meetings when the carrier can provide tracking data, as well as plans for increasing load volumes and better utilizing transportation assets such as drivers and equipment.
- Placing the entire onus on a service provider can help reduce transportation costs and improve customer service. The transportation function becomes a defacto change agent, helping the manufacturing and customer service departments enact improvements.
- Employing effective transportation best practices can go a long way toward impacting the way the rest of the enterprise operates.
- Whether a company handles transportation in-house or outsources to a third party, certain consistent factors – data tracking, reporting, and action – must always be included.

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How to Locate a Contingency Port

Shippers and consignees on the U.S. West Coast are well aware of the challenges they face when capacity is squeezed and time parameters are tight. As a result, many have begun managing their supply lines from point of origin, controlling the inbound shipment process to increase visibility farther back in the supply chain, then harnessing that information to manage shipment variability and exceptions as they occur.

But as much due diligence and supply chain tinkering as any one business can do may never prepare it for the types of exceptions and supply chain bottlenecks that occur when port workers, hurricanes, or terrorists strike. What do you do? Where do you go? How will you create, then execute, a workaround strategy to ensure shipments get to their intended destination without undue time and cost?

Commodity type, carrier preference, offshore networks, intermodal requirements, volume, and capacity inevitably dictate what ports shippers and consignees move product through. In this regard, high-traffic West and East Coast facilities are where businesses will migrate to for the foreseeable future. But that doesn't mean stateside shippers and consignees can't or shouldn't be eyeing alternative ports and developing working relationships with terminals and carriers, so that when problems occur they have additional support and flexibility to create alternative plans for rerouting shipments or scaling volume.

The trend toward diversifying inbound volumes and ports of entry has raised the value of smaller, less-congested harbors that can help accommodate backlog cargo or serve as an alternative when supply chain disruptions happen. Identifying potential contingency ports demands businesses think upstream and downstream about how they can most efficiently and economically match supply to demand.

Businesses that have yet to seriously consider a contingency port strategy may be inclined to do so sooner rather than later–West Coast port operators and the International Longshore and Warehouse Union will be negotiating a new contract in 2008.

4 STEPS IN THE RIGHT DIRECTION

- **FORECAST DEMAND:** The best defense is often predicated by an offensive approach. Companies actively engaged and working with offshore vendors to monitor and control shipments into the United States have a leg up when considering contingency options. Upstream visibility enables businesses to identify potential disruptions before they snowball, then communicate appropriate fixes to circumvent the problem.

  Strategically managing inventory in motion also gives shippers and consignees greater flexibility to perhaps consider rerouting a shipment through an alternative port farther removed from inland DCs. Reliably knowing the lead time, and matching that up with an alternative inland distribution network, may prove more reliable and economical than flowing cargo through a closer, albeit more congested port.

- **CONSIDER YOUR INLAND TRANSPORTATION NEEDS:** How do you ship your product inland? By rail, road, water, air, or a combination? Can you leverage intermodal to open additional capacity and reduce costs? See if the ports are well connected to these transport modes and what carriers serve the market. Determine your needs, then evaluate ports accordingly.

- **EXPLORE YOUR PORT OPTIONS:** Check if the port has the ability to expand and the manpower to execute your logistics needs. Also consider the port's freight handling options and costs, and whether there have been labor disputes in the past. Can the equipment already in place easily be used to handle your products? What will it cost? If equipment is not in place, will the port allow you to use the necessary equipment? At what cost?

  Also, if you are considering an alternative port in Mexico or Canada, identify how customs handling requirements and documentation will change.

- **WORK WITH CARRIERS:** Ocean carriers are aware of the challenges facing shippers and routinely explore and adapt port rotations and sailing frequencies to align service offerings with market demands. Finding out what your carrier is thinking may open up a new avenue and port for importing your goods.

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