The Journal of Commerce
July 14, 2008

Target reconsiders supply-chain strategy

By Peter Tirschwell

As many of the nation's largest retailers, including Wal-Mart, have embraced inland ports accessed via rail as a core component of their supply-chain strategy, the nation's No. 2 container importer. Target Stores, has gone its own way. It has held firmly to a strategy of routing most of its imported merchandise through a handful of import distribution centers located on the East and West coasts, and relaying goods by truck or rail to the regional DCs that feed its 1,600 retail locations.

This has made Target's supply chain responsive to the whims of customer demand because it allows the company to take control of goods immediately upon disembarkation from the ship and opportunistically divert them to areas of robust demand. But at a time of skyrocketing fuel costs, Target is realizing that flexibility has its price.

Jim Theusch, Target's senior corporate real estate manager, appeared to confirm that a change in thinking is under way at the company, which ranked No. 2 in the JoC Top 100 Importer listing for 2007, with 435,000 TEUs brought into the United States. "We will need to look at inland port locations at some point in time," he said in a speech at the recent JoC Real Estate Logistics Forum in Chicago.

The sharp rise in fuel prices over the past year, last week's 6 percent drop notwithstanding, has sent logistics managers across the country back to their spreadsheets to recalculate the impact and develop alternatives. If there was a day when rent at DCs or inventory carrying cost was the driver of strategy, that day has come and gone. Now it's about minimizing exposure to high fuel costs. More often than not, that means keeping goods moving on the cheapest form of transportation for as long as possible, whether that means using all-water services versus West Coast transload, or West Coast rail to an inland port.

"The key issue is, how far can we get into the interior and not change a mode, and if we have to change a mode, we want it to be from water to rail. That is now becoming much more important," said Curtis Spencer, president of Houston-based IMS Worldwide.

This emphasis plays into the hands of railroads and developers of logistics parks built around inland railheads. A tightly integrated system in which containers arrive intact via rail and then are drayed only a short distance to an inland import DC, is finding a lot of interest as importers hone in on the fuel cost impact of every leg of the supply chain, said Richard Allen**,** CEO of the Allen Group.

Spencer said Theusch's statement was an "acknowledgement of the value of the inland port concept taking the container on the cheapest transportation mode closest to the population centers."

But others caution not to take the impact of fuel prices out of proportion. Changes are coming, but they are most likely to be on the import end of the supply chain. Importers may open East Coast import DCs, route more goods via rail and or make greater use of third-party DC operators that allow them to implement a shift in strategy faster than if they had to build and manage a facility on their own.

But immovable realities remain no matter how high oil prices climb. Customers, for the most part, live where they live, which is why retail locations have been built up in specific places to serve them. Whether the goods move via all-water Panama Canal or intermodal rail, basically the same retail network must be served by whatever supply-chain approach is adapted. 1 don't know if anyone is suggesting that the basic model in which one regional DC serves 50 to 80 stores is poised for a major overhaul.

"For larger retailers that have multiple DCs around the country or globally, fuel is a concern, but they are not going to make wholesale changes to their supply chain as a result of the increase in fuel. We haven't had discussions with our customers that would suggest that," said Anthony Chiarello, senior vice president of AMB Property Corp. "Where they may have an opportunity might be to move from a single import DC in Southern California to two to three DCs. We're seeing that fuel in those instances is becoming a more significant metric when they are making those decisions."

So the point, for the moment, is to watch the import end of the supply chain. That is where changes will likely be seen first.