Develop Your Scalable Canadian Supply Chain

The following paper discusses how supply chain operations need to improve efficiency and eliminate costs through evaluation of existing practices and development of smarter global supply chains. Businesses that ship to Canada have to address the added challenges of border clearance and international distribution processes.

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Executive Summary

Supply chain operations are under the microscope as businesses look to improve efficiency and cut costs. For many logistics managers, this means rethinking existing practices and identifying smarter methods to manage their increasingly global supply chains. This is especially important for businesses that ship regularly to Canada and have to address the added hurdles of border clearance and international distribution processes.

Scalability has evolved as a critical necessity for all postrecession supply chains. Scalability refers to a logistics provider's ability to ramp up – or down – service based on need. With proper scalability, businesses can adjust their logistics services and control costs based on anticipated volume. Planning to integrate scalability into the supply chain, your business needs to consider:

- **Transportation Options:** Partner with a logistics provider that can offer several alternatives for meeting your business's specific needs.
- **Flexibility:** Develop a transportation plan with your logistics provider that will enable your business to ramp up service levels during peak demand time with the ability to scale back during off-season without incurring lapses in service or unexpected charges.
- **Canadian Expertise:** The Canadian supply chain requires border clearance expertise and access to an extensive Canadian distribution network.
- **Out-of-the-Box Solutions:** Logistics providers have increasingly stepped up to meet the demands of businesses today. Among the solutions being offered:
    - *Distribution Center Bypass*: Allows your shipment to travel directly to your customer, thereby avoiding an unneeded and costly DC stopover.

- *Inbound Freight Management*: Allows your procurement team to take control of all incoming shipments from suppliers, thereby giving your business control of scheduling and costs.

- *Returns Management*: Returned merchandise can account for as much as 8 percent of total sales. Businesses are increasingly recognizing the urgency of having a logistics plan to process returns and recapture lost revenue in a secondary market.

It is a challenging time for businesses with daily negative economic reports. At the same time, businesses have used the opportunity to streamline processes and integrate more efficiency and cost savings into their bottom lines. ■

Introduction

When the National Bureau of Economic Research – the government agency charged with tracking the beginning and the end of recessionary periods – announced the most recent recession ended in June 2009, the news was startling. The economy did not appear to be on the mend. The unemployment rate stood at 9.5 percent, consumer spending had yet to increase, and GDP growth had slowed to 2.4 percent. In all, it seemed that we were destined for a slow, incremental rate of recovery.

By October 2011, the economy had not convinced consumers, investors, and businesses that it had broken free from recessionary restraints. Unemployment remained at 9.1 percent. The International Monetary Fund downgraded its forecast for U.S. growth, and the threat of inflation continued to loom.

Slow growth and stops and starts seemed to define the economic recovery. At a late-September press conference, Federal Reserve Chairman Ben Bernanke called the pace of recovery “moderate” and tried to calm the business community’s concerns about inflation by saying, “We see little indication that the higher rate of inflation experienced so far this year has become ingrained in the economy.”

To the Federal Reserve Chairman’s point, businesses seem determined to move forward. The Institute for Supply Chain Management index, which tracks the performance of several sectors of the economy, reported in August 2011 that the manufacturing sector had expanded for the 25th consecutive month and the overall economy grew for the 27th consecutive month.

Of the 18 manufacturing industries the index tracks, 10 reported growth during August 2011:

- Chemical Products
- Computer & Electronic Products
- Fabricated Metal Products
- Food, Beverage, & Tobacco Products
- Machinery
- Miscellaneous Manufacturing
- Paper Products
- Petroleum & Coal Products
- Transportation Equipment
- Wood Products

Industries that reported contraction during August 2011:

- Apparel, Leather, & Allied Products
- Electrical Equipment, Appliances, & Components
- Nonmetallic Mineral Products
- Plastics & Rubber Products
- Primary Metals
- Textile Mills

Businesses need to take a cautious approach. Economic conditions remain uncertain with every positive manufacturing or job report followed by disappointing news elsewhere in the economy. Look back at the period leading up to the recession as a time of carelessness when inventories were high, business practices went largely unchecked, and a degree of complacency existed. Businesses today must be focused on avoiding mistakes of the past and putting previous practices under the microscope to evaluate areas that need to change. ■

Supply Chain Impact

Review of supply chain processes and costs is an area of critical attention. Prior to the recession, the nation's businesses spent more than $1.4 trillion on logistics costs each year, a figure that accounted for 10.1 percent of GDP during 2007. Logistics spending fell by $45 billion during 2008, and during 2009, costs fell to $1.1 trillion and accounted for 7.7 percent of GDP. With logistics costs typically accounting for between 5 and 8 percent of revenue, transportation managers are regularly pressed to cut costs and find efficiencies.

