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David Sparkman, Editor **Volume 10, Issue 13** **July 1, 2022**

Logistics Said to Be 'Out of Sync'

"Out of Sync" is the title of the 2022 State of Logistics report issued by the Council of Supply Chain Management Professionals (CSCMP), and it couldn't be a more appropriate title the current state of the nation's supply chain.

"It's not surprising that we are continuing to see ongoing disruptions related to the pandemic, but the scope and impact of disruptions continue to weigh heavily on the minds of logistics providers – as they do for all companies contributing to the U.S. economy," commented Balika Sonthalia, lead author of the 33rd annual report and a partner with the Kearney consulting company which produced it for CSCMP.

The report's sponsor is Penske Logistics, which highlighted the strength and resilience of those managing the supply chain in these difficult times.

"We have seen an incredible amount of resiliency among private truck fleets and dedicated contract carriage truck fleets," said Andy Moses, senior vice president of sales and solutions at Penske Logistics.

"Demand has been up sharply year-over-year and these fleets continue to manage the complexities they face in the trucking supply chain including headwinds caused by shortages of parts, equipment, drivers and most recently, rising fuel costs."

Of course, the bulk of the research was conducted before the recent events impacting supply chain management occurred, including persistently high inflation, the stock market slide and the looming threat of an economic recession, which appears to be more likely with each passing day.

Last year's supply chain crisis is continuing, with services becoming less reliable and more expensive, including record levels of port congestion, steadily worsening railroad service performance and a trucking industry unable to find enough qualified drivers.

The difficulty in finding other skilled and semi-skilled workers, one of the lingering effects of Covid 19, along with rising inflation pressures also contributed to driving up supply chain costs in 2021 – another trend that continues to this day.

"Business inventories dropped to near historic lows, but the costs to store, handle and finance them spiked," the researchers pointed out. At the same time, "inventory carrying costs rose by 25.9% and transportation costs – driven by in all modes and nodes – were up 21.7%."

However, anyone who is hoping for demand relief in 2022 might end up finding themselves getting a little too much of it soon in a recession.

"In short, the logistics sector must simultaneously contend with the hangover of red-hot demand and worries of a revenue-diminishing and inventory-swelling downturn," the researchers said.

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When it comes to warehousing, supply chain changes have created a new set of demands transforming the industry.

"In an era of increased vendor lead times, uncertain supply, and sharply rising customer expectations, shippers have been motivated to rethink lean operations and keep more inventory on hand," the researchers observed, which will lead to a reduction in warehouse space availability and higher costs.

Net absorption rose 48%, while the vacancy rate fell from 5.1% in 2020 to just 3.7% last year. Warehouse rents rose by 9.5% in 2021, nearly twice as fast as in 2020. Warehouse square footage under construction grew by 54% year-over-year,

"Much of this surge in warehousing demand stemmed from companies competing to cater to customers' lofty expectations for choice and speed," the report claimed.

SKU proliferation (especially in CPG) is already returning to pre-Covid levels, increasing pressures on warehousing. More than 60% of shoppers now expect deliveries within 48 hours, requiring companies and logistics providers to expand and reimagine their warehousing footprints.

These pressures will only increase, with a 10% compound annual growth rate (CAGR) projected for omnichannel commerce over the next five years, according to the report.

Why not simply build even more warehouses, even faster? A big reason is in the dearth of available labor to both build and to staff them.

Amazon has driven up front-line warehouse employee wages by offering signing bonuses of up to $3,000. The average front-line warehouse employee at Amazon is paid $15 per hour, slightly above the national average of around $13 per hour.

In Southern California, the Bay Area and Seattle – where shippers, carriers, and 3PLs are all competing for scarce labor -- wages are up to $19 per hour, nearly 50% above the national average.

These pay increases have not entirely addressed the warehouse worker shortage, since annual turnover in the sector is very high -- approximately 43%. In attempting to fill the gap, companies resorted to costly overtime and temporary-labor arrangements, the researchers explain.

