

# Retail's Q4 Will Stress Test New Normal Adjustments

by **Mike O'Brien**, Multichannel Merchant

**H**aving experienced significant pain in the fourth quarter of 2020, when millions of orders showed up late during the holidays, many retailers have stepped up their preparation efforts to ensure that 2021 isn't a repeat of that ugly scenario.

Even with all the investments, negotiations and strategizing that's gone on, pain is inevitable, as supply chains and delivery networks are stretched beyond their limits. This ultimately impacts retailers' promises to customers eagerly awaiting gift packages. The question is, how much will it look like last year?

Recalling how many trailers were left in facility yards by major carriers as Q4 volume commitments were blown through, one retailer said he's expecting more of the same.

"I'm not immediately aware of any significant capacity improvements the carriers have implemented to combat capacity caps," said Chris Groseclose, director of operations for audio equipment seller Crutchfield. "I would think that at some level, we would see a little improvement from last year. But I have to think we'll continue to see similar activity if retailers don't forecast their demand more accurately."

In addition to better volume forecasting, tricky in a normal year but doubly so in this environment, more retail shippers have worked on securing Q4 volume much earlier. Increasingly, this includes alternate providers like regional carriers and parcel consolidators partnering with the U.S. Postal Service. There are reports that some regionals started turning away volume com-



mitments as early as June.

"(Alternate carriers) don't want shippers coming to them just for one or two months of business to help them out of a jam, they're looking for year-round customers," said Patrick Kelley, executive vice president at parcel consolidator OSM Worldwide. "Offering volumes throughout the year goes a long way to securing additional capacity in Q4. But you need to plan and make inquiries early."

## Capacity and Volume Issues Continue in "Perpetual Peak"

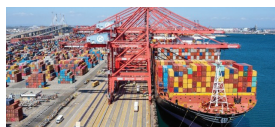
The biggest issue noted by shippers and industry experts is the lack of capacity in carrier networks, and the challenges of securing enough of it to handle Q4 volume forecasts. And there are backlogs across the entire supply chain, from point of origin overseas, to

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jammed domestic ports, then on rail or truck to distribution and fulfillment centers and on to the last mile. This is no longer just a Q4 phenomenon as “perpetual peak” has become part of the lexicon due to the ecommerce explosion.

Experts are predicting there will be more situations like those noted by Groseclose, with trailers left behind, delaying orders. At the same time, volume is being squeezed out of carrier networks by ever-rising surcharges.

With one retail earnings call after another bemoaning the bottom-line impact of rising transportation costs, many companies are looking to create greater incentives for things like curbside and in-store pickup that build density and cut down the huge expense of residential delivery.

“(UPS and FedEx) have been doing this for the last year, implementing massive rate hikes and saying, take it or leave it,” said John Haber, founder and CEO of consultancy Spend Management Experts. “A lot of companies are telling us of 25%-30% increases, some with over \$100 million in transportation spend, and they just don’t have it in the budget. It’s a nightmare, carriers regularly running out of capacity already and it’s not even July. This may be the worst peak season ever.”

Paul Yaussy, a consultant in professional services for Shipware, said a transportation manager at a major crafts retailer had to “continually beg” his carrier for more peak capacity last year “but it was simply turned off – there was way too much volume for the network.”

“They experienced a record year in volume, but struggled to get carriers to support it,” Yaussy said. “They had to make calls every day, in different parts of the country, asked for help getting pickups made. And the constant changing of surcharges meant companies were regularly blowing through their transportation budgets. When we asked carrier reps what was happening with

the charges, they were not able to fully explain them.”

Kelley of OSM said the lesson learned from the capacity and volume mess and widespread delays during the 2020 peak was, lock in volume this year as early as possible, and diversify into new carrier relationships.

“A lot of retailers started in May of this year or even months earlier, looking for opportunities to add carriers, not only for Q4 but year-round,” he said. “They know that with any type of contract, they have to start earlier, at least having Q4 locked down by mid-summer. Last year, everyone using just major carriers was surprised by, ‘oh, we’re lowering lower capacity limits, and by the way, adding surcharges and removing services.’ That’s why everyone is on the lookout earlier for multi-carrier opportunities.”