As the following discussion makes clear, smart logistics planning can help a business operate more efficiently and reduce transportation costs. Supply chain managers are demanding accountability from their logistics partners and are no longer willing to accept a supply chain plan without thorough review of the benefits and efficiencies to their organizations. Advances in logistics management have enabled carriers to offer customized solutions that target business needs. For example:

A. Is it cost efficient to include a distribution center stop in your supply chain when your carrier can deliver goods directly to their end destination?

B. Does your business need the expense of overnight express service when the same transit time can be attained from your location using ground service?

As U.S. businesses rethink their supply chain strategies, a key resource should be their logistics provider. A logistics provider should serve as a partner enabling businesses to build the most efficient, creative, and value-conscious supply chains.thorough review of benefits and efficiencies to their organizations.

Scalability

Recessionary Impact to the Logistics Industry

The logistics industry took a tremendous hit during the recession – spending dropped by $45 billion during 2008 causing a domino effect for logistics providers. The situation resulted in lane reductions for domestic and international markets, acquisitions of smaller or less stable carriers, and a significant number of business closures. What emerged is a lean, more efficient network of providers.

In the Canadian market as many as 3,000 carriers were either forced out of business or absorbed by another carrier. The surviving carriers consolidated routes or dropped lanes that were underutilized or nonprofitable.

The shrinking of the logistics industry was not an entirely bad occurrence for U.S. businesses in need of service to Canada; it facilitated a cleansing of carriers that were not capable of competing in the marketplace.

There has been concern in the logistics industry around capacity shortage. Minimal resources to accommodate an increasing amount of volume. Carriers have expressed a reluctance to add capacity, put more trucks on the road, and hire back drivers, because of the economic outlook.

Another factor at play is the increased price of fuel. As of late September 2011, diesel prices were averaging $3.83 per gallon. While most fuel increases are passed along to consumers in the guise of fuel surcharges, smaller carriers find it increasingly difficult to keep up with the surging cost of operating their vehicles.

As a result, businesses will have to find a way to operate within the logistics industry's new, leaner framework. A key component is communication with your logistics supplier. Businesses need to be aware of their logistics provider's capacity to ensure guaranteed uninterrupted service. If your logistics provider indicates it may have to alter its service preferences, it's better to know ahead of time, so that you can either plan accordingly or shop around for another carrier.

Failure to understand and address these issues could leave your business with weakness in the supply chain.

Canadian Marketplace and Supply Chain

The recession had an impact on U.S./Canadian trade with trade levels dropping by roughly 30 percent. But since 2009, cross-border trade has rebounded strongly with surface trade rising more than 22 percent during 2010.

The Canadian market is especially profitable for U.S. products right now. While Canadians have long had an affinity for all things American, the comparative strength of the Canadian dollar postrecession gives consumers more buying power in the U.S. market. At the same time, e-commerce among Canadian consumers has risen dramatically. Statistics Canada reports that Canadians placed more than 95 million online orders during 2009, which marked a 32 percent increase over 2007 levels.

How do you rebuild your supply chain to accommodate current needs when economic clouds are on the horizon threatening to cut short the recovery?

With trade on the rise, and most manufacturing sectors showing sustained periods of growth, the question becomes: How do you rebuild your supply chain to accommodate current needs when economic clouds are on the horizon, threatening to cut short the recovery?

Build a supply chain that allows scalability – the right amount of logistics when you need them. Not every logistics carrier has the resources to offer flexibility or to work with your business to develop a customized approach to handle specific needs. Not every logistics carrier has the experience necessary to transport goods to the Canadian market, and frankly, not every carrier has the commitment to adapt to today's changing business environment.

The current postrecession, rebuilding period offers businesses an excellent opportunity to rethink their Canadian supply chain practices and to incorporate new "best practices."

As the following discussion will make clear, past practices are no longer acceptable. Businesses should dedicate themselves to ensuring that their logistics provider is a business partner – fully invested in their success and engaged in developing winning supply chain strategies for achieving maximum efficiency and value. ■

Creating a Scalable Canadian Supply Chain

Today's logistics industry has advanced over the past decade with new technology solutions for supply chain management. Following is an overview of some of the concepts that are driving today's supply chains, which can be key to your postrecession logistics practices.

Scalability: Meeting the Ups and Downs of Your Logistics Needs

The supply chain of the past consisted of a single solution to your diverse logistics needs. Gone are the days when carriers would send packages on a circuitous route that involved hundreds of miles, numerous stops, several extra days, and added fuel charges and delivery fees. In today's world, scalability and flexibility are driving forces.

