Getting From "Me" to "We": Creating a Shared Infrastructure for Product Distribution

Logistics Management

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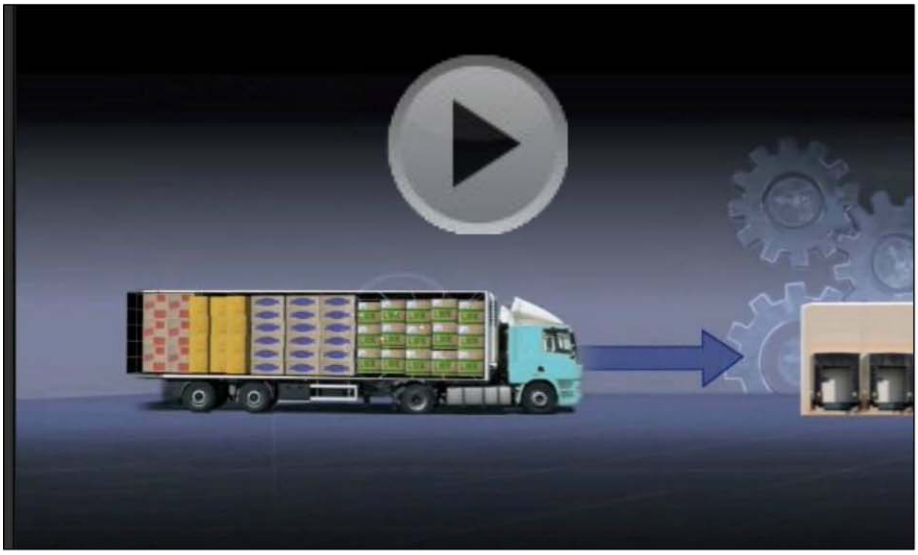

Check out this video on the future of collaborative distribution.

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Logistics MANAGEMENT

welcome

Getting from "Me" to "We"

As we've been reporting in the pages of *Logistics Management*, collaboration between shippers and retailers is no longer merely an option—it's become a virtual necessity, and a forward-thinking approach is now vital to meet this new reality.

We've certainly been reading more about how logistics operations are benefiting from collaborative distribution, an environment where consumer goods manufacturers share warehouse and truck capacity for product destined for the same DCs.

When put into practice, collaborative distribution eliminates redundant warehouse space as well as nearly identical surface transportation routes run by partially filled trucks. In turn, participants realize significant cost savings by dramatically lowering identical and often redundant logistics activities

Over the next few pages, *Logistics Management* and Kane Is Able offer logistics professionals four editorial features that function as a playbook for the deployment of a collaborative distribution strategy. It's our hope that this special edition will open minds to the power of collaborative distribution and lead your logistics operations to a more efficient future.

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With Retail Consolidation, we can save these brands up to 35%.

We're the Retail Consolidation specialists.

Think about it: consumer products wind up in the same shopping cart, whether it's at a grocery store or mass retailer. So why can't they be stored and shipped together?

KANE's Retail Consolidation Program brings together middle-market manufacturers to share warehouse space and consolidate shipments moving to the same customers. Consolidated shipments mean fewer trucks on the road and reduced carbon emissions. Best of all, it means we can cut your logistics costs by up to 35%! So, if you want a better way to get your goods from factory floor to store shelf, remember: Kane Is Able.

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Getting from "Me" to "We": Creating a shared infrastructure for product distribution

The biggest breakthroughs in supply chain efficiency will come from companies working together to store and ship the same volume of products using far less energy. However, that will require a shift in thinking—and a willingness to change.

By John D. Schulz, Contributing Editor

"I can't understand why people are frightened by new ideas. I'm frightened by the old ones."
—John Cage, American composer

Change is coming to the way consumer goods manufacturers distribute products to retailers. Simply put, today's methods of operating separate, disparate lines of supply, insulated and isolated from each other, are not sustainable.

Collaboration between shippers and retailers is no longer merely an option—it's become a virtual necessity, and a forward-thinking approach is vital to meet this new reality.

The biggest breakthroughs in supply chain efficiency will not come from the collective efforts of individual companies working separately. They will come from companies working together to store and ship the same volume of freight using far less energy. However, that will require a shift in thinking, and a willingness to change.

Today, consumer product companies manage their own discreet supply lines to retail customers. The problem, and the opportunity, is that thousands of other companies are storing goods nearby and shipping them to the same regions of the country, often to the exact same customers.

Company-centric strategies, while they might be easier to manage, breed inefficiency. As logistics professionals, we must begin to view warehouse and freight capacity as more of a shared infrastructure.

It's more "me" than "we" today

Imagine, for a minute, the delays and disruptions to everyday life if every commuter in and out of New York City decided to operate their own vehicle to get to work. It's unthinkable. Mass transit, of course, solves for this problem. But there is no mass transit equivalent for the tens of thousands of companies headed to the exact same retail distribution centers.

"The current model for consumer product distribution is outdated and out of sync with today's focus on collaborative and sustainable logistics practices," says Gary Griffith, senior vice president of business development at Kane Is Able (KANE), a leading third-party logistics provider (3PL) based in Scranton, PA. "We must change our mindset from 'me' to 'we' when developing strategies for efficient product distribution."

WE is powerful.

We see it in our neighborhoods when four neighbors pool their money to buy power tools that each will use just a few times a year. Individually, they save hundreds as they reduce

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their capital purchases by 75 percent.

We see it in the workplace when co-workers car pool. Gas savings alone top $2,500 per year, not to mention the benefits of extended vehicle life, reduced road congestion and pollution.

We see it in societies when one person's vision (think Ghandi) inspires hundreds, then thousands, then millions to incite change.