"These expedients can add up: overtime work is often at double the regular hourly rate, while bringing in a warehouse temp generally costs somewhere between 15% and 30% more than an equivalent full-time employee."

Adding to the mounting costs the trends toward omnichannel DCs, flexible warehouse operations and increased automation require labor reskilling – another layer of ongoing expenses, they said.

"Companies that long viewed warehousing as a sleepy backwater need to recognize it is now an essential strategic competency," the researchers stressed, "Warehousing is more vital to supply chain strategy than ever before."

Their guidelines for maximizing this resource:

Integrate with planning and transportation. The future warehousing footprint should be shaped through seamless collaboration with commercial strategy and operations planning.

Now is a good time to rigorously assess inventory mix and geographic deployment, in conjunction with the emerging shape of demand. Transportation planning is vital, the researchers stress, especially at strategic delivery nodes where carrier disruptions can clog up the product flow.

Use analytics to optimize labor. Forward-looking companies will aggressively apply analytics to transform how labor is deployed in warehouses. They will utilize dynamic staffing based on anticipated workload to curtail labor costs, and restructure shift sizes and profiles to more tightly align with changing operational requirements.

Prioritize warehousing. Companies that long viewed warehousing as a sleepy backwater need to recognize it is now an essential strategic competency. They need to confront this new reality by asking some basic questions. Should we develop our warehousing competency internally, outsource to trusted partners or some combination of the two?

"The trials of 2021 thrust the logistics profession into a harsh spotlight that revealed strategies and practices must adapt at an accelerated pace, further accelerating the need for competency and capability-building within the profession.," the researchers conclude.

(We will have more about the report next issue).

When Can Work Be Interstate?

For many years, the question about which employees could be required to take wage disputes with their employers to third-party arbitration has hung on who among them have jobs in interstate and international transportation.

A recent Supreme Court decision has now clarified when this exemption applies under the Federal Arbitration Act, which also explicitly exempts seamen, railroad workers and truck drivers.

Confusion over the law's language adding to the exemption "any other class of workers engaged in foreign or interstate commerce" has persisted ever since the FAA was enacted in 1947.

The unanimous decision establishes that defining which workers fall under the exemption must be based on the kind of work they do rather than whether their employers are involved in interstate or international transportation.

The Supreme Court case involved a woman who worked at Chicago's Midway International Airport as a ramp supervisor for Southwest Airlines. She alleged that Southwest failed to pay overtime wages to her and others. She previously had agreed to submit pay disputes to an arbitrator.

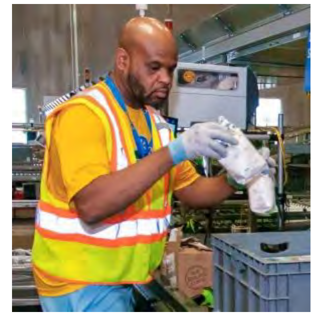
The High Court upheld the view that ramp agents and supervisors are not exempt because, while they are responsible for the handling of goods, they are not responsible for the transportation of those goods across state lines.

The justices said the Southwest manager is considered to be "a member of a 'class of workers' based on what she does at Southwest, not what Southwest does generally."

Attorneys for the Seyfarth Shaw law firm explain that the decision provides employers with ammunition for opposing arguments that are based on the kind of work "actually performed" as well as the connection of that work to the flow of goods across borders. As a result, the burden of demonstrating that the "transportation worker" exemption applies falls to the worker.

Walmart Builds Next Gen FCs

Walmart is building four of what it calls next generation fulfillment centers over the next three years, the first opening this summer in Joliet, Ill.



"These FCs will be the first of their kind for Walmart, using the powerful combination of people, robotics, and machine learning to set an entirely new precedent for us on the speed of fulfillment while continuing to create a positive work environment for our associates," the company explained.

