INSIGHTS

What Arrives in L.A. Stays in L.A.

Distribution center bypass strategies that leverage the largest U.S. gateway

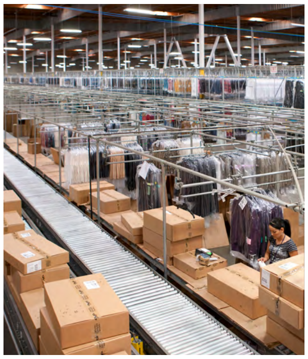
Ryder® Ever better.™

The growth and success of a retailer can be built or broken by its supply chain.

In a world where products are sourced across the globe and sold to discerning consumers who expect fulfillment anywhere at any time, the growth and success of a retailer can be built or broken by its supply chain.

As a majority of retail products are sourced in Asia and arrive at West Coast ports, mid-tier retailers who rely exclusively on centralized distribution centers may be incurring inefficiencies and limiting their growth. Routing all product to an East Coast or Midwest DC, only to bring a quarter of it back to the West Coast for store or direct fulfillment is adding unnecessary links to the supply chain.

A well-planned DC bypass strategy can leave an allocation of product on the West Coast for regional store or direct-to-consumer fulfillment. This strategy can reduce transportation and inventory carrying costs, increase speed to market, delay allocations and take pressure off existing customer distribution centers. With the help of a 3PL, retailers and manufacturers can create a customized DC bypass strategy that is right for them and can support growth.



Centralized distribution inefficient and costly for West Coast fulfillment

Many retailers established central distribution centers in the '80s and '90s to serve store fulfillment from one location.[1] Lower labor and real estate costs combined with a central location attracted many to areas like Northern Illinois, central Georgia, Kansas City, and Memphis.

Centralized distribution from those origins had served retailers well but times are changing. Shifting production to cost-effective manufacturers in China has significantly complicated the supply chain, lengthened lead times, and increased inventory costs. The West Coast is now the primary port of entry for products from Asia and 2014 and 2015 were some of the busiest years on record for the ports of Long Beach and Los Angeles.[2]

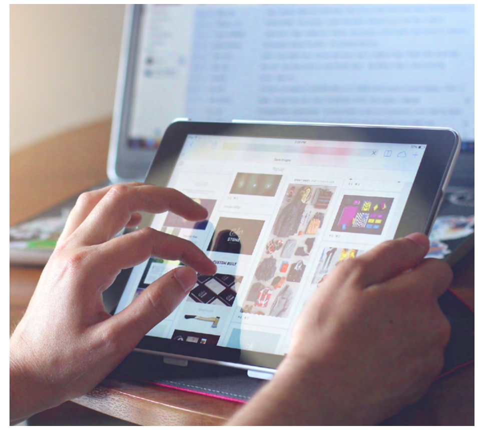
The problem is products are reaching U.S. shores more than 1,500 miles from those traditional centralized distribution centers. Long lead times can make it difficult to manage the pipeline of products from Asia to the distribution center then back out to stores and customers all around the country.

At the same time, rapid growth in ecommerce means retailers are expanding their markets. While internet sales were only 7% of total retail sales in the third quarter of 2015, ecommerce is growing at an annual rate of nearly 15%, compared to 2% for total retail sales.[3] And at least a quarter of all retail consumers live on the West Coast.

Mid-tier retailers aiming to capitalize on that growth require more flexible distribution to not only increase efficiency but to increase speed to market. It's difficult and inefficient to manage a growing customer base on the West Coast, Southwest, or Pacific Northwest from an East Coast primary DC.

While large retailers typically open more regional distribution centers, it's neither a cost-effective nor viable option for mid-tier retailers. These companies usually have insufficient volume to warrant the capital investments and lack process sophistication to manage multiple distribution centers. In many cases, these retailers are also facing excess capacity in their existing distribution centers. Nevertheless, many of those retailers are also stuck in old distribution models because it's comfortable and the way they've always done it.

Small or mid-sized retailers that try to create their own direct-to-store import models often face significant challenges. Some international shippers don't have the ability to allocate products to specific stores at the point of origin, and most retailers' individual stores usually aren't set up to receive imports. Those who can't optimize their supply chains to meet the needs of their growing markets will either incur massive inefficiencies or fail to reach their market potential.



15%

Annual growth rate of ecommerce sales in 2015.

DC bypass can increase efficiency, reduce transportation costs and time

A DC bypass strategy can offer a more efficient and cost-effective approach to fulfillment by shortening the supply chain to West Coast stores and consumers. The strategy saves time and money by cutting out unnecessary links in the supply chain and reducing the path from origin to store or direct to consumer. The strategy can reduce "touch" and operational infrastructure required to move those products.