When identifying a partner such as a regional carrier or a USPS consolidator like OSM, Kelley said shippers need to identify how much volume over and above current commitments they can afford to siphon off, within which characteristics (weight, DIM, etc.) and in what parts of the country based on distribution/demand patterns, in order to entice them.

“Then there’s due diligence and negotiation on service and price,” he said. “Once that’s in place, implementation can take time. In 2020, some started too late in that process, carriers got into lockdown and they ran out of time. Most are working on that now for Q4. You really want to get on that early in the year.”

Christopher Considine, a director at AlixPartners, said the regional carriers are definitely open for business in 2021, given the capacity issues with the majors, but expect them to ask for longer-term agreements and larger volume commitments “as they should.”

“They (regionals) definitely have an opportunity here,” Considine said. “Their requirement for volume commitments aligns with the volume limitations of the major carriers. I work with a lot of retailers who are happy make those longer-term commitments, as it aligns with their growth plans and capacity requirements.”

## Supply Chain Outlook Remains Challenged

As far as global supply chain backlogs, experts predict they won’t ease up at least through all of 2022, so shippers need to plan accordingly. While there has been talk of a reshoring effort, moving manufacturing capacity



and supply chains to U.S. shores, it doesn't make a lot of economic or logistical sense.

Brian Bourke, chief growth officer at Seko Logistics, said while far from replacing China as the main source of product and the starting point for supply chains, the backlogs are leading more retailers to diversify sourcing to locations like South Vietnam and Mexico. Ocean freight issues are also causing many more to pivot to air cargo at 3x the cost, he said, flying out even smaller-cube items like bicycles, grills and leaf blowers.

Akhil Nair, VP of global carrier management and ocean strategy for Seko, said both those markets are seeing more attention and investment but have their challenges. For instance, Vietnam has a good infrastructure including a deep-water port, and currently represents 40% of trade growth in the U.S., but its terminals are not adjacent to industrial areas as in China. And even with its growth, Vietnam represents less than 10% of China's exports.

"There's a lot of interest in Mexico for final assembly into the U.S. or raw materials, but there are demographic and infrastructure issues," Nair said. "There's not a lot of space on warehouse floors, there's so much cargo. All these markets are definitely long-term alternatives for sustainable sourcing supply. But in the near term, it's going to be a gradual diversification."

Yaussey of Shipware said retail clients tell him of container shipments from Asia to the west coast that took 14-16 days pre-COVID are now taking an additional 18-20 days, at roughly triple the cost, in the \$17,000-\$20,000 range range per twenty-foot equivalent (TEU) container. Craig Grosscart, SVP of global

ocean at Seko, said one client recently paid \$32,000 per container for a 300 TEU container shipment scheduled from Shanghai to Los Angeles in July. "It's a nice way for the carrier to say, we're not interested in more of your business," he said.

"It's throwing a major monkey wrench into all their planning," Yaussey said. "It's almost too late for this peak. We have clients telling us container on-time rates that had been in the high 80% range are now more like 34%."

Groseclose of Crutchfield Corp. said between the general backlog of manufacturing demand, the congested supply chain and the shortage of semiconductors for the audio equipment it sells, the outlook for Q4 is cloudy. He said Crutchfield sells is hearing "a variety of responses" from its overseas vendors.

"The general consensus is there will be shortages, we will be on item allocations and everyone is working hard to try to have as much product as possible for the holiday season," he said. "However, no one has a concrete answer for what vendors can and cannot, do. The other wild card is the Chinese government planning to allow four-day work weeks to conserve and share power in manufacturing. I have no idea how that will affect the holiday season."