Businesses are operating in an uncertain environment of unstable demand, short product life spans, changing consumer preferences, and increasingly complex supply chain demands. An experienced logistics provider will adapt to the changing environment and plan for the natural highs and lows of the business cycle. What good is a shipment of shovels sitting in a warehouse in Chicago, for example, when a blizzard is hitting New York and Boston? Or why should a carrier be surprised when a toy manufacturer has an increased capacity need during the holiday shipping season?

The ebb and flow of the business cycle – and the corresponding need for scalability in a business's supply chain – should be easy for a qualified logistics provider to address. Logistics providers today are able to pinpoint where demand exists and proactively meet that need with adequate equipment and manpower.

Scalability is also critical in helping control costs in other ways. You should review the service levels you are provided on a regular basis to ensure your business needs are addressed. Does a logistics provider offer options to meet your changing needs or are you forced into the same old one-sizes-fits-all solution? Are you forced to accept an overnight delivery charge – complete with its higher fees – even if your shipment doesn't need that premium level of service?

CASE STUDY: Purolator Helped Keep the Lights On In Wake of Hurricane Earl

Distribution capacity and technological prowess are essential to a logistics provider's ability to offer scalability. When Hurricane Earl hit the eastern coast of Canada during Fall 2010, Purolator received an urgent call from a major battery and flashlight manufacturer to have supplies delivered to the region. Because of Purolator's deep distribution network throughout Canada, and its access to routing technology, the carrier was able to transport the needed materials to the affected region.

The hurricane, which came ashore in Nova Scotia on September 4, was at one point projected to make landfall as a catastrophic Category 5 storm. Residents along the entire eastern coast of Canada spent days preparing for the storm, procuring supplies including food, water, batteries, and flashlights. When the storm finally made landfall, it caused widespread power outages that lasted for several days.

A. Knowledgeable Carrier

Your Canadian Supply Chain needs the experience of a Carrier that Knows Canada

Trade between the United States and Canada increased by more than 22 percent during 2010, compared with 2009 levels. In fact, consistent, double-digit monthly increases since late 2009 have brought the trade relationship nearly back to prerecessionary levels. U.S. businesses are increasingly looking to Canada as a source of new customers, especially given the fact that Canada escaped the recession comparatively unscathed. As businesses expand to the Canadian market, or rethink their existing cross-border supply chains, there are several things to keep in mind:

Canadian expertise is a must! Just as a U.S.-based carrier would be the logical choice for your U.S. domestic shipments, it makes sense to use a Canadian-based carrier for shipments to Canada. Not only will a Canadian carrier be more proficient at developing an efficient supply chain, but a local carrier will also understand its country's business climate, geography, infrastructure, and culture.

A Canadian carrier will also have the expertise necessary, for example, to deliver goods to regions outside of the major metropolitan areas. According to the 2006 Canadian Census, nearly 25 million people live in urban areas. This means the overwhelming majority of the Canadian population is easily reachable through traditional distribution routes. For the 8 million consumers and businesses that are not located near established urban routes, delivery options can be challenging. For example, can you guarantee timely delivery of goods and services to the remote Northwest Territories with a population density of 0.0 people per square mile, or to Manitoba with a population density of 2.1 people per square mile, or to the populations living on any of Canada's 15 populated islands?

Most U.S. carriers do not maintain their own Canadian networks or fleets and must rely on Canadian-based third parties. Often, third parties have not been vetted and do not maintain the same standards and levels of service as their U.S. partner. It is imperative that you check with your logistics provider and demand that the Canadian segment of your supply chain is handled by a carrier that (a) is well known throughout Canada; (b) offers a high degree of visibility and tracking capability; and (c) can ensure guaranteed on-time delivery.

B. Customs Expertise

Don't get stuck at the border!

Transporting goods across the U.S./Canadian border is a bureaucratic and tedious process. While many logistics providers claim to have experience with the border clearance process, many do not. Failure to successfully meet U.S. or Canadian entry requirements can result in delays, unexpected fees and penalties, and even an outright denial of entry. This can be easily avoided by taking steps to ensure that your provider has the necessary experience.

Both the U.S. and Canada maintain programs for qualified shippers that allow accelerated clearance upon arrival at the border. Those programs include the Free and Secure Trade (FAST) program, Customs-Trade Partnership Against Terrorism (C-TPAT), and CBSA's Partners in Protection (PIP). Participation in these programs is a signal to potential customers that a carrier is an experienced cross-border provider. In addition, certification as a "trusted shipper" can mean expedited clearance at the border and faster delivery to your Canadian customers.

