

Taking care of the supply-chain is of utmost importance in the world of retail and who better to learn from than Wal-Mart? Michael Bergdahl shares his personal experience and learning.

Wal-Mart is a Supply Chain

Driven Company Obsessed with

Lowering Costs - Is Yours?

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I learned that by 2015, Panama plans to widen the canal, allowing the passage of even larger container ships. Currently, the biggest ships that can navigate the canal and locks carry up to 4,000 containers. After the widening is complete, ships carrying more than 11,000 containers will be able to make the trip.

As I watched the container ships passing through the Panama Canal, I thought about the impact that widening it will have on the way Wal-Mart and its competitors ship freight into the United States, and for that matter, around the world. Now, most of its containers filled with products bound for American consumers enter the US through the Ports of Los Angeles and Long Beach, California. With their history of labor problems and strikes, however, it's hard to believe the Los Angeles & Long Beach ports still maintain a monopoly on container shipments entering the US.

It's estimated that two-thirds of the container shipments entering the United States from China and Asia pass through the Los Angeles and Long Beach Terminals. In the past, dock-worker strikes at Los Angeles and Long Beach have crippled manufacturers and retailers around the world. I heard that during the last strike, container ships were lined up across the Pacific Ocean, all the way up the Yangtze River in China, anchored and waiting for the strike to end.

That's all about to change. As a result of widening the Panama Canal, those bigger container ships will now be able to bypass west-coast ports like Seattle, Portland, and Los Angeles in

favor of more business-friendly ports in "right-to-work" states like Texas, Louisiana, Mississippi, and Alabama. Overnight, Houston, Texas, could become the "New LA/Long Beach!" If you think about it from a rail and trucking standpoint, Houston's mid-country location significantly reduces the amount of diesel fuel consumption for truck deliveries, while reducing the time required to deliver the containers to customers.



According to the Port of Houston Chairman, James T. Edmonds,

"Houston has been a direct "all water" option for Asia shipments for over five years – ever since the West Coast labor stoppage created a cross-country impact to import trade . . . and because the west coast ports are heavily congested Houston has seen an increase in container traffic from virtually every country on the globe. The Port of Houston Authority has long been recognized as the "third coast" alternative."

Shipping containers through Houston

really is rapidly becoming the best alternative for US importers. Shipments into a business-friendly state like Texas insure that the "product pipeline" is always open and flowing. It's a big win for manufacturers, suppliers, retailers, and consumers alike as productivity would increase and costs would decrease for moving containers from ship, to rail, to road through Houston. You can bet that the big international shippers

from the US and other countries are already gearing up to take advantage of that Texas, southern hospitality.

Since the cost of container shipping is about to come down once again, suppliers and manufacturers for companies like Wal-Mart are probably already planning for the future. There is little doubt that the widening of the Panama Canal change the supply-chain strategies of global retailers, and manufacturers around the world!

Wal-Mart has already booked passage for its products on the

▶ Logistics



world's largest container vessel, the Emma Maersk, capable of ferrying 11,000 containers. (The Emma Maersk is the first of a fleet of super-container ships that will be up and running by the time Panama opens its widened canal.) The Port of Houston is anticipating a windfall of new business by preparing its docks and dredging its harbor to handle the parade of mega ships.

There is even talk that Mexico, Nicaragua, and Colombia are considering digging their own canals so that they, too, can tap into the mega ship bonanza about to unfold. The financial opportunities are huge and the risks are relatively low for Panama because there are more than five-million containers in transit across the globe at any given time and each year that number is growing.

The fact that Panama is a logistics-driven country is going to change the way that Wal-Mart, a supply-chain-

driven company, ships containers across the world and transports freight throughout North and South America. The widening of the Panama Canal will fit right into Wal-Mart's logistics strategy, which is about finding ways of reducing or eliminating costs. Low transportation costs allow the company to sell its products at the lowest possible prices, making retail competition with it a nightmare.

Wal-Mart's low-price strategy is no "dream come true" for many of its large and small suppliers either, as many of them either break even or "trade dollars" supplying its stores. The big winners in the race to sell at rock-bottom prices are the consumers. It's estimated that families of four who buy groceries at Wal-Mart in the USA saves an estimated US\$3000 per year. These low prices are why 200 million customers flock to Wal-Mart stores every week of the year. They're also why 31 regional grocery

competitors have gone out of business since Wal-Mart began selling groceries.

