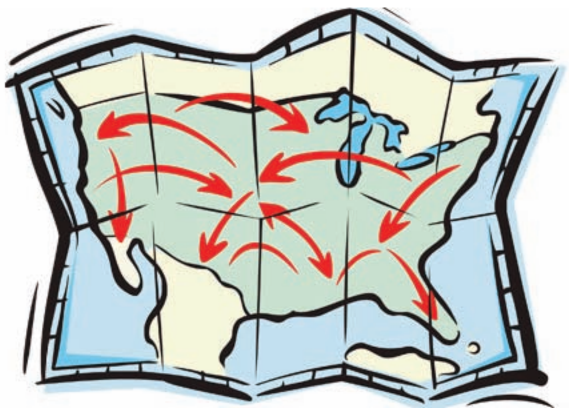
DC VELOCITY

TRANSPORTATION REPORT | TRUCKLOAD

Has collaborative distribution's time come?



For all its potential, the "collaborative distribution" concept has yet to live up to its billing. Some say that's about to change.

By Mark B. Solomon

In the world of supply chain management, the bridge connecting strategy and execution can sometimes be a long and rickety span.

For example, take the concept of "collaborative distribution." It has been around for years, has frequently been cited for its potential benefits, but has never really lived up to its billing.

The theory works like this: Convince clusters of small to mid-size manufacturers to shutter their individual warehouse networks and stop shipping via less-than-truckload (LTL) service, and instead centralize their inventories in one vast third-party-controlled warehouse, where orders from retailers can be consolidated into a single full truckload and shipped once a week direct to a warehouse.

Manufacturers that would otherwise lack the volumes to ship full truckloads would commingle their freight with other shippers' cargo, thus combining one week's worth of orders into a single delivery and avoiding the higher costs of having to ship a few stand-alone pallets via LTL. They would also boost their cash flow by sharing the warehouse and DC infrastructure with other manufacturers and eliminating the costs of operating their own facilities.

Retailers would benefit by receiving a truckload of goods once a week rather than accepting shipments on multiple trucks over several days. This streamlines their supply chains and better aligns their delivery schedules with weekly inventory replenishment cycles. They would also realize reductions in fuel consumption and their carbon footprints by taking trucks off the road and cutting vehicle-miles traveled.

But while some companies—and the consultants supporting them—boast of mastering the strategy, the real-world implementation has in the past left many practitioners feeling frustrated. Successful execution, experts say, requires that competing manufacturers pull together for the good of the whole; that retailers shift from fragmented, silo-driven ordering practices to a uniform, synchronized order approach; and that information technology (IT) be sophisticated and functional enough to tie it all together. While there has been significant progress made on the IT front, the first two challenges have defied easy resolution.

"The trust and integrity aspect among manufacturers has been the missing component," says Kevin Smith, who has spent decades in the supply chain as a shipper and retail executive and now runs his own supply chain sustainability consulting company. "If I'm a manufacturer, why would I want to give a competitor a ride on the same truck moving my goods, especially if I'm doing a better job than he is running my supply chain?"

Ironically, Smith says the savings offered through the sharing of transport and distribution services would probably be the key reason for adopting the strategy in the first place.

"If there is one thing that is going to drive action in this space, it's the increase in cash flow through a reduction in inventory-related expense," he says.

Right for the times

Some experts believe "collaborative distribution" is right for the times, and that its day has come. The main reason? Retailers like the idea, and retailers—instead of suppliers—are increasingly calling the supply chain shots.

"This is the direction that the retailers are moving in," says Mike Bargmann, former vice president of distribution for the Wegmans regional supermarket chain and now head of a consultancy called Collaborative Logistics.

Bargmann says many retailers can demonstrate "measurable savings" by using the concept, though the savings are on an event-by-event basis and cannot be measured in the aggregate.

The concept also may get a boost from continuing technology improvements that enable retailers to share information with their suppliers faster and more effectively. "Technology has finally advanced to the point where retailers can be more flexible in their ordering processes," says Dan Sanker, who spent many years working in logistics for Nabisco and Procter & Gamble Co. before forming CaseStack, a Fayetteville, Ark.-based firm that advises manufacturers and retailers on collaborative distribution opportunities.

Sanker adds that implementing the collaborative distribution concept has become less complex and confusing as industry consolidation has winnowed thousands of retailers and left a relatively few large ones standing. "Retailing was much more fragmented years ago," he says. "You're not dealing with 30,000 retailers anymore."

Is Kane able?

One person looking to change perceptions of "collaborative distribution" is Chris Kane. Kane is vice president, sales and marketing for Kane Is Able Inc., a Scranton, Pa.-based third-party logistics service provider that has created a program called CODE Green (with CODE being an acronym for Collaborative Orders Delivered Efficiently).

Under Kane's concept, manufacturers collapse their warehouse networks and centralize their inventories in distribution centers operated by Kane. The company, which charges manufacturers a flat rate of $55 per pallet for its services, gives manufacturers the option of contracting for their own transportation from the plant to the Kane DC, or having Kane arrange the shipping.

A retailer is given incentives to place one order with multiple manufacturers, with goods stored in the 1 million-square-foot Kane "collaborative center" in Scranton, Pa. Once the order is received, Kane pulls together the disparate products in the DC and creates full truckload consignments. The retailer dispatches a truck on a predetermined day to the Kane distribution center to pick up a full, 20-pallet load for final deliveries.

For the Kane concept to work, however, retailers or their representatives would need to synchronize their order patterns—that is, buying groups from within a single retailer that now order goods separately and receive goods on different days must agree to receive goods on specific days. To motivate retailers to change their stripes, Kane is offering a $5-per-pallet rebate for every consolidated order placed through the program.

The CODE Green program today is active only in the Northeast and covers a 500-square-mile radius from the Scranton facility. Kane says he is looking to expand the program to the Southeast, Southwest, Midwest, and West. So far in Scranton, Kane has signed up six consumer packaged goods companies and says he hopes to attract more customers throughout 2010.

If Kane fails, it won't be due to a lack of effort. He has been pressing the issue with virtually everyone he comes in contact with and has written an e-book touting the concept.

"We think it's a win-win for everybody," he says. "It's just a matter of getting the word out."