Check to make sure that your potential carrier is a member of these qualified shipper programs. If it is not, a red flag should be raised.

C. Supply Chain Strategies

Would a DC Bypass Strategy Work for You?

Businesses are opting to streamline their logistics plan by eliminating distribution center stopovers. Distribution Center Bypass (DC Bypass) allows shipments to travel from a manufacturing site or entry point directly to the end user. For years, a standard supply chain factored in a stopover at a distribution center – a stop may have been unnecessary and that could add hundreds of wasted miles. As inventory and route management have developed, carriers are now able to eliminate the DC stopover entirely. Added benefits of a DC Bypass include:

a. Shortened transit times
b. Reduced costs
c. Better inventory management

While the DC Bypass option will not work for all – not every business can target a final destination at point of manufacture – it is at least something to consider. An April 2010 report by The Kiplinger Letter found that nearly 40 percent of all shipments currently avoid warehouses with that number expected to increase to as much as50 percent. Businesses are increasingly realizing the value of the DC Bypass solution, especially at a time when every transportation dollar counts.

If you believe that your business could benefit from DC Bypass, make sure that your logistics provider offers this option. Not every provider has the capacity to offer direct-to-end-user service. If your carrier does not offer DC Bypass, it will pay to shop around and find a carrier that can help you determine if this approach would work for you. ■

Take Control of Your Inbound Freight

Wal-Mart made headlines in Spring 2010 when it announced plans to take control of its inbound transportation. Rather than rely on inventory to arrive on trucks hired by its vendors, Wal-Mart announced that going forward it would choose its own transportation providers and require suppliers to use those carriers.

In doing so, Wal-Mart sought to achieve efficiencies within its supply chain by eliminating redundancies and taking advantage of its largess to negotiate better rates and delivery terms. For example, suppose that Wal-Mart has two suppliers in the Toledo area, a pet food manufacturer and a tool manufacturer. In the past, each supplier would have contracted with their own transportation provider and Wal-Mart would have eventually picked up the tab and suffered the consequences of any late deliveries/missed deadlines. But going forward, the same carrier will pick up shipments from both the pet food company and the tool manufacturer. Wal-Mart will see a savings by consolidating these shipments and, presumably, from negotiating a preferred rate with its carrier. While Wal-Mart is in its own league when it comes to flexing its muscle to attain favorable results, most businesses can also benefit from taking control of inbound freight.

Evaluating your inbound freight can enable your business to increase cost savings and supply chain efficiencies. A few general guidelines to determine if a management program might work for your business:

- Determine your current vendor/transportation practices: Take a look at your current vendor/supplier contracts and determine (a) how often you purchase from each vendor; (b) where the shipments come from; and (c) how much you are paying to have those goods delivered.

- Determine freight rates: Once you have an understanding of exactly what you are purchasing and where it is coming from, talk to your logistics carrier – or to several carriers to get a variety of opinions – to determine what sort of logistics plan and pricing structure would be possible if you were to combine all of your suppliers' shipments into a centralized transportation function.

- Make the decision: Compare what you are currently paying versus the cost of having a centralized management plan in place. Let the numbers speak for themselves – if it would cut costs to implement a freight management system, the savings could be substantial.

Proper Returns Management Essential to Customer Service and the Bottom Line

Any postrecession supply chain must include a solid plan for handling returns, something many businesses tend to overlook. For businesses dependent on Canadian partners and suppliers, there needs to be a plan for importing those Canadian goods into the United States.

Forbes.com estimates that $100 billion worth of goods are returned to U.S. companies each year, a figure representative of 7 percent of a company's gross sales. Even more significant, almost 60 percent of consumers say how a business handles returns is an important factor in determining if they will be a repeat customer.

Businesses are increasingly tapped into the importance of a solid returns management policy. After all, a well-run returns process can actually be a profit center. In addition to keeping customers happy, businesses can recapture component parts from nondamaged returns and use them in the manufacture of other products. Repairing or refurbishing returned merchandise and offering it for sale on a secondary market can be another profitable line of business. Critically important is having a clearly defined logistics process to guide the returns process.

For businesses with significant customer bases in Canada, proper returns management involves the added requirements of crossing the border and compliance with all associated fees and regulations. For the Canadian customer, the added border clearance processes are of little concern – the customer focus is on timely satisfaction. U.S. businesses that ignore the need for an efficient cross-border returns management system run the risk of decreased customer satisfaction. ■

Scalability

Transportation managers and procurement officers would be wise to consider the following in looking for the most efficient returns management process:

Take Advantage of Trucks Returning to U.S. for Returns Transport. A truck that travels to Canada to deliver shipments must at some point return to the United States. Obviously, the operators of that truck would prefer to have it return to the U.S. full. Logistics providers and businesses are realizing the efficiencies of using southbound trucks to transport returns back to the U.S. for processing. Even beyond that, businesses have realized the synergies of using the same provider for both deliveries and returns.