And yes, we see it in supply chains when shippers decide to co-locate inventory and consolidate outbound LTL freight with other shippers to create fully-loaded truckload shipments that cut costs up to 35 percent.

But collaborative approaches are more the exception than the rule. Today, ME dominates. The need to shift to a more collaborative model is driven by financial, environmental and market factors. Shippers can reclaim literally millions of dollars in distribution costs currently lost through today's company-centric approaches. These same companies are under pressure from the community and their boards to drastically reduce CO2 emissions. Collaborative shipping with planned consolidations is a fast, painless means to a more sustainable future.

If these benefits were not enough to drive change, the current state of the freight transportation industry could make collaborative distribution a practical necessity. Truck capacity growth is at a standstill, truck drivers are difficult to find and retain, driver pay is rising, and fuel is expensive. We address all of these market pressures with collaborative strategies that move the same volume of goods in fewer trucks.

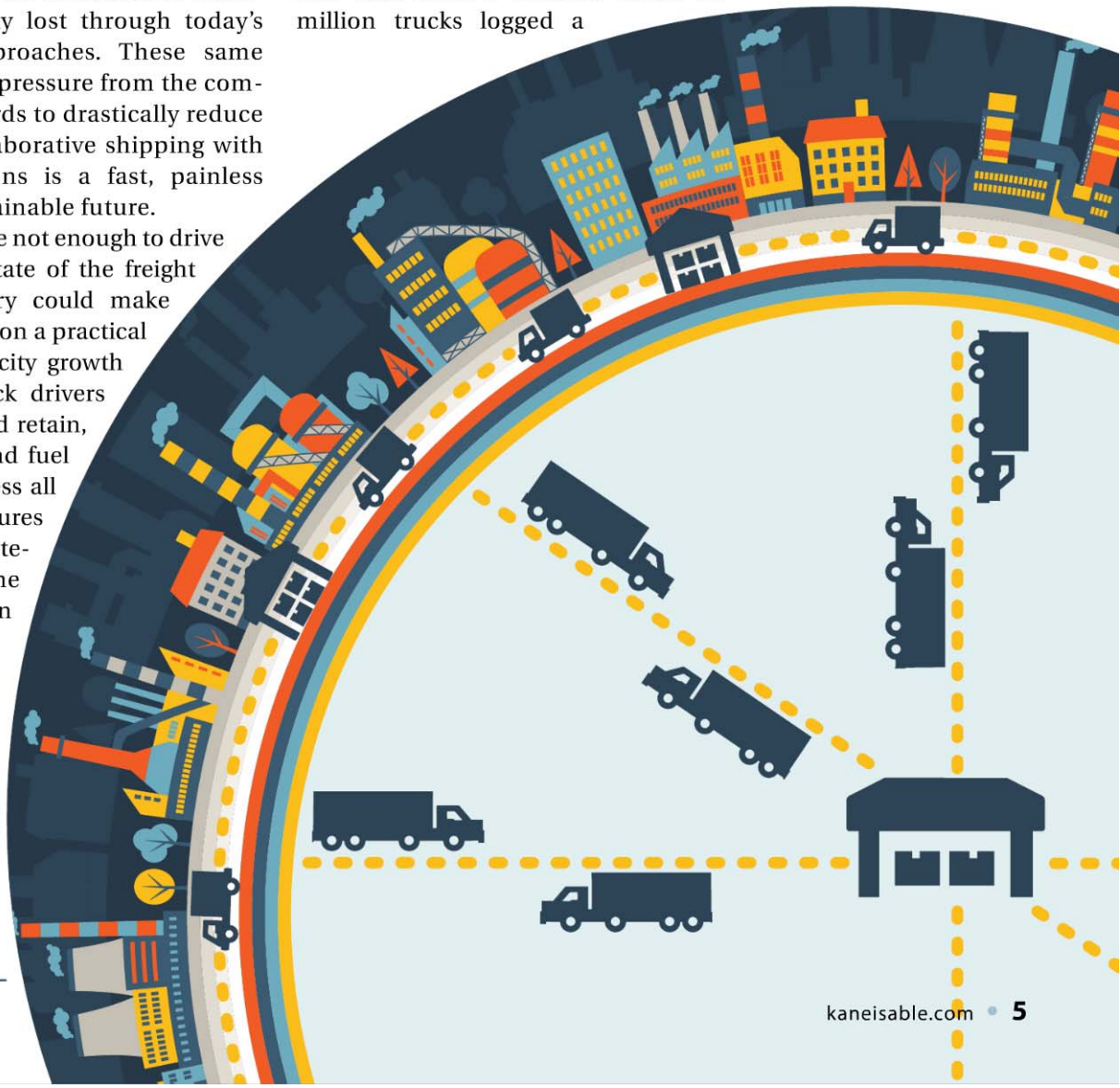
Consider these few pages as a guide to how we can make a fundamental shift in how retail products get to market. We'll explain how to get from "me" to "we" and then share an example of a world-class company already reaping substantial savings through improved collaboration.

How collaborative distribution works

In a collaborative distribution environment, consumer goods manufacturers share warehouse and truck capacity for products destined for the same distribution centers (DCs). This eliminates redundant warehouse space and nearly identical surface transportation routes by partially filled trucks.

When that happens, there are game-changing cost savings through the dramatic lowering of redundant logistics activities. There's also much less fuel usage, reducing global greenhouse gas emissions by decreasing carbon footprints.

According to the American Trucking Associations, there were 32 million trucks in all classes on the road last year. Of those, 2.3 million were Class 8 vehicles. Those 32 million trucks logged a



total of 421 billion miles, with Class 8 trucks going 120 billion miles.

