The Next Wave
Where Disruption and Supply Chain Innovation Converge
INTRODUCTION

In managing critical logistics and transportation functions for thousands of global businesses, Ryder is in a unique position to see the next wave of disruptors that are creating sea-changes in business operations and strategies. With its more than 80 years of industry experience, Ryder is continually working with the C-suite to help decision makers not only mitigate the impact of these disruptors, but to use them proactively as an opportunity to drive supply chain innovation and create a competitive edge.

Where Ryder sits, as a third-party fleet management, transportation and supply chain provider, it is leading the way by turning the tide and proactively helping businesses become the disruptors. This unique approach works for supply chains of small and large companies, across industries from energy, to food, to manufacturing.

Ryder knows new disruptors will come in waves and will be ready to help you—and your business—to be prepared and move forward.

ADAPTING TO UNCERTAINTY

Hurricanes, volcanic eruptions, and international conflicts—just some of the many reasons why supply chain disruptions have become a top-of-mind concern for CFOs today. Unfortunately, these disruptions are not only difficult to predict, they can also cause substantial damage to your bottom line. No wonder finance chiefs are worried: Research has shown that significant supply chain disruptions reduce the share price of affected companies by an average of 7 percent. In recent years, surveys have reported that 80 percent to more than 90 percent of companies consider the prevention of supply chain disruptions a top priority.

How can finance chiefs avoid disruption? Unfortunately disruption is a reality of business today. It’s tough to go one day without hearing about a new crisis or disaster—particularly those disruptions related to technology changes, natural disasters, or geopolitical events. Some recent examples: Hurricane Sandy shut down ports and airports, cut rail lines and disrupted road traffic in the Northeast U.S., causing the worst fuel shortages in more than 30 years. Eruptions of the Eyjafjallajökull volcano in Iceland disrupted global air travel for a week. The migrant smuggling crisis in Europe has led to highway and rail transportation restrictions. The Ukraine-Russia conflict and resulting sanctions has disrupted trade, access to goods and natural gas supplies.
Supply chain disruptions are generally cast in a negative light, for obvious reasons—they can increase a company’s costs while simultaneously hammering its revenues. But for the CFOs who can learn from and adapt to these challenges, supply chain disruptors can also lead to opportunities.

Port congestion has become an issue along North American coasts, but particularly on the West Coast and specifically in California. The volume of shipments through North American ports have recovered from the recession to reach a record peak, above the records set in 2007. Meanwhile, port-expansion plans in the Vancouver and Los Angeles/Long Beach areas have become tied up by political maneuvering.
Because the Los Angeles and Long Beach ports in California account for 30 percent of port traffic in the U.S., their problems can cause widespread supply chain disruptions for U.S. companies. Labor unrest has compounded the congestion issue. For example, a dockworker labor dispute slowed shipments through the ports before it was resolved earlier this year, and then port drivers went on strike in July as they sought to achieve employee status instead of continuing to work as contractors. During the initial labor dispute, which started in October 2014, all 29 West Coast ports suffered through multi-day shutdowns and shipping rates skyrocketed, with some companies even trying expensive air freight shipping as an alternative. Manufacturers, including Honda and Toyota’s U.S. factories, announced slowdowns as their supply routes from Asia were squeezed. The backlog to unload ships reached 45-60 days, and economists estimated that a complete shutdown of the West Coast ports would cost the U.S. economy $2 billion per day.

Another issue has been the evolution to supersized container ships. The top container line companies are moving to the bigger ships, which is causing more delays at the docks because many ports are not built to accommodate these larger ships, and unloading the ships takes longer.

Truck or tractor trailer management also presents problems. Bigger ships mean more cargo, but they also lead to a shortage of truck trailers because there aren’t enough trailers to move the cargo containers out of the dockyards quickly.

For shipments arriving from Asia, these problems have forced ships to wait at sea while offloaded cargo from other ships is cleared from the yards. For companies waiting on their shipments, these issues can lead to missed deliveries, which lead to production line shutdowns or increased costs from stepping up production levels when deliveries are finally made. Delays and disruptions in supply chains can also create inventory shortages or overstocking. In the case of larger inventory levels, company carrying costs increase from having to finance and warehouse the inventory on hand.

