

When Does "DC Bypass" Make Sense?

Increasing Number of Companies Considering the Option, but Barriers Remain; Will Skyrocketing Transportation Costs Break Down Entrenched Processes?

SCDigest Editorial Staff

The dramatic growth in offshoring in search of lower unit costs has also led to significant growth in logistics costs and a lengthening of the supply chain.

Part of those logistics costs involve the path that many consumer products take to ultimately reach store shelves.

In some cases, especially for mid-sized consumer goods companies that operate a single distribution center, that might mean a trip from Long Beach to the central US, only to make a round trip back West to service the needs of retail DCs located there – adding a number of days and lots of logistics costs to the flow of goods.

An approach taken by many companies is to open a smaller, regional DC, usually in the Los Angeles or Reno, Nevada area, to receive imported goods and support order fulfillment to West coast retail customer locations (stores or DCs). Totes Isotoner, which operates one large, automated DC near Cincinnati, is among many companies that took the approach of opening a smaller Western DC to reduce total shipping costs from imports.

But is direct shipment to retail customers from import DCs an even better answer?

For some, the answer is also Yes. Under this strategy, containers are sent to import processing centers, which receive, inspect, perform value-added services, and ultimately ship the goods directly to retail DCs and stores.

Sometimes called by the term "DC Bypass," the strategy is supported by a number of third-party lo-

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gistics providers who now offer facilities and services to accomplish the job. That list includes UPS, APL Logistics, BAX Global, DHL and a growing list of other 3PLs. Much of the focus is on delivery from West coast ports, but the principle applies to any imports coming into a market, and is not by any stretch limited to just shipments from consumer goods companies to retail.

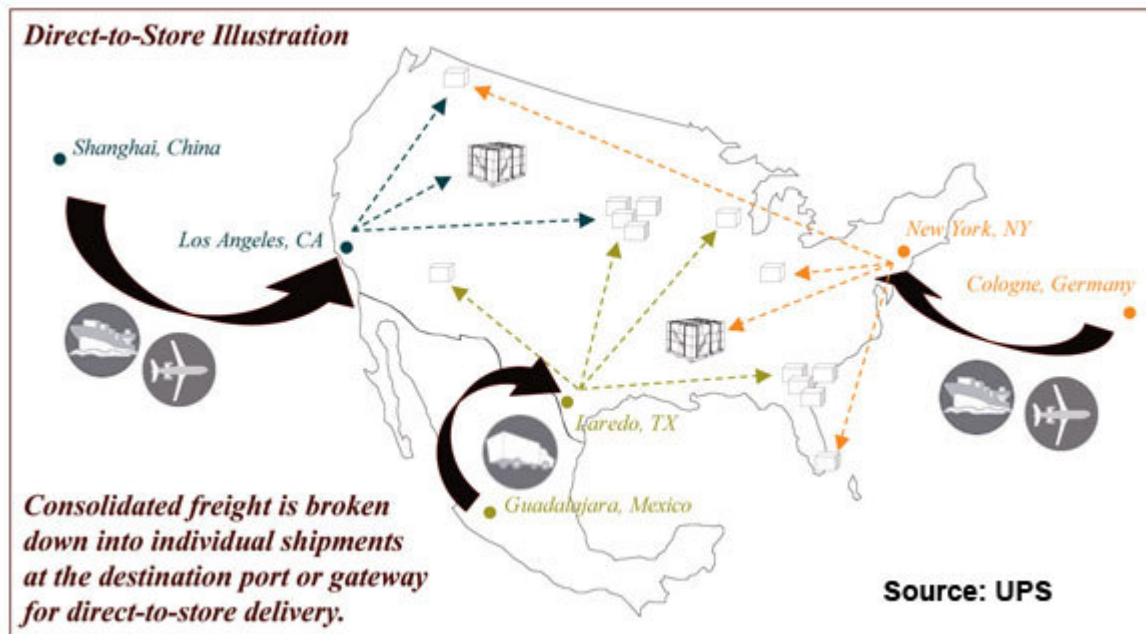
Is DC Bypass the Future?

DC Bypass has a number of significant benefits. First, it eliminates at least one long shipment leg (from the import/transload facility to manufacturer DC) and may significantly reduce the length of another move (shipment to customer location).

It also eliminates a "touch" of the product, reducing distribution processing costs and product damage.

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be taken out of the system.

It's no wonder there is a lot of interest. VICS, the consumer goods to retail technology standards and best practices organization, has an existing sub-committee specifically looking at DC Bypass opportunities and the electronic messaging between trading partners needed to facilitate the smooth flow of goods (See [VICS DC Bypass subcommittee](#)).

But there are challenges and barriers to DC Bypass. Most importantly, the shipper must be able to allocate and ship product shortly after the time of its arrival in the West coast port. In many cases, that is simply not possible, due to system limitations or customer order patterns and rules.

A significant amount of logistics systems and other infrastructure must also often be put in place – that includes things such as inspection and QA, compliance labeling and price ticketing, EDI, RFID tagging, etc.

There are also some inefficiencies that can be built in. For example, direct shipments from a bypass facility are often smaller than shipments from a primary DC. That will often mean less efficient shipping (LTL versus full truckloads) and may mean the customer does not receive its full order on a single shipment. It can also increase the number of receipts a customer has to make. This is especially an issue for manufacturers that would like to ship direct to store, as many retailers (such as Home Depot) are trying to reduce the number of direct to store shipments in favor of deliveries from their DCs.

Still, the substantial savings in transportation costs and carbon emissions would seem in the end to outweigh the disadvantages.

The biggest barrier to further adoption is likely entrenched process models in both retailers and manufacturers – processes that skyrocketing transportation costs are likely to continue to wear down.