Reverse Logistics Can Be Outsourced. Regardless of the volume of returns a business receives, it is imperative that appropriate manpower be available to process all returns in a timely and efficient manner. Many companies fail to understand that how they handle returns is as important to customers as how they handle the initial sales transaction. And failure to properly manage returns can have a negative impact on customer loyalty. Every return waiting for processing represents a customer waiting for satisfaction.

For various reasons, businesses may not be in a position to designate internal resources to returns management. For these businesses, the returns processing function can be outsourced to a third-party logistics provider. A strong provider will have systems in place to ensure the proper handling of all returns, regardless of whether the return is defective and needs to be replaced, is in need of repair, has been returned for credit, or needs some other type of special attention.

Cross-Border Returns Require Regulatory Compliance and Import Fees. Many businesses overlook the added hurdles associated with cross-border returns. Southbound returns are subject to the same U.S. border clearance procedures as any other product entering the country, despite having gone through a similar review during their initial journey into Canada.

For U.S. businesses with customer bases in Canada, it is essential that any provider selected to handle reverse logistics have cross-border expertise. Cross-border expertise is a specialized service, and failure to understand the regulatory process can result in customers being surprised with egregious fees and shipments languishing at the border waiting for processing. ■

Conclusion

An April 2011 survey by the National Association for Business Economics (NABE) reported that most business economists surveyed believe that U.S. economic growth will outperform previous estimates, driven largely by gains in consumer spending, business investments and exports. “Pretty must across the board there has been a better view with regard to the economic recovery,” Bill Strauss of the Federal Reserve Bank of Chicago told Bloomberg News. The consumer sector is coming back, and we’re still looking at pretty good numbers coming from the business sector.”

While positive reports like this are welcome news, they compete against a steady drumbeat of negative data. Rising fuel prices, spiking unemployment, 1.8 percent GDP growth rate for Q1 2011, and lagging consumer confidence are doing their best to prevent U.S. businesses from shaking off the last vestiges of the recession.

This is the environment in which many U.S. businesses are making decisions about how best to proceed. Is now the time to add employees, or to expand operations, or to look to new markets, or to introduce new product lines? Amidst all of these questions is an underlying goal of keeping operating costs as low as possible and ensuring that every dollar is spent wisely and efficiently. Supply chain budgets are of particular priority since logistics costs can account for as much as 8 percent of a business’s operating costs.

As businesses put their supply chain costs and practices under the microscope, they will be pleased to realize that there are significant opportunities for efficiencies and cost savings. Businesses must be aware of these options and should talk with their logistics carrier about incorporating these components into their postrecession supply chains:

Scalability: Make sure your carrier can adjust your service contract to reflect fluctuations in your shipping activity.

Only Pay for the Service you Need: Does your carrier offer options to meet your exact delivery needs or are you forced into a one-size- fits-all solution? And does your carrier require you to agree to various bells and whistles that you may not need. Will your carrier work with you to develop a customized logistics plan that will give you exactly the service you need, no more and no less?

DC Bypass: A growing number of businesses are finding that they can cut costs and shave days off of their transit schedules by skipping a distribution center stopover. DC Bypass has significant benefits, and for many businesses it is a logical solution, but not every carrier offers this option.

Inbound Freight Management: If your business depends on deliveries of parts and materials from an array of suppliers – deliveries that have been arranged by your suppliers – it might make sense for you to take control of inbound freight management. You would select a transportation provider to handle all incoming freight, and your suppliers would work directly with that provider. Benefits of this include cost savings that would likely result from a negotiated rate, a higher degree of accountability since a carrier would answer to you (rather than your supplier) for a late or botched delivery, and a more centralized approach to delivery schedules. ■

Purolator. We deliver Canada.

Purolator is the best-kept secret among leading U.S. companies who need reliable, efficient, and cost-effective shipping to Canada. We deliver unsurpassed Canadian expertise because of our Canadian roots, U.S. reach, and exclusive focus on cross-border shipping.

Every day, Purolator delivers more than 1,000,000 packages. With the largest dedicated air fleet and ground network, including hybrid vehicles, and more guaranteed delivery points in Canada than anyone else, we are part of the fifth largest postal organization in the world.

But size alone doesn’t make Purolator different. We also understand that the needs of no two customers are the same. We can design the right mix of proprietary services that will make your shipments to Canada hassle free at every point in the supply chain.

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