So, clearly there's a lot of capacity out there. What's needed is smarter and better equipment utilization. Experts say that the quest for better equipment utilization can be the savior here, and the basic principle is pretty simple: getting more stuff into the same size box.

Better capacity utilization reduces the number of required freight runs. According to recent research from Cnergistics, 15 percent to 25 percent of U.S. trucks on the road today are empty. Even for those trailers that are not running empty, some 36 percent of capacity is underutilized.

Capturing just half of this underutilized capacity would cut freight truck emissions by 100 million tons per year, or about 20 percent of all U.S. freight emissions. That, in turn, would reduce expenditures on diesel fuel by more than $30 billion a year, according to research by Meller, Ellis and Loftis: "Quantifying the Effects on Sustainability and Profits When Shifting to Interconnected Logistics Systems."

Empty miles were an annoyance when fuel was $1.50 a gallon. At $4 a gallon, empty miles are an absolute killer to everyone's bottom line.

"To meet retailer requirements for smaller, more frequent shipments, suppliers are forced to utilize higher-cost, less efficient, less-than-truckload (LTL) freight," Griffith explains. "The result is lots of half-empty trucks running side-by-side on the highway, all heading to the exact same retail distribution center."

At the very least, adds Griffith, these products should be staged and delivered from collaborative distribution campuses, where multiple manufacturers store products that share the same grocery and mass retail customers.

Third party logistics providers are the logical choice to manage this shared infrastructure and coordinate the outbound consolidation. The strategy, happening today on a small scale, can shave as much as 35 percent off distribution costs and drastically reduce trucks miles and carbon emissions.

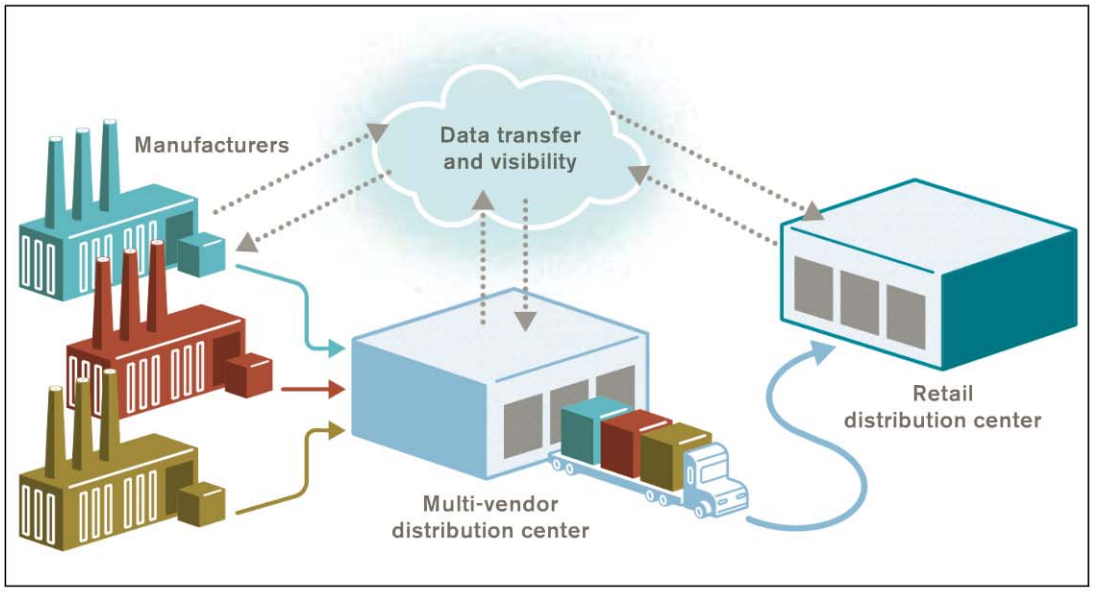
There are two essential ways to move forward with collaborative distribution, one driven by manufacturers and the other by retailers.

STRATEGY 1: Manufacturer-driven collaboration

This involves manufacturers—typically small to mid-sized companies who don't have the volume to ship in full truckloads—working with like manufacturers to consolidate inventory and freight shipments.

Currently, most of these manufacturers sort their goods in a company-run or 3PL warehouse, ready to be sent, as needed, to the retailer's DC or directly to the store. Because almost no store or DC is large enough to need an entire truckload, these shipments move as more costly, LTL freight.

Under the current system, each supplier is only interested in its own supply line to the retailer. It's highly inefficient—like taking a taxi to the airport only to discover that five of your neighbors were going at the same time to the same airport.



Had those shipments arrived together in the same truck, freight costs would shrink and receiving efficiency at the retailer's DC would skyrocket.

Manufacturers do

not have to wait for retailers to trigger shipment consolidation. For instance, in 2011, chocolate manufacturers The Hershey Company (Hershey's) and Ferrero formed a joint warehousing, transportation, and distribution initiative. The two companies are working together to maximize corporate social responsibility efforts with the expectation of reducing carbon dioxide (CO2) emissions and energy consumption in warehousing and freight, with fewer vehicle journeys needed to move products to customers.

"Collaborative supply chain operations are a growing trend across industries as companies seek to fully leverage their logistics infrastructure," said Hershey's president and CEO John Bilbrey at the time of the announcement.

The Hershey's-Ferrero alliance does not encompass manufacturing, selling, or marketing activities. But it's a hint of the savings that are available from sharing a distribution network. Still, such direct collaboration between manufacturers is rare. The real opportunity for collaborative distribution among smaller manufacturers is to seek a 3PL that serves like companies that ship to the same retailer base.