Port congestion issues have prompted several innovative responses, including out-of-the-box methods of freight rerouting via Canada and Mexico fostered by experts at Ryder.

REROUTING: AN INNOVATIVE RESPONSE TO PORT CONGESTION
A short-term solution is to simply reroute the flow of goods through Canada and Mexico. Taking that idea one step further—with an Option Value solution managed by Ryder for its clients—companies have invested in future capabilities to avoid delays, such as the option to reroute cargo to alternative ports when a port crisis occurs. These Plan B solutions can be turned on and off when necessary to avoid disruption. They are planned out ahead of time, based on data and historical experiences from the supply chain’s operations, and they allow companies to reroute shipments with no time lost when a potential disruption occurs.

Ryder also implements Option Value solutions in the case of other potential disruptions, using a strategic analysis of data to recognize disruptors and implement the alternative plan to avoid disruption. Once the disruptor has been controlled, the solution may be turned off, or the new plan may even be put in place permanently.

Improved infrastructure, including road improvements that made truck transportation safer and the construction of warehouse buildings in Mexico for manufacturers, has afforded companies the ability to use the innovation of rerouting their goods to Mexico.

Companies that employed these innovative responses not only mitigated disruptions to their businesses, but also avoided inventory carrying costs and obsolescence, and on-time delivery problems.

As the U.S. economy has improved, so have the prospects for American manufacturers. Recent surveys show that 16 percent of American businesses say they’re bringing offshore manufacturing back to the U.S., and another 20 percent are considering it. Global economic changes are encouraging this “reshoring” trend. China, once the de facto offshoring choice for U.S. manufacturers, has seen extreme increases in labor costs, especially in its coastal regions, where hourly wages have increased as much as 600 percent since 2001.

Global economic changes also mean that companies need more visibility and flexibility in their supply chains—when and where components are manufactured and assembled. Companies also need to mitigate risks associated from single-source supply chains or over-reliance on long-distance supplier relationships.
One innovation Ryder points out is that U.S. companies have developed in response to global economic changes has been shifting to “nearshoring” arrangements with suppliers in Mexico. Improved infrastructure, security and cross-border capabilities in Mexico, along with its skilled, affordable workforce, is attractive. Companies have found that they can use nearshoring arrangements when their product configuration not completed in Asia, either because it lowers production or shipping costs, or because it helps to mitigate risks.

Ryder advises CFOs who are exploring whether nearshoring arrangements may be more profitable than operating from China or other Asia locations to consider several basic issues:

- What is the total landed costs of my goods?
- How has consumer demand impacted our transportation needs?
- How long are our customers willing to wait for goods?
- Do we have warehouse space available to hold additional inventory?
- Do I have plans in place for supply chain disruption?

One example of a company that used Ryder’s third-party logistics (3PL) services to establish a presence in the Mexican market is Pilot Corporation, the writing instrument company. Pilot utilized Ryder to establish a multi-client warehouse, transportation and distribution network tailored to the country’s business environment. Pilot also adopted process improvements to streamline order picking and fulfillment, inventory storage and management, carrier selection and billing, and shipment tracking. Pilot’s customer service and distribution operation was created without using corporate assets, and its scalable handling capabilities allowed inventory growth from 500,000 to 2.5 million units in eight years, with 200 new products added and dramatically-improved warehouse operations.
While mergers and acquisitions, or even the possibility of M&A activity, can be good for a company's bottom line, they can also lead to supply chain disruptions. Inadequate planning or failure to communicate can produce far-reaching effects on a supply chain.

The consumer packaged goods industry provides one such example, with a high level of consolidation in the sector, limited growth opportunities, healthier eating trends and other factors that have lowered consumer demand for certain products. Companies in the sector have experienced commodity and warehouse capacity shortages, a shortage of truck drivers has tightened shipping capacity.

These pressures have pushed innovation, even to the point of forcing some competitors to work together to survive. With coordination provided by Ryder, companies have collaborated on multi-use warehousing projects, where several companies will use the same warehouse and split the cost. Ryder has also helped clients set up shared driver networks in a similar manner—if shippers use the same distribution center and ship to the same location, they share space on the truck instead of sending a shipment at less than truckload.

