PORT PROGRESS

Retail industry will be feeling the effects of the West Coast slowdown for months

by CRAIG GUILLOT

While the labor dispute at West Coast ports is officially over, it's still not clear sailing. The slowdown was one of the worst in recent history. Retailers missed shipments of holiday merchandise, U.S. factories closed for lack of imported parts and agricultural exports rotted on the docks.

Port officials estimate that it will take until sometime this month to work through the backlog of shipments, and the tentative contract agreement is subject to a ratification vote before it becomes final. Retailers may feel the impact through much of 2015: Consulting firm Kurt Salmon projects the slowdown could cost the industry $7 billion.

After nine months of port troubles and negotiations between the International Longshore and Warehouse Union and the Pacific Maritime Association, a deal was reached near the end of February. The new contract officially ended the standoff at 29 West Coast ports, but NRF Vice President for Supply Chain and Customs Policy Jonathan Gold says it's still "going to take months to get back to normal.

"The recovery could take up to three months to clear out all the [excess traffic and imports] so the impact is clearly still there," he says. "And the congestion and slowdown caused significant impacts to industries that go beyond retail."

Few retailers have publicly discussed supply chain issues, though shareholder conference calls have provided some insight. Ralph Lauren Chief Financial Officer Christopher Peterson said the company was relying more on air freight and routing more shipments to the East Coast. Toy brand LeapFrog said the slowdown delayed holiday shipments of its tablet computers; at one point, home décor importer Softline Home Fashions had $800,000 worth of merchandise on ships waiting for transport to Walmart, J.C. Penney and Bed Bath & Beyond.

Levi Strauss & Co. President and CEO

Charles Bergh said on a conference call in February that "delays are now more volatile and unpredictable, which makes it hard for us to manage and plan our business."

MAINTAINING FLEXIBILITY

Retailers who prepared for the slowdown by bringing cargo into the country early, shifting shipments elsewhere or activating other contingency plans had relative success, says Rich Thompson, managing director and global leader of supply chain and logistics solutions at consulting firm Jones Lang LaSalle.

Brian Bourke, vice president of marketing for global logistics firm SEKO, says retailers who were ahead of the curve and able to book in advance did so with the expectation that a typical 25-day transit time could take 60 days. While the rush to alternate ports on the East Coast or Gulf Coast seemed like a smart move, he says the volume of importers doing so increased congestion at those ports.

"Many retailers might have been asking for alternative solutions but saw there wasn't any space on ships going to the Gulf Coast or East Coast," he says. "There has been a huge spike in demand."

One particular option that has been working well for SEKO clients is a sea/air combination that involves bypassing the traditional West Coast ports and shipping products out of Asia to Dubai. Once in Dubai, cargo is then air freighted to New York or Chicago and sent around the country via ground transportation.

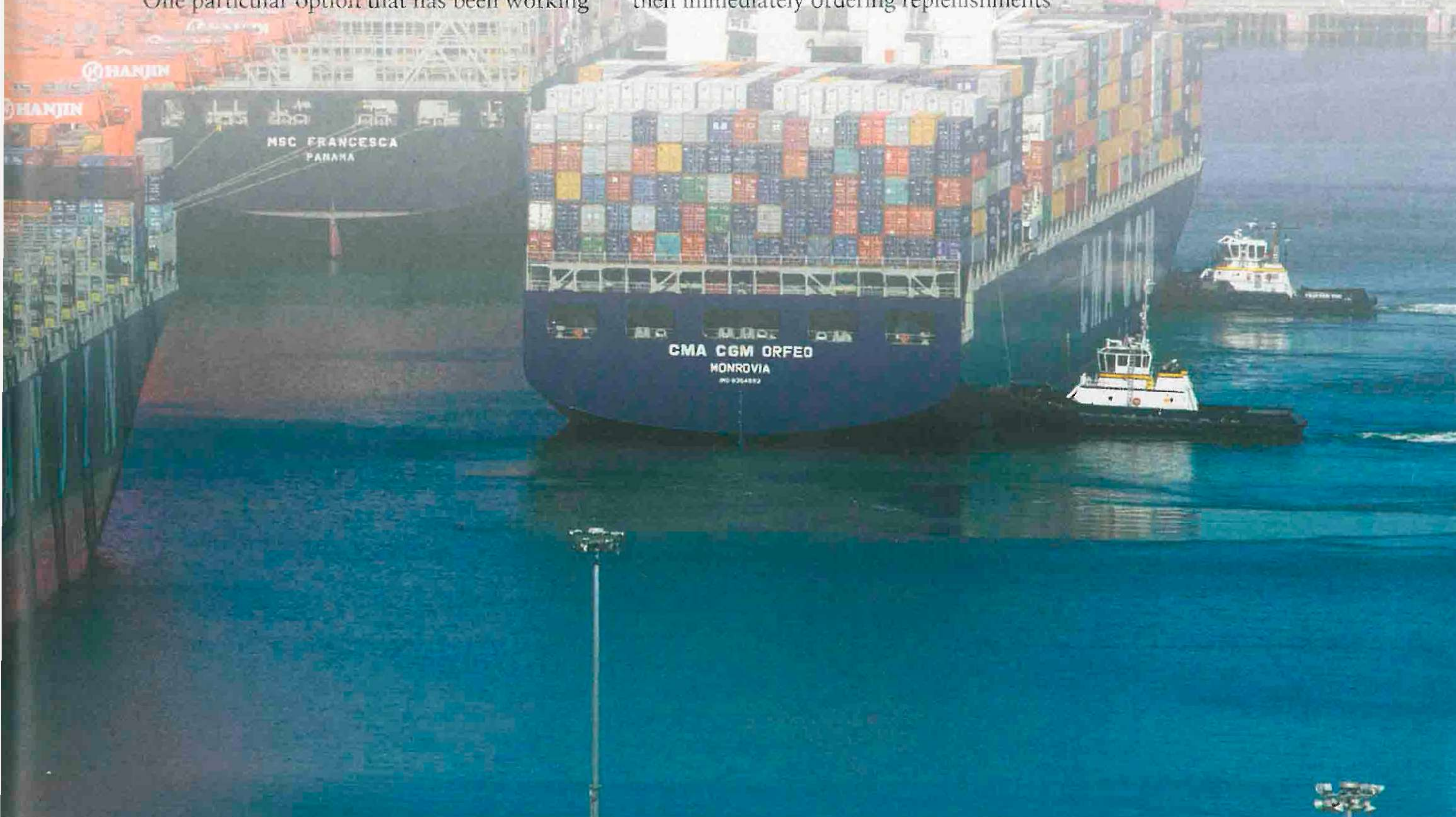
"The benefit is that the transit time is closer to 15 days than 60 days," Bourke says.

