Shaving Supply Chain Costs

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Packaging innovations, near-sourcing and DC bypass are saving retailers money

Rather than wringing their hands over slumping sales and mounting inventories, a number of retail importers are moving to wring every extra penny out of their supply chain costs.

Strategies include adopting more efficient packaging and moving production closer to home markets, using more cross-docking and bypassing distribution centers, and bargaining aggressively on ocean rates.

“In this economic crisis, the few things that manufacturers can do is change the price, or change the cost,” Deep Parekh, a partner with supply-chain consultant Equus LLC, told the Coalition of New England Companies for Trade’s 13th Annual Trade and Transportation Conference in Newport, R.I., this month. “To survive the financial crisis and beat the competition, you’re going to need cash. That’s what it comes down to. Price change isn’t going to cut it any more, so they are going to have to do cost changes.”

Discount retailers such as Wal-Mart and BJ’s Wholesale Club that operate lean supply chains have managed to increase earnings through the recession by keeping their costs and prices low.

To cut costs, manufacturers must focus on reducing inventory, shaving transportation costs and finding the lowest-cost sources for production. The savings from these costs can fund growth, Parekh said.

“One way of doing this is to shift the sourcing of production to places like Arkansas, where costs are becoming cheaper than in Mexico or Brazil, where high taxes can drive up costs,” he said.

Manufacturers and retailers also can cut costs by reducing the staggering number of products they sell: There are 320 types of cookies on the market, 38 of which are types of chocolate chip. There are more than 400 types of shampoos and conditioner.

“The more you proliferate your portfolio, the more fragmented your portfolio becomes,” Parekh said.

One retailer has reduced inventory by keeping only its best-selling products on its shelves and switching its poorest-selling products over to an Internet-based service called “Just Ask.”

David Bovet, a partner with consulting firm Norbridge, warned of the high risks for retailers in the recession. Moody’s Investors Service has published the names of several hundred companies in all sectors that it considers in danger of going bankrupt in the next 12 months. The list includes several well-known New England retailers, Bovet said.

“We’re in a tough position in terms of retail in the region,” he said. “That said, never waste a good crisis,” Bovet said.

He identified two immediate opportunities for supply chain savings: putting freight out to bid and closing distribution centers. He said lower fuel costs and demand have placed ocean carriers in a weak position on bidding.

But he said the more “transformative” strategy is to rethink where products are sourced, relocating production closer to home and optimizing freight modes.
For high-tech products such as electronics, sourcing in Mexico may make more sense than China when the cost of transit time as well as freight is factored in, Bovet said.

Phil Trabulusi, senior director of engineering at CEVA Logistics, said retailers could also shave supply chain costs by redesigning their transportation packaging. He cited a footwear importer that saved $3 million a year by redesigning its packaging to accommodate 6,012 units instead of the former 5,466 units.

Finally, retail importers can use the recession to drive down ocean freight rates at a time when overcapacity has weakened carriers' bargaining positions.

At the CONECT conference, one importer of jewelry from China and India said he was astonished to find an ocean carrier he uses accepting his opening low bid for rates for the 2009-10 contract season without even trying to make a counteroffer.

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