Instead of trucking goods all the way across the United States only to bring them back to the West Coast, **retailers can use cross-docking and keep a portion of their inventory in the Los Angeles/Long Beach area.** This can save up to three weeks on fulfillment and eliminate the need for expensive air freight to meet last minute store orders on the West Coast.

The strategy can also reduce cycle time and overall inventory levels as well as minimize pressure on overflowing central distribution centers, a common problem for mid-tier retailers experiencing moderate growth. Eliminating a link in the system can also reduce risk of outages or product damage.

In addition, the **shorter origin-to-market time enables retailers to respond more quickly to changing consumer demands,** a significant benefit in fashion, apparel, and seasonal merchandise. Being able to wait to make distribution decisions at the last minute gives them the ability to split loads on the West Coast, instead of having to make the allocations before containers leave Asia.

A bypass strategy can also increase efficiency by putting shippers into a change of mode from intermodal containers to 53-foot trailers. Products that are going the longer distances can often be allocated on trailers to net additional transportation savings. Retailers can also improve their cross-docking efficiency by collaborating with suppliers, realizing the benefits to trading partners, integrating advanced shipment notifications, and optimizing material handling systems in a more holistic way.[4]

Creating a custom bypass strategy

Establishing a DC bypass strategy through a 3PL offers the retailer the experience and flexibility to optimize its supply chain. Ryder works with DC bypass clients to learn more about the supply chain objectives and strategies of their organizations. Experts perform an extensive analysis of sourcing, geographical demand, and current distribution channels along with timing, inventory flow, transitions and plans to get products to market. The company then develops a solution using their West Coast distribution assets to get products where they need to be according to the customers' needs, all with the goal of cutting waste and optimizing the supply chain.

Customers can engage in a range of strategies, from a partial bypass to a full bypass of the central distribution center. Gateway bypass actions can start by simply converting inbound ocean containers into two outbound 53-foot trailers. On the other end of the spectrum, a full DC bypass strategy can even eliminate the need for central distribution centers.

Retailers can even use multiple bypass strategies for individual lines of business. DC bypass can be especially beneficial for products with high unit values and for seasonal products. Some retailers and manufacturers have even eliminated central distribution centers using this strategy.

Because there are risks and challenges in implementation, retailers require an experienced 3PL that specializes in DC bypass strategies and can ensure a responsive and effective replenishment process. A DC bypass can simplify one aspect of a supply chain while creating complications elsewhere so the retailer needs the right IT infrastructure to accurately forecast demand and engage in precise delivery. A bypass initiative that is not effectively managed can inundate stores with too much inventory or result in out-of-stocks. A high level of cooperation is required between the manufacturer, the 3PL and the retailer.

Ryder has the infrastructure to support any level of a DC bypass strategy and serves the ports of Los Angeles and Long Beach with eight facilities. These facilities use automated induction and high-speed conveyors to optimize transloading and sorting by destination. Nearly 4 million square feet of storage also offers ample space to combine inbound freight with replenishment inventory to support store and direct-to-consumer operations.

Ryder's West Coast DC bypass assets include transloading and cross-dock facilities near major port and airport locations, RF scanning capabilities, integrated solutions from pier to customer, and complete order visibility from pickup through delivery. The experience and assets offer the flexibility, even during seasonal peaks, to use space and flex up or down as needed with a DC bypass model to distribute directly from the West Coast.

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[1] https://jll.com/Research/eCommerce_boom_triggers_transformation_in_retail_logistics_whitepa per_Nov2013.pdf
[2] https://portoflosangeles.org/newsroom/2015_releases/news_011615_TEUs.asp
[3] https://census.gov/retail/mrts/www/data/pdf/ec_current.pdf
[4] http://cognizant.ch/InsightsWhitepapers/Improving-Cross-Docking-Efficiency-in-Four-Key-Areas.pdf

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Ryder System, Inc. (NYSE: R) is a leading logistics and transportation company. It provides supply chain, dedicated transportation, and fleet management solutions, including warehousing and distribution, e-commerce fulfillment, last-mile delivery, managed transportation, professional drivers, freight brokerage, leasing, maintenance, commercial truck rental, and used vehicle sales to some of the world's most-recognized brands. Ryder provides services throughout the United States, Mexico, and Canada. Ryder is regularly recognized for its industry-leading practices in third-party logistics, technology-driven innovations, commercial vehicle maintenance, environmental stewardship, corporate social responsibility, world-class safety, and security programs.

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