Eric Souza, director of global forwarding marketing for UPS, says his company has helped clients use a variety of transportation methods and options. One of the most effective solutions has been to order early and move shipments to other ports, though that option adds congestion at other ports and increases the cost of shipping from Asia to an East Coast port.

For the most critical items, UPS helps clients evaluate other options based on the value of the goods, size and other characteristics. "It's ultimately about helping them not lose that sale. You have to get the product there at the right time in the right way," Souza says.

Mark Burstein, president of research and development and sales at supply chain management firm NGC Software, says some retailers have been air freighting their initial shipments, then immediately ordering replenishments

Consulting firm Kurt Salmon projects the slowdown could cost the retail industry **$7 billion** by the time the ripple effects work their way through the system.



via ocean freight. Others are shipping from Asia and having orders packed for distribution there, so that when they hit U.S. ports, they can immediately be sent where they are needed.

"There are usually about three weeks of transit time from a port to a distribution center to a store," he says, "so it saves some time."

MINIMIZING RISK

NRF President and CEO Matthew Shay says it's important to not only clear out the current port congestion but also assure the situation doesn't happen again.

"We must develop a better process for contract negotiations moving forward."

— NRF President and CEO Matthew Shay

"We must dedicate ourselves to finding a new way to ensure that this nightmare scenario is not repeated," Shay says. "We must develop a better process for contract negotiations moving forward."

For retailers, it's more about what they can do to prepare for the next slowdown. Burstein says retailers need to take a closer look at not just suppliers, but how and where they get their materials. He says many retailers resorted to doing "whatever it took" during the slowdown to get products on shelves, with the view that giving up some profit was better than not having an item in stock.

"A lot of retailers would advertise orders even before they put them on the boat and they would look at what their expected landing was based on delays," he says. "They even went as far as air freighting those goods, because you can't run an ad and not have product in-store."

Moving forward, the growing shortage of truck drivers could become a major challenge: During the recession, the labor pool was able to meet the needs, but the American Trucking Association says the industry is currently short 35,000-40,000 drivers and that the shortage could grow more severe in coming years. It could lead to higher per-mile costs and delays in trucking products across the United States.

Bourke says the slowdown on the West Coast forced a number of owner-operators and mid-sized trucking companies out of business. New hours and service rules have also affected the available supply of trucks.

He doesn't forecast any mass exodus from West Coast ports, but Bourke does expect retailers to reduce their reliance on the region. While New York is a viable option, other ports along the East Coast and Gulf Coast will likely see strong growth in the coming years.

Bourke says many of these ports are dredging, building warehouse space and preparing to accept the larger ships that will soon arrive as the result of the Panama Canal expansion. Once the wider canal is open in 2016, it will allow more shippers the option to bypass West Coast ports and go straight to the East Coast.

A 2014 report by Jones Lang LaSalle noted that, of the 13 seaports ranked in its index, West Coast volumes were 7 percent below their 2007 peak levels, while shipping volumes on the East Coast were up 19 percent.

The March Global Port Tracker report, conducted monthly for NRF by Hackett Associates, found that West Coast ports' share of U.S. cargo fell from 64 to 55 percent as of this January after shippers diverted goods to the East Coast.

Yet these newer port options could come with longer transit times. Logistics firm IMS Worldwide says transporting a container from Shanghai to New York via the Panama Canal would take 36 days, while shipping to Los Angeles and overlanding via rail would only take 25 days.

Bourke says all these changing options are ultimately good for retailers who want to find what works best for their supply chains.

"These things were already happening and companies were looking at their alternatives, but this is going to accelerate those plans for many," he says. **STORES**

Craig Guillot is based in New Orleans and writes about retail, real estate, business and personal finance. Read more of his work at www.craigguillot.com.