It partnered with Knapp, a provider of intelligent fulfillment solutions, to develop an automated, high-density storage system that streamlines a manual 12-step process into five steps.

Following a pilot study conducted at one of its centers, David Guggina, senior vice president of innovation and automation, said "We have seen how the benefits of this technology are wide-ranging and include: more comfort for associates, double the storage capacity and double the number of customer orders we're able to fulfill in a day."

The four new FCs are expected to provide 75% of the U.S. population with next- or two-day shipping on millions of items, including Marketplace items shipped by Walmart Fulfillment Services.

"Combined with our traditional FCs, we can reach 95% of the U.S. population with next- or two-day shipping, and by making use of the expansive reach of our stores, we can offer same-day delivery to 80% of the U.S. population," Guggina noted.

The facilities will employ over 4,000 associates, including tech-focused jobs like control technicians, quality audit analysts and flow managers.

"Our priority is to strategically locate our FCs to pair most effectively with our 4,700 stores and 210 distribution centers," Guggina said. "Together, this system of fulfillment assets is optimized to get orders to customers fast and efficiently."

Mixing DCs and Retail Works

The NAIOP Research Foundation released a report examining trends related to the convergence of industrial and retail real estate, with implications for developers, investors and building owners.

This includes the conversion of shopping centers to distribution centers, adding distribution uses to existing retail buildings, and the development of mixed-use properties for both distribution and retail.

In the wake of the explosive expansion of ecommerce during the Covid 19 pandemic, functionally obsolete shopping centers can be attractive targets for conversion to distribution space given their size and location, according to the report's author, researcher Dr. Dustin C. Read.

However, developers should weigh these advantages against the costs associated with converting or demolishing existing buildings, possible political opposition and the difficulty of acquiring full control of a shopping center, he said.

Read also discovered that retailers are adding distribution capacity and online order pickup and return services to existing retail stores to enhance their customers' shopping experience.

He says new retail development also can minimize congestion in parking lots and store aisles by tailoring building and parking lot design to the needs of both in-store and online customers.

Developers already are pioneering mixed-use developments that co-locate retail and industrial space. Locations near transportation networks and population centers support both uses and onsite retail can serve as an amenity for logistics workers.

However, pedestrian safety requires careful planning to segregate industrial and retail traffic, and developers should be prepared to address local concerns about a development's traffic impact on adjacent roads, Read warns.

Worrying About The Monkeypox

Grabbing headlines is the newest infectious disease spreading atround the world called monkeypox. Should employers be worried?

Some, but not too much, advises Katherine Dudley Helms an attorney with the law firm of Ogletree, Deakins, Nash, Smoak & Stewart.

It is a viral illness with symptoms including body aches, headaches, fatigue and, notably, a bumpy skin rash. It is primarily found in Africa, but cases have begun to appear in the United States. It also has been seen in several European countries, Australia and Canada.

Monkeypox has an incubation period that generally lasts 7-14 days but can be as long as 5-21 days.

Unlike what we have been through with Covid 19, having to wear a mask will not likely be an issue with monkeypox, Helms notes. It is spread through infected animals, prolonged person-to-person contact, direct contact with lesion materials, or indirect contact through contaminated items, such as contaminated clothing.

Avoiding these will help prevent infection. Since frequent handwashing continues to be a good hygiene practice, encouraging this as a frequent practice by employees is an easy and effective way to address the threat.

According to public health officials, the risk of exposure remains low although there are expected to be more cases in the United States. Health officials believe the smallpox vaccination will offer some amount of protection from monkeypox.