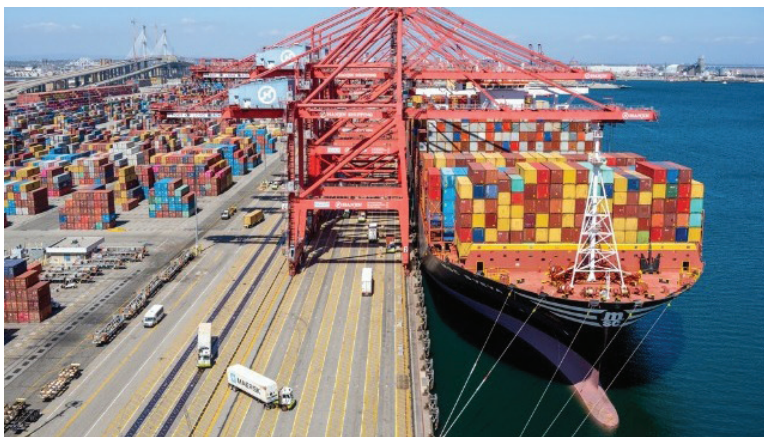
## Creative Solutions to Logistics Challenges

Kelley said one thing OSM is doing with its fulfillment customers to address peak capacity issues is working with them earlier to reduce network touches by direct induction of shipments into OSM's facilities.

"If a network has to touch a package two or three times, or it's given at a wrong distribution point and has to be line hauled, that lowers capacity," he said. "When product is placed closer to the end point, it allows more capacity in the whole system, less touches and less line hauls. It creates speed to market and Q4 capacity."

Matt Konkle, a senior managing partner at G2 Capital Advisors, a boutique investment and restructuring advisory firm, said he's seeing significant growth in retailers planning for micro-fulfillment centers, setting up curbside and ship from store and multi-node distribution to prepare for peak and beyond.

"It's always the balance of the carrying cost of inventory vs. the ability to have fast fulfillment from multiple nodes," Konkle said. "Brands are now more intentionally working to solve that problem, whether it's through



an MFC or other supply sources.”

Konkle said there’s also tremendous interest in creating strategically located popup fulfillment centers through 3PL partners to handle peak demand, with more brands outsourcing this capability than ever before.

“A lot of providers are picking up new demand from brands that needed to quickly stand up an FC last year, and they’re finding suppliers capable of doing it,” he said. “And if it worked for them in 2020, they’ll be doing it again this Q4. A lot of what was solving for demand challenges last year has become brand strategy.”

Another option being pursued by more major retailers to deal with transportation issues is pool distribution. Unlike less-than-truckload, where your shipment shares space with other customers in a trailer, pool distribution involves sending multiple orders of your product going to different destinations. This can be used as a regional solution, often in tandem with a regional carrier, as a fast, cost-efficient way to peel off excess volume from the majors, while still maintaining earned tier discounts.

## Final Thoughts

Jason Goldberg, chief commerce strategy officer at major agency Publicis, said many of the peak season fulfillment strategies that were thrown together ad hoc last year have become more refined and ingrained as

process. This is critical to both deliver the experiences consumers are expecting while tackling the tough unit economics of ecommerce relative to store sales, most of it driven by logistics.

“Most think the acceleration to digital and the transition to curbside is permanent,” Goldberg said. “Walmart has stripped the automated BOPIS machines out of stores and doubled the parking lot space allotted to curbside, and Target is doing the same. For 2021, they’re trying to industrialize those solutions to make them more robust.”

As did several others, he also noted how many more retailers are already planning to start their marketing and promotions cycles earlier to spread out

demand this fall.

“It won’t work to have a huge demand spike in ecommerce demand the last two weeks of December, when there are no more UPS trucks to deliver,” Goldberg said. “If I can get you to come to the store, I can sell you more. It means marketing more store inventory than from the FC, and that becomes a primary factor.”

In addition to all the network and logistics adjustments, Kelley said retailers should also consider other tweaks to improve both operations and the customer experience, like packaging optimization and better labeling to avoid delivery issues.

“Year-round small problems and details are not so bad, but they’re amplified in Q4,” he said. “As your volume grows, they can make a real big difference.”



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