Why is Wal-Mart so driven to reduce its costs? One reason is because of the company's commitment to offering the lowest prices possible to its customers. Hard as it may be to believe, Wal-Mart's annual sales exceed US\$400 billion US, but the company only eked out a 3.3% profit. There's no need for you to feel sorry for its "meager" profits, though, because in real dollars, 3.3% equals more than US\$13 billion in annual profits.

Understanding the Wal-Mart profitability model will help you understand why the company's leaders are downright fanatical about driving costs out of the supply chain. To them, the widening of the Panama Canal is just another opportunity to lower costs even further to protect their razor-thin profit margins. With 8500 stores, 120 massive distribution centers, and operations expanding in 15 countries, Wal-Mart's leaders must focus on continuously improving operations, lowering costs, and improving customer service. The ability to manage its supply chain efficiently has always been paramount to the success of its "Everyday Low Price Strategy," and to achieving success with its low-profitability business model. It is for this reason that many consider Wal-Mart "a supply chain-driven company that also has retail stores."

You only need to think about the impact Wal-Mart's supply chain had on the lives of the victims of Hurricane Katrina to understand how advanced Wal-Mart's supply chain



really is! Were you aware of the fact that Wal-Mart was the first organization to provide water, ice and generators in Louisiana and Mississippi in the days following the devastating storm? Did you know the United States Federal Government has studied Wal-Mart's supply chain in order to learn why Wal-Mart did so well, and the Feds failed in their response to the Katrina disaster? Are you surprised that Wal-Mart responded when no one else could? When you realize the investment Wal-Mart has made in Supply Chain Management and the fact that it has the largest IT Systems of any private company in the world, (2nd only to the IT systems of the U.S. Pentagon!) you quickly understand why Wal-Mart is such a global force.

It's no secret that the Wal-Mart business model would come crashing down immediately without its renowned technology and efficient supply chain. "The Wal-Mart Way" demands that the company stays on the leading edge of logistics, distribution, transportation, and technology; it must then capitalize on every opportunity to improve.

The company's executives push decision making downward and empower store teams to think like entrepreneurs by making the individual stores' operations the best they can be through a combination of simplification, superior execution, and legendary service. Through vendor partnerships, Wal-Mart constantly works with world-class manufacturers to implement leading-edge (and bleeding-edge) logistics strategies designed to lower costs, reduce out of stocks, and increase sales. The company isn't afraid to



invest money in expensive and controversial supply-chain strategies like RFID if their proforma financial analysis predicts future cost savings.

Being "in-stock" at Wal-Mart stores is the goal of all of its logistical efforts; being out-of-stock is tantamount to being out of business. The key to being in-stock is superior technology, a masterful supply chain, and in-store execution. Wal-Mart shuns product storage warehouses in favor of distribution centers with cross docking technology to reduce inventory carrying costs. Discount retailing demands low prices, and discounting only works with extremely high sales volume. Inventory turn at high velocity backed by automated replenishment insures that Wal-Mart sells 100% of its inventory between 72 hours and 60 days upon taking possession of it from its suppliers.

The bottom line is that Wal-Mart's low-price strategy is made possible because of offshore private-label manufacturing, containerization, and modern intermodal logistics. Other

major retailers like Target and The Home Depot have copied Wal-Mart's approach, and now use basically the same manufacturing and logistics strategies and tactics for the same reasons.

As I finished my lunch at the Panama Canal that day, I came to the realization that the supply-chain paradigm is about to shift once again. The good news is that supply-chain experts have time to prepare for the monumental changes about to unfold. The bad news, at least for Wal-Mart's competitors, is that shipping costs for the world's largest company will once again come down, putting even more pressure on competitive prices.

For decades, Wal-Mart's focus on technology, logistics, distribution, and transportation have been its single most important sustainable competitive advantage. Large global retailers and manufacturers will continue to copy its supply-chain innovations and best practices in an effort to re-level the playing field. 😊