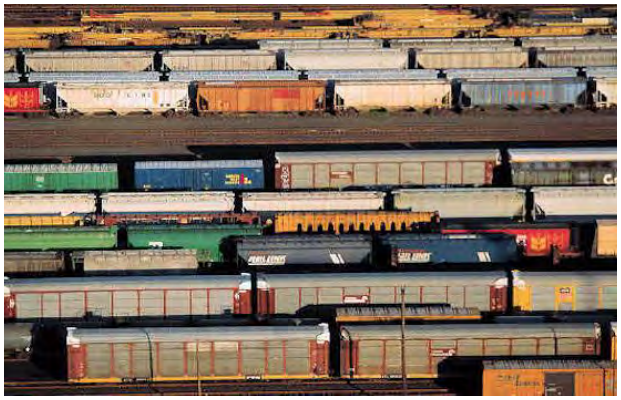
Helms recommended that employers who have employees who are expected to travel internationally, either for personal or business reasons, may consider educating them on the symptoms, how it is transmitted, and the fact that they may wish to consult with their own healthcare practitioners about the smallpox vaccination.

However, she says, "there is no indication that travel should be avoided or prohibited."

STB Threatens to Fine Railroads

The Surface Transportation Board is so angry with the nation's four largest railroads because they failed to meet orders requiring them to submit performance data reports and service improvement plans that it is threatening fine them.

"We are in the middle of a rail service crisis and the board continues to receive reports about persistent, acute and dramatic problems in rail transportation, disrupting critical supply chains and shutting down companies." said STB Chairman Martin Oberman on June 13.



"The freight rail industry is currently struggling to provide adequate rail service, yet the service recovery plans we received are woefully deficient and do not comport with the spirit or the letter of the board's order," he added.

Hearings held earlier this year by the STB and Congress laid bare a national rail system in near total disarray. Fall elections are under threat because of failure to deliver paper used for ballots. Dairy cattle and other livestock face starvation because the disruption of feed shipments.

Much of the blame for these service failures stems from the major railroads' extreme cost cutting – including firing tens of thousands of workers, who cannot easily or quickly be replaced, and then overworking the remaining staff until many leave.

Almost every corner of the economy has been impacted by service failures, including agricultural commodities, fertilizers and chemicals used for the production of drinking water to fuel. Top railroads executives blamed the Covid 19 pandemic, but the one Class 1 railroad that did not embrace extreme cost cutting, Kansas City Southern, was able to offer crews to railroads who were short staffed.

STB ordered the railroads to file regular performance data reports along with detailed action plans outlining how they intend to return to acceptable levels of service. Orders were directed at BNSF Railway, CSX Transportation, Norfolk Southern Railway and Union Pacific Railroad.

It was these railroads' failure to turn in acceptable data and detailed plans that outraged the STB. "The plans simply failed to instill confidence that the carriers have a serious approach to fixing a problem caused by their own lack of preparedness to respond to external shocks and fluctuations in demand, including especially short-sighted management of labor forces and other resources," Oberman charged.

"While the railroads must always comply with board orders, it is particularly disturbing that the railroads failed to comply with the order requiring them to file adequate service recovery plans. Under circumstances where service is not meeting customers' needs, this is not too much to ask from highly sophisticated companies with important public responsibilities."

The railroads omitted important information needed to assure the board and rail industry stakeholders that the largest "are addressing their deficiencies and have a clear and measurable trajectory for doing so," Oberman said. Of particular concern was that UP and NSR did not provide six-month targets for achieving their performance goals.

The STB chairman also informed the railroads that they could face fines. "I had expected a better response from the carriers to the board's previous order, and now with more explicit instructions, which should not have been needed, there will be no excuse for continued lack of compliance."

The board hopes its threatened fines will work. However, this seems unlikely when you consider that failure to comply could lead to the imposition of fines of up to $8,736 per day. This may sound mighty impressive until you realize that it amounts to a grand total of $3,188,640 over a 365-day year.

This amounts to little more than chump change for these giant corporations. For 2021, BNSF's annual revenue totaled $23.3 billion, Union Pacific's was $23.5 billion, CSX's $12.5 billion, and Norfolk Southern's $11.14 billion. Each probably could pay the fines out of their petty cash.