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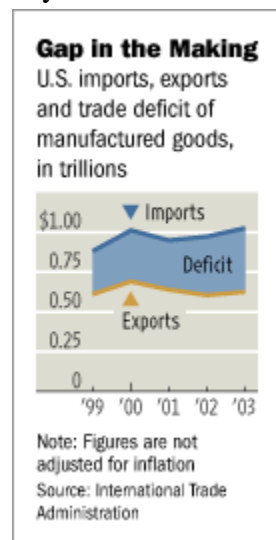
Manufacturers Cope With Costs Of Strained Global Supply Lines

By **TIMOTHY AEPPEL**
Staff Reporter of THE WALL STREET JOURNAL
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The rising cost and complexity of getting goods delivered is adding to the profit pressures faced by U.S. manufacturers and may indicate deeper structural problems in global supply lines.

Logistics has been a growing