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Logistics Infrastructure Issues will be Back Soon, offering Challenges – and Opportunities

Savvy Companies can Gain Major Competitive Advantage from Logistics, BCG's George Stalk Says

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The current economic slowdown has eased the pressure off of US and most global logistics infrastructure, and there are at least some plans and additional dollars targeted at improving that infrastructure. However, companies can expect to see gridlock and related logistics problems returning soon.

So says **George Stalk**, a senior adviser and a BCG fellow at the Boston Consulting Group, both in a recent interview with Supply Chain Digest and a new article in the Harvard Business Review.

"Today's economic meltdown masks the threat [from the lack of infrastructure]," Stalk says. "But if pre-recession trends reappear when the economy recovers, lack of infrastructure capacity, in combination with rising oil prices, will constrain global trade and drive up costs."

He is not optimistic that the U.S. stimulus package will make much of a dent in the problem, saying that it is most likely to result in projects that quickly create jobs and produce newly painted bridges and newly paved roads but are unlikely to address the real capacity problem.

"Few executives realize the magnitude of the challenges that are about to hit them.
Even fewer are investing to reduce transportation costs, improve logistics, and gain an advantage," Stalk says.

He notes, for example, that since 1990, vehicle traffic has risen by some 41%, while miles of US "highway lanes" have increased by just 5%. Similarly, US rail traffic has increased 71% over the same period, while miles of US railroad tracks have actually decreased by 19% since 1990.

While use of air transport has dropped dramatically in the recession as companies look to reduce logistics spend, Stalk argues that it is still the smart choice for many importers, especially those with high gross margins and/or highly variable demand.

It is not only a US issue – Europe as its own challenges. The three largest European ports (Antwerp, Hamburg, and Rotterdam), at least until this year, have all been operating at well over capacity in terms of container handling, and struggle as in the US to add capacity in the face of environmental and development resistance. There are also rail issues in Europe, as differences in national gauges, electrical systems, and management practices place constraints on rail transport flow.

Ideas to Mitigate Logistics Infrastructure Challenges

Stalk makes an interesting observation – that most companies designed their basic supply chain networks or "footprints" at a time when logistics costs were falling and infrastructure was less challenged.

Today, many companies may need to relook at their entire networks, as Procter & Gamble, Kimberly-Clark, and other companies have done. But such an analysis and implementation can take lit-

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erally years – and hit companies a lot of supply chain cost in the meantime.

Stalk offers a number of ideas for improving logistics flows short of a total network redesign, or in combination with such a strategy.

- **Executives need to make sure they understand cost and time trade-offs built into current logistics systems:** It is likely many decisions were made by mid-level logistics managers, who may view trade-offs differently than executives would.

- **Look for ideas that only slightly increase costs while greatly speeding up supply chain velocity:** One example - "hot hatching," in which the shipping container holding your goods is loaded onto a vessel last and unloaded first. It will cost you more with the ocean carrier, but perhaps save several days worth of inventory.

- **For retailers and consumer goods manufacturers, consider "direct to store" shipments from factories, whether in-house or offshore:** An alternative version is "DC Bypass," where goods are allocated and shipped to a customer at an import warehouse, rather than first being sent to an importer's own DCs.

- **Reserve capacity at offshore manufacturers**: This will better help manage demand fluctuations.

- **Consider using more air shipments:** While use of air transport has dropped dramatically in the recession as companies look

to reduce logistics spend, Stalk argues that it is still the smart choice for many importers, especially those with high gross margins and/or highly variable demand.

- **Look at "nearshore" production:** For example, Mexico and Latin America in the US, Eastern Europe for European markets. While the unit production costs will be higher, the lower logistics costs and faster replenishment cycles may more than offset the increase.

"If your company can master the techniques of squeezing time and variability out of its logistics system, you can avoid some of the degenerating effects of transportation congestion and bottlenecks – and use your position as a weapon against less savvy rivals," Stalk writes in HBR.

He adds: "The transportation infrastructure challenge presents a major strategic opportunity, one that many companies will ignore because they fail to understand the importance – and the impact on profitability – of a rapid-response supply chain."