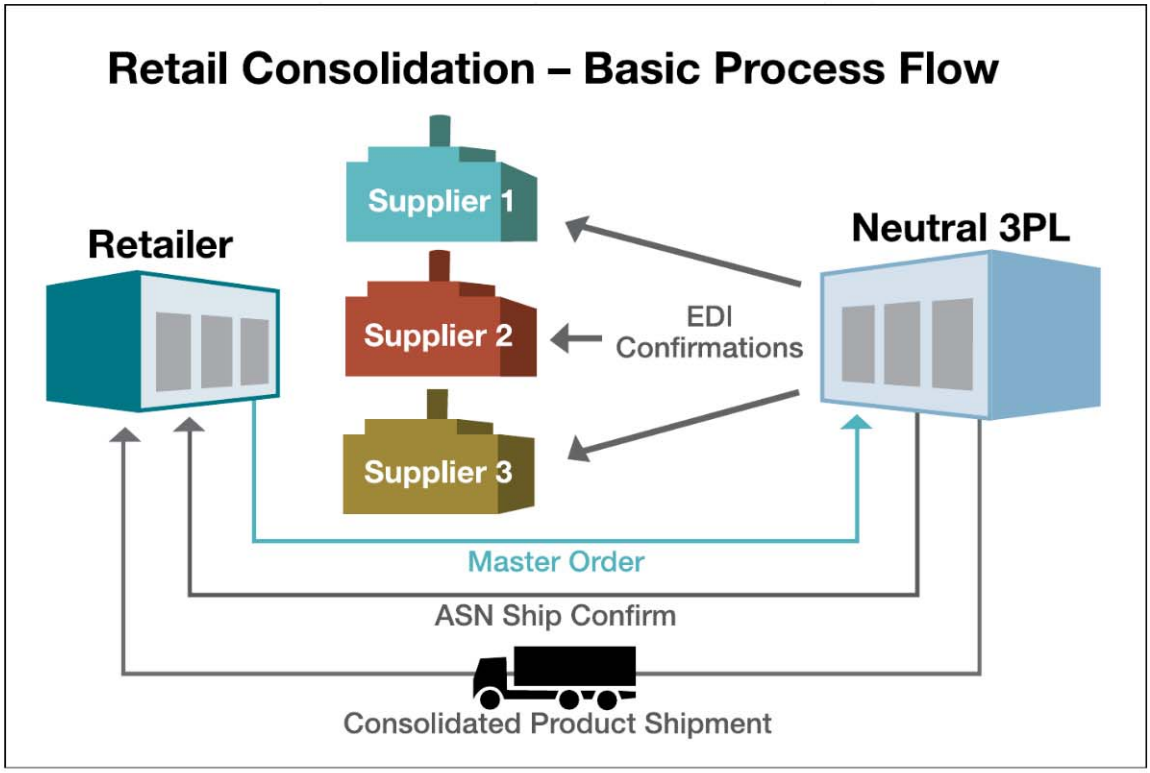
In a shared distribution campus, manufacturers reduce costs by sharing storage costs and paying only for their share of a less expensive truckload move. Retailers win by receiving timely deliveries from multiple suppliers on one truck. And we all win through less use of fossil fuels and a more efficient use of transportation resources.

STRATEGY 2: Retailer-driven collaboration

In a retailer-driven collaborative model, not only would different loads destined for the same location be consolidated to achieve trucking efficiency, this collaboration would start further "upstream" during the buying process.

Today, retail buyers work independently, creating massive logistics inefficiencies associated with an uncoordinated inbound supply chain. Mustard arrives on Tuesday, ketchup on Wednesday, and paper towels on Thursday, and often, they originate from same geographies.

In the new model, instead of letting buyers order separately from each supplier shipping LTL, the retailer would instruct buyers to create consolidated orders for suppliers to maximize TL shipments into the distribution centers. A neutral 3PL, running a collaborative distribution campus, would process orders for vendors in the program and ship them out as a single shipment, equitably parsing out transporta-



tion costs based on the percent of the consolidated load each supplier's product represents.

In this new role as warehousing and freight matchmakers, 3PLs would process the consolidated orders to send goods out in fewer, fuller truckloads. It would be seamless for the retailer, who would be ordering inventory from just one source, the neutral 3PL. That 3PL would give each supplier the ability to track its own freight in a secure environment.

"Walls exist between companies, but they also exist inside retailers' operations," says KANE's Griffith. "In the future, for collaborative distribution to reach its full promise, retailers must be the catalysts."

Collaborative Distribution Benefits

Manufacturers	Retailers	Environment
• Lower inventory through improved data and better coordination with retailers • Reduced freight costs through cost sharing and converting LTL to TL moves • Reduced chargebacks as replenishment orders are moved on a reliable schedule	• Reduced inventory through more reliable delivery schedule • Improved in stocks • More efficient receiving • Reduced dock congestion • Lower product costs linked to suppliers' reduced overhead	• Reduced truck miles • Fewer trucks on the road • Reduced CO2 emissions

Benefits you can't ignore

In the past, when logistics managers talked about savings, they tended to be only be interested in their own piece of the pie. But collaborative distribution doesn't work that way. In order for everyone to benefit, everyone must participate. When that happens, cost reductions as much as 35 percent for product distribution are well within reach. The chart shown-breaks down the benefits.

To achieve these results, manufacturers must extend their thinking beyond individual lines of supply. Retailers will need to think more constructively on how their goods are delivered. And all stakeholders will have to start to communicate more and improve those lines of contact.

Collaborative Distribution: Sun-Maid's sweet solution

These changes are not theoretical. They're happening today and companies are achieving substantial savings from collaborative arrangements.