Manufacturers have partnered up and collaborated to create the financial advantages associated with scale, putting them on better footing with the retailers that have scaled up. They've also achieved scale advantages from mergers and acquisitions.

Ryder has also worked with companies in the consumer packaged goods sector to use cross-docking arrangements to their advantage, synchronizing inbound and outbound shipments to allow products to flow directly from receiving docks to shipping areas in their distribution centers, for example. Or they’ve moved their merchandise from their manufacturing plant directly to stores or customers. Cross-docking saves money and time investments in picking, storage, product inspection and other traditional warehousing activities, and fosters just-in-time delivery and inventory control. A 3PL provider like Ryder can help a company add even more benefit to cross docking by synchronizing distribution with transportation.

Companies have also worked with Ryder to reap the business advantages of delivering goods closer to the time of sale and working with outsourced providers. Using shared networks of trucks and drivers, along with cross-docking arrangements, competing grocers have found that their inventory handling costs have declined. These solutions also lead to improved asset utilization, lower supply chain costs, improved cash-to-cash cycles, waste elimination and fresher products.
Consumers today have higher expectations than ever before. From the pressures brought on by the personalization of consumer products to the shift to eCommerce from brick-and-mortar retailers, companies today must push the limits of logistics in order to meet consumer demand. Shipping delivery windows are ever-tightening—with promises of next-day, same-day and 2-hour delivery, in addition to omnichannel fulfillment delivery options, which appear seamless to the consumer across online and physical sales and delivery channels. Retailers are requiring customized orders and configurations, and warehouse talent is increasingly in short supply.

In response to the increasing and changing pressures exerted by consumer demand, companies are creating value-added services that increase their flexibility and responsiveness. New innovations enable warehouse operators to package finished goods inventory to match a specific retail order.

Companies can also eliminate or avoid vendor compliance charges and increase retail customer satisfaction with kitting and bundling solutions: pre-building advance kits to merge with finished goods to improve delivery time and efficiency, or creating unique combinations of components and peripherals to meet end-customer demands at the retail shelf. Customization and packaging solutions help companies build production runs of retailer-specific configurations to meet changing demands of the end consumer.

Retail supply chain companies working with experts from Ryder have implemented LEAN Labor Management practices to optimize their workforce, lowering costs, improving quality employee hiring and retention, and boosting capacity. A company that implements a LEAN culture must eliminate every step in every process that doesn’t add value for its customer. Companies that cultivate the LEAN customer-focused culture show significant improvements in their quality and productivity because cost and waste is removed from all facets of its operations.

Companies that push consumer demand innovations have seen results: quicker order-to-shelf cycles, reductions in vendor charge-backs, decreased returns, reduced risk and reduced inventory obsolescence.
With so many disruptions to consider and according to Ryder CFOs are turning their attention to logistics and transportation solutions in response to actual and potential supply chain disruptors. By leveraging 3PL providers such as Ryder, companies can reduce risks associated with supply chain disruption, while capitalizing on opportunities and innovations created by those disruptions.

Why are 3PL providers such a resource to finance leaders and their organizations in these volatile times? 3PL providers give companies the agility to change with supply chain changes, improved visibility and control for their supply chains, and qualified staffing for truck driving and warehouse teams, allowing companies to focus their capital and resources on their core businesses. 3PL providers also provide regulatory compliance expertise, innovative solutions to ensure accurate and consistent fulfillment, integration capabilities with other providers for more efficient operations, and kitting and special assembly capabilities. When companies can be more responsive in the face of potential supply chain disruptors, they can expand their markets, improve production and cut costs—all providing real, measurable return-on-investment benefits.

The next wave of supply chain disruption is here, and the CFOs who can anticipate and navigate the disruptors will help their companies survive and thrive. Regulation, talent shortages and shifting consumer behavior are creating sea-changes in business and supply chain operations. These disruptors are forcing innovations that CFOs must adapt to and, in many cases, adopt, including nearshoring, flexible port options, peer/competitor collaboration and leveraged networks.