From 'Just-in-Time' to 'Just-in-Case'

BY WILLIAM ARMBRUSTER

Contingency plans don't always come cheap, but some view them as necessary in today's unstable environment

THE TURBULENT EVENTS of the past two years have been a supply-chain Armageddon for logistics managers.

Starting with the Sept. 11 terrorist attacks, the logistics industry has had to cope with a series of unexpected events: last fall's West Coast port shutdown, this year's SARS epidemic, last spring's strike against Evergreen Marine Corp. at East Coast ports and, most recently, the blackout that affected much of the northeastern United States and Canada.

"We're all thinking, 'What next?'" said Vince Gulisano, senior vice president of global sales, marketing and solutions engineering for APL Logistics.

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While just-in-time remains the dominant mantra for executives seeking to minimize inventory costs, "just-in-case" has increasingly entered into their thought processes as they seek to protect the integrity of their supply chains in the event of a terrorist incident at a major seaport or some other disaster.

Third-party logistics providers and corporate logistics directors may not use software as sophisticated as that used by the Pentagon in war-games planning, but they increasingly are thinking of ways to bulletproof their supply chains so they can continue to operate in the event of a serious disruption – and in as cost-effective a manner as possible.

Indeed, the biggest criteria for logistics managers in choosing locations for their distribution centers and designing them is the cost-benefit analysis. No one wants to make huge investments in facilities and/or equipment that may never be used. On the other hand, they don't want to be caught short if, for example, there's a power disruption.

Many warehouses are so critical to the missions of their operators and customers that they have back-up generators. That's especially the case for facilities serving customers with high-value products such as high-tech equipment and pharmaceuticals, as well as for 3PLs' headquarters and data centers so that they can at least maintain the flow of information to their customers, even if the physical distribution hits a snag.

But even if you have a back-up generator powered by diesel fuel, you have to determine how much fuel you want to keep on hand, said Steve McNeal, director of properties for TNT Logistics. "If you're in a crisis, you can't necessarily count on an emergency delivery," he said.

> "Nobody wants to put additional *capital infrastructure on their books without an appropriate return on investment."*

Last month's blackout illustrated the vulnerability of supply chains to unexpected disruptions. APL Logistics had to go through Herculean efforts to ensure that product was delivered to one major client in connection with a big 100th-anniversary promotion, Gulisano said.

While the blackout created headlines worldwide, its impact on supply chains paled in comparison to that of the West Coast port shutdown, sparked when the Pacific Maritime Association locked out dockworkers during contract negotiations with the International Longshore and Warehouse Union.

With the debacle fresh in their minds, many shippers this year diverted more of their Asian imports to all-water services through the Panama Canal. They were quickly hammered in late May by a four-week strike at East Coast ports by members of the International Longshoremen's Association against Evergreen. Once again, thousands of containers were stranded, costing shippers millions of dollars.

Now, shippers and logistics providers have to beware the possibility of a shutdown at Atlantic and Gulf ports when the ILA contract expires on Sept. 30, 2004.

So what can shippers do to protect themselves, while also controlling costs? Maersk Logistics, for one, has chosen to concentrate its distribution centers close to ports. One reason for doing so is to reduce the cost of draying containers to and from the ports, said Anthony Chiarello, president of Maersk Logistics USA.

The only event in recent years to have a serious impact on Maersk Logistics was the West Coast port shutdown. But Operation Safe Commerce, an initiative driven by the Department of Homeland Security in response to terrorist concerns, could have "a pretty profound impact," depending on the final guidelines, Chiarello added.

One way shippers can prepare for supply-chain disruptions is by using logistics providers with multiple warehouses. That may mean spreading inventory around instead of concentrating it in one or two facilities.

But most people don't want just-in-case inventory. "In today's economy, it's not a financial option," said Carol Havis, director of engineering and supply-chain solutions for Menlo Worldwide. But, she added, "Everybody wants their supply chain designed so it's agile and flexible. From the customer perspective, rerouting should be transparent," she said.

USCO Logistics, a subsidiary of Kuehne & Nagel Inc., prides itself on its huge North American warehouse network. As with other warehouse operators, many of USCO's facilities are dedicated to a single client, while others are shared warehouses open to multiple users. USCO gives shippers the opportunity to move their goods through multiple warehouses, allowing them to minimize their costs.

And that's the bottom line. As Dave Mabon, USCO's vice president of sales, puts it: "Nobody wants to put additional capital infrastructure on their books without an appropriate return on investment." ■

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