When Sun-Maid Growers of California, the largest raisin and dried fruit processor in the world, sought a 3PL distribution partner for the Mid-Atlantic and Northeast regions, a key criterion was the provider's ability to coordinate a freight consolidation program. The result has been a 62 percent reduction in Sun-Maid's outbound freight costs for its consolidated shipments vs. non-consolidated moves in these regions, according to John Slinkard, vice president of supply chain services at Sun-Maid.

"We are a medium-sized company that needs to ship with other companies to minimize higher-cost LTL shipments," says Slinkard. "We found many 3PLs that would consolidate freight if they saw an opportunity, but only one, KANE, had a formal consolidation program."

The key is to establish a distribution campus with many like products that move to the same retail customer base. That allows shippers like Sun-Maid to plug into an existing, 3PL-operated distribution infrastructure, and allow the savings to flow.

KANE immediately entered shipment requests from Sun-Maid's customers into its "ReCon" system that automatically builds full TL shipments based on ship-to points and requested arrival dates (RAD). Sun-Maid pays only for its portion, by weight, of the TL shipment that its products represent.

KANE's consolidation solution is unique from many other 3PL-operated programs in that it adheres strictly to RAD requirements, Slinkard says. That's because many 3PLs lack KANE's large concentration of similar consumer goods customers, causing them to have to play an expensive waiting game in order to build a full TL move.

Sun-Maid and KANE share the belief that retailers and distributors must be involved thoroughly in order to achieve maximum value from load consolidation. It's this "upstream" participation that turns simple load consolidation into a full-fledged supply chain collaborative strategy.

"KANE has been proactive in trying to push

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more retailers to look at order consolidation," says Slinkard. "I've worked with them on this effort because it's good for Sun-Maid and it's where the industry needs to go."

The addition of just one customer to the program can increase Sun-Maid's consolidations by 5 percent to 10 percent, bringing down its cost per hundredweight (CWT). "And these savings drop straight to the bottom line," Slinkard says.

"The landscape in logistics will be very different in five years," adds Slinkard. "Collaboration will go from a 'wish list' item to a core strategy across the consumer goods industry."

In the past, when logistics managers talked about savings, they tended to be only interested in their piece of the pie. But collaborative distribution doesn't work that way. In order for everyone to benefit, everyone must participate.

Getting to "We"

The current, company-centric model of consumer product distribution is not sustainable.

Companies can't afford it. Small and mid-sized firms need to look at logistics as a shared service, a model which is known to reduce costs while maintaining or improving service quality.

Sharedholders won't stand for it. The smart ones understand that, while products do compete on the store shelf, they *don't* compete in a warehouse or a truck trailer.

And our planet can't support it. The projected increase in freight emissions through 2040, if left unchecked, will be 190 million metric tons. According to the Environmental Defense Fund, that's the same greenhouse gas impact as adding 39 million passenger vehicles to the roads.

Collaborative distribution campuses, which bring together like shippers to co-locate inventory and co-load freight, are the answer. Every day we see new examples of companies that are capitalizing on the benefits of more collaborative, sustainable supply chain practices.

The shift from ME to WE in the supply chain is inevitable. The faster we get there, the better.

LTL Secrets Revealed

How collaborative freight strategies are creating greener, lower-cost alternatives to LTL.

By **Lawrence Catanzaro**, Director of Transportation, Kane Is Able, Inc.

You've been shipping via less-than-truckload (LTL) carriers for years. Yes, they're expensive, schedules are unpredictable, and sometimes it's hard to make sense of the bills. But you're a smaller shipper, so the faster, more reliable service of a truckload (TL) carrier is out of reach because you can't fill a trailer, right?

Hold on, there's a less expensive and better way.

These days, even smaller shippers can avoid the drawbacks of LTL shipping. They do it by calling upon the matchmaking capabilities of a third party logistics provider (3PL) to build multi-vendor truckloads for both region-to-region and last mile distribution.

Let's explore some unflattering secrets of LTL freight and see how collaboration can dramatically reduce your freight costs, while also boosting your green credibility.

What LTL carriers don't want you to know

LTL costs more: You'll pay 25 percent to 35 percent more than small shippers who collaborate on transportation. "LTL by its very nature is inefficient," says Kevin Smith, president of Sustainable Supply Chain Consulting in Windermere, FL. "When you consolidate multiple loads and use one vehicle to transport the product from one general location to another, you create a lot more efficiency."

The price keeps going up: Your LTL rates are almost certain to rise 6 percent to 10 percent every time you renew your contract. And smaller shippers lack bargaining clout when negotiating with large LTL carriers. "LTL carriers might not care as much about you if your spend is small," says Chaiyong Thana, team leader, supply chain, in the Dallas office of the consultancy TranSystems.

Truckload carriers—especially in populous markets such as the Northeast—compete a lot harder for loads. That keeps their rates at a steadier level year over year.

Legacy costs inflate LTL rates: Many of the biggest LTL carriers have legacy cost burdens that they have to pay year after year. That forces them to have higher rates, and those rates become the norm for the whole LTL market. Smaller carriers that operate without these legacy costs simply put their prices a shade below the big guys' and enjoy the generous margins that result.

You'll have trouble predicting and comparing costs: The price tag for an LTL shipment depends on the weight and dimensions of your freight, the pallet count, the freight classification, and the origin and destination. Each carrier uses its own formula to crunch those numbers, and each sets certain weight thresholds for achieving volume discounts. So, it's hard to know in advance what your shipment will cost, or to compare different carriers' tariffs. "LTL is not the most convenient transportation mode to audit or to trace how much you actually spend," says Thana.

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The rate they quote is rarely the final rate: Any service beyond basic delivery triggers an added accessorial charge. Maybe you need your freight loaded or unloaded. Maybe you need it delivered to a congested metro area. Or maybe your load demands special equipment. Some LTL carriers even charge extra to use their technology to monitor the status of your load.

Shipments take longer than you'd expect: Freight sent via LTL could take twice as long to reach its destination compared to consolidated truckload freight. For example, a consolidated TL shipment from Pennsylvania to Arizona takes about three days, compared to six to ten days via LTL.

You'll need to carry extra inventory: If you rely on LTL for inbound transportation, your freight won't always hit your dock when you need it. You'll have to carry several extra days' worth of buffer stock to make sure there's always enough inventory to meet demand.

Delivery windows may be jeopardized: For outbound freight, longer LTL transit times and unpredictable schedules put you in danger of violating retail customers' service requirements. Missed delivery windows could result in chargebacks and may even sour your relationships with valued customers.

Damage rates are higher: An LTL shipment moving from the Eastern U.S. to the West passes through as many as six trucking terminals. "Every time you handle something, you run the risk of damaging or losing it," says Smith. For instance, a load moving on a trailer that's only half filled might shift. A worker might leave a pallet behind on a dock or put it on the wrong truck. Someone might drop or crush a carton.

LTL increases your carbon footprint: When you and other companies in your region all send independent LTL shipments, that that puts excess trucks on the road. The result is congested highways and more greenhouse gases in the atmosphere.

The alternative: collaborate and consolidate

Pool distribution and consolidated last mile transportation strategies give small- to medium-sized shippers the chance to combine smaller volumes into full truckloads.

These strategies take advantage of the fact that 3PLs can combine shipments from several companies going to the same destinations. When a 3PL helps shippers collaborate, those companies gain the freight density they need to drive down costs—and they don't need to rely on LTL networks.

This simple "share the ride" concept, while nothing new, is surprisingly underutilized. But more and more small shippers are starting to realize that their lack of freight volume doesn't leave them without options.

Here's how these collaborative strategies work:

Pool distribution: Let's say that several consumer goods companies need to get their products from the Northeast to the West Coast for final distribution. In the past, each company would make a separate deal with an LTL network. But with pool distribution, all of them can ship their product down the road to a regional 3PL consolidation center, where workers combine those loads onto a single truck.

The companies may be shipping to different customers in different locations, but they can still share the cost of the longest leg of the journey. Once freight arrives in the destination region, pool distributors cross-dock the consolidated load, sorting and segregating product to match the retail orders provided by the 3PL.

A region-to-region shipment doesn't always go directly to a pool point. It may ship direct to a common customer of all companies on the truck, such as a Walmart distribution center (DC), or it may stop at a retail DC and then move to the pool point. The 3PL determines the route, based on order characteristics.

Retail consolidation for last mile delivery: Consolidation opportunities don't end with the line-haul delivery. Many companies ship to the

same regional DCs of Walmart, Target, CVS and other mass retail and grocery chains. A 3PL can use transportation management software to review pending retail orders, comparing ship-to points and requested arrival dates for different vendors.

Based on this analysis, the 3PL loads one truck with multiple vendor orders for the same retailer. The retailer benefits by receiving the same volume of freight in fewer shipments. Shippers gain the economies of consolidation while still hitting all ship windows—and avoiding chargebacks.

Collaborating on a share-the-ride strategy lets "passengers" split the freight costs, paying as much as 35 percent less than non-consolidated shipments. Some 3PLs, such as Kane Is Able, combine pool distribution and retail consolidation programs to provide an easy, lower-cost solution for national distribution. The 3PL maintains relationships with pool distribution partners in each region of the country, with tight system-to-system integration.

What you gain when you switch from LTL

Lower costs: Paying a portion of the price of a consolidated TL shipment costs much less than paying full price for LTL transportation. With pool distribution, combined with consolidated last-mile delivery, your load travels most of the way via the more economical mode.

Predictable costs: Compared with LTL carriers, TL haulers are far less likely to slap you with significant rate hikes from one year to the next. Competition for freight moving out of densely-populated markets is just too fierce. Carriers that want to capture that business keep their rates flat.

Rates you can understand: Instead of using complex algorithms to determine how much they'll charge to carry a given load, TL carriers base their rates simply on miles traveled and the weight of the load. Whether you're shipping paper clips or huge end-cap displays, it's easy to figure out what you'll pay—even if your load is an odd shape or takes up lots of space on the trailer.

Access to advanced technology: Many LTL carriers can update you on the status of your load via electronic data interchange (EDI) or a similar technology. But if you don't ship enough volume, the carrier might charge you extra to access that information. When you collaborate with other companies via a 3PL you gain direct access to track and trace information through that 3PL's online portal.

Reduced inventory-carrying costs: Regional consolidation puts your freight on line-haul trucks that move your goods around the country on a regular schedule, without passing through multiple terminals. There's no need to hold product until you accumulate enough to fill a trailer. If you need it, you can get TL service several times a week. Reducing days in transit and increasing the reliability of your distribution network allows you to significantly reduce your inventory.

Less risk of loss, error, or damage: The longer a load stays on the same truck, the greater the chance it will reach the consignee correctly, on time and intact.

Happier customers: Because pool distribution and retail consolidation offer faster, more reliable service, with less risk of damage or error, you'll find it easier to meet customers' service demands. So, you'll incur fewer chargebacks and gain the good will that leads to more business.

3PL matchmaker role delivers big savings

The costliest miles for a truck are the first 50 and the last 50. LTL is expensive because it involves multiple first and last-mile sequences—as many as six. Consolidation strategies combine freight from multiple 3PL customers to create direct, lower-cost truckload shipments.

Some large companies with deep pockets operate pool distribution and retail consolidation programs of their own. But small- to medium-sized shippers can use 3PLs to achieve similar results.

Look for a provider that not only has experience implementing collaborative freight strategies, but one that serves plenty of companies with products and retail customers similar to your own. That's the partner that will offer you the most opportunities to collaborate and save.

A 3PL with the right expertise, infrastructure and optimization technology can help you dramatically reduce freight costs and improve your service to customers, while avoiding the problems posed by LTL.

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CASE STUDY

CVS Reduces Inventory 7%, Improves Stock Outs 2% Through Collaborative Shipping Pilot with Key Suppliers

While freight consolidation drives significant financial benefits for small and medium-sized shippers who lack the volume to ship in full truckloads, larger manufacturers and their retail customers can also benefit. A perfect example is drug retailer CVS's pilot program with Kimberly-Clark Corporation (KCC) and Colgate-Palmolive (C-P).

Based on supplier feedback received at a conference of the National Association of Chain Drug Stores (NACDS), CVS identified collaborative shipping as an untapped opportunity for supply chain improvement. The retailer evaluated its suppliers and identified KCC and C-P as two who met the criteria for a collaborative shipping partnership, including:

- Product compatibility
- Proximity of distribution centers
- Complementary order patterns
- Overlapping customer network
- Culture fit

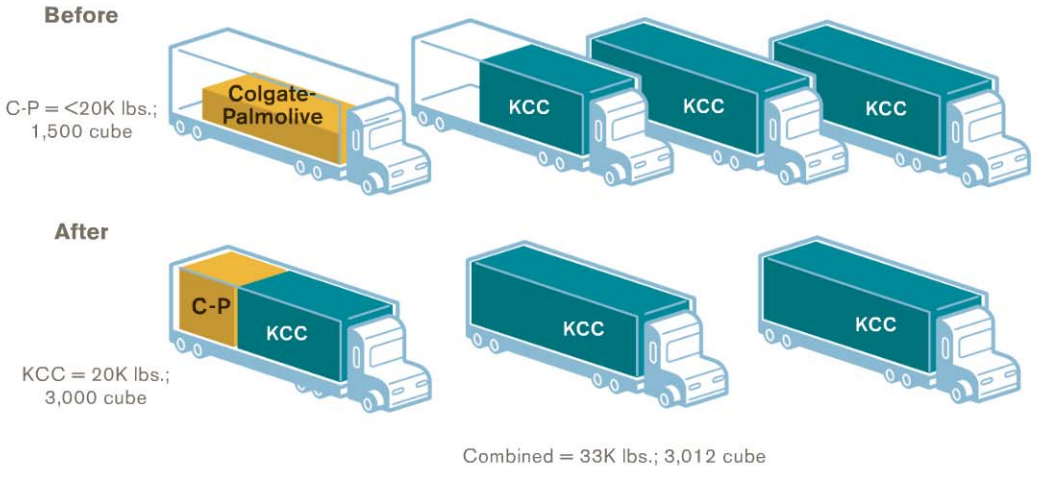
The diagram below was shared by program participants at a NACDS conference. You can see that weekly shipping patterns to CVS from both suppliers resulted in some empty trailer space. But by synchronizing orders and arranging multi-stop delivery runs, CVS found it could cube out all trailers and reduce the number of trucks needed to deliver the same volume of goods.

The process goes like this. CVS analyzes replenishment needs and combines orders that optimize trailer weight and cube. C-P shuttles product from its distribution center to a nearby KCC DC and unloads the tail of the C-P trailer. KCC then fills that trailer with KCC products and ships to CVS. The dedicated carrier invoices both KCC and C-P based on the percentage of total pallets each ships. As reported at NACDS, the results of this simple pilot have been impressive:

Collaborative Shipping Benefits

Kimberly-Clark & Colgate-Palmolive	CVS	Environment
Level demand, less bullwhip effect	Reduced inventory 7%	Took 109 trucks off the road
TL utilization up 9%	Improved in-stocks 2%	Travelled 28,136 less miles
OS&D neutral	Improved dock efficiency	Saved 28.3 carbon tons

Order pattern illustration
(based on average weekly order cycles)



Collaboration is Key to Greener Freight Practices

By **Jason Mathers**, Senior Manager of Supply Chain Logistics, Environmental Defense Fund

Jason Mathers leads the green freight practice at Environmental Defense Fund

In the U.S., freight transport accounts for 16 percent of corporate greenhouse gas emissions, making it one of the largest carbon footprint contributors. Even worst, freight's contribution is set to grow.

According to the U.S. Energy Information Administration, by 2040 U.S. freight emissions are on track to increase nearly 40 percent above current levels. Meanwhile, climate change scientists make it clear that society must dramatically cut greenhouse gas from all sources over this time. Reducing freight's impact on greenhouse gas emissions is a major, long-term challenge for logistics professionals.

Through its work with hundreds of freight shippers on green freight practices, Environmental Defense Fund has identified strategies that are proven to reduce greenhouse gases and, at the same time, drive down costs and increase profitability. Among the most impactful strategies is collaboration—rooting out opportunities for savings through discussions with internal departments and with suppliers, customers, vendors, and even competitors.

Company-centric freight management strategies, while they might be easier to manage, can be highly inefficient:

- Partially full trucks today run side-by-side on the highway, even though they are travelling to the exact same retail DC and the loads could have been combined.
- Outbound deliveries of full trailers ride alongside empty trailers returning home to the same destination after a delivery, even though the outbound shipper could have leveraged the opportunity presented by the empty trailer for an aggressive backhaul rate.
- Heavy and light products cause trucks to either weigh out before they're full or cube out below the truck's weight capacity has been reached, creating inefficient trailer loads, even when the solution could have been as simple as combining shipments of cotton balls and hammers traveling along the same route.

Here are compelling examples that clearly illustrate the power of collaborative freight strategies:

- **Ocean Spray** was shipping products by truck from a manufacturing facility in New Jersey to a Florida distribution center (DC). Both Ocean Spray facilities were a short distance from rail yards used by a competitor, **Tropicana**, which shipped orange juice north from Florida, via CSX Rail, in special refrigerated box cars. These boxcars often traveled empty back

57% **Heavy-duty trucks account for the the dominant share of all logistics-related greenhouse gas (GHG) emissions.**

Source: World Economic Forum

to Florida. Tropicana's third party logistics provider (3PL) saw an opportunity for collaboration and proposed that Ocean Spray operate an intermodal lane from New Jersey to Florida that would put Tropicana's empty cars to use.

GreenBiz.com reported, in a 2014 story on the collaboration, that by going from truck to rail and taking advantage of ready rail capacity, Ocean Spray cut transportation costs more than 40 percent for that lane and reduced greenhouse gas (GHG) emissions by 65 percent. Meanwhile, Tropicana reduced costs and GHG emissions associated with the return of the boxcars.

• Ceramic tile manufacturer **Daltile**, a subsidiary of Mohawk Industries, and appliance maker **Whirlpool** both have manufacturing operations in Monterey, Mexico. Daltile's products are heavy. Filling a rail boxcar to its 200,000 lb. capacity left enough room for a 53-ft trailer. Whirlpool cubes out a box car at 35,000 lbs. Together, they devised a load plan that put the equivalent of four truck-loads (160,000 lbs) of tile in each box car, and then filled the rest of the box car with refrigerators.

Each company now pays just 50 percent of the cost for the trip, but gets 80 percent of the maximum cube or weight capacity. According to Mohawk Industries' division director of transportation, Sonney Jones, Daltile's complete freight collaboration program, which includes multiple collaboration partners, generates $3 million in annual freight savings. In addition, it reduces diesel fuel usage by more than 600,000 gallons per year, eliminating 5,300-6,300 metric tons of CO2 from the atmosphere.

Proven tips to make collaboration work

There's no question that inter-company strategies take more time and effort than strictly internal freight optimization efforts. But experienced freight collaborators report that the long-term ROI on such initiatives are very attractive. Here are proven tips to make collaborative strategies work in your operation:

• **Leverage 3PLs.** They service multiple customers and are intimately familiar with customers' freight and shipping lanes, so 3PLs are often in the best position to recognize when collaboration can occur.

• **Look to competitors.** Your competition can make the best collaborators when it comes to efficient freight. Your products are likely going to the exact same customers and locations.

Among the most impactful strategies is collaboration—rooting out opportunities for savings through discussions with internal departments and with suppliers, customers, vendors, and even competitors.

• **Openly share cost information.** When co-loading freight, two shippers agree to share the freight cost from the carrier. Mutual trust is critical to determine an equitable cost-sharing arrangment. Both companies must be transparent about what they are paying now and the benefits they will achieve through co-loading.

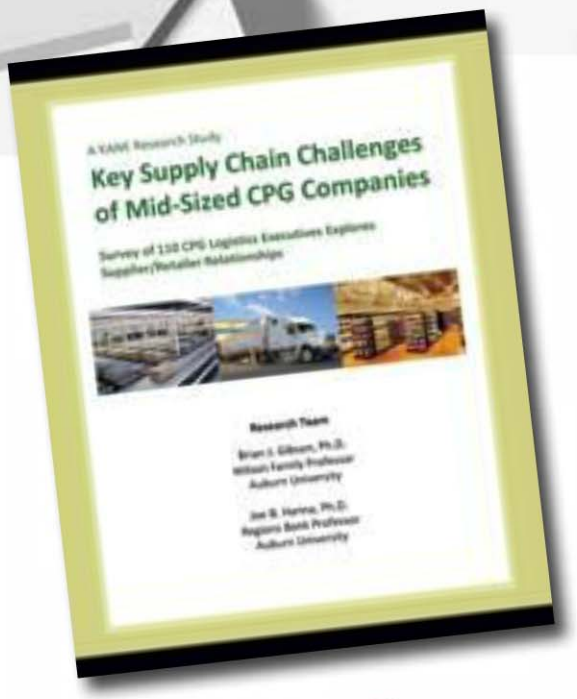
• **Dedicate the required resources.** One of the biggest reasons collaborations fall apart is a failure to put in place the resources required to manage the relationship. Often, it ends up as one more task added to someone's already full plate. Don't underestimate the time required to overcome differences in culture, terminology, and decision-making protocols.

Today's logistics professionals have an exciting opportunity to create business value and improve environmental performance by implementing green freight strategies. In doing so, we can help create a future where freight transport remains affordable, results in less greenhouse gas pollution, and minimizes the threat to public health.

This article includes excerpts from the Green Freight Handbook, *a comprehensive guide recently published by Environmental Defense Fund to assist logistics professionals in implementing sustainable freight strategies. Find a link to the Handbook at EDF Green Freight.*

Survey Explores Supply Chain Challenges of Mid-Sized CPG Companies

A shift by mass retailers to a more just-in-time inventory strategy requires smaller, more frequent replenishment shipments by suppliers, transferring both cost and risk to the supplier base. These negative impacts are felt more acutely by small and mid-sized suppliers, who lack the volume to ship in economical truckload quantities. This was among the findings of a survey of 110 logistics executives at consumer packaged goods companies, conducted by Auburn University and sponsored by Kane Is Able, a 3PL that serves consumer goods companies. This paper outlines the challenges and frustrations faced by small and mid-market companies in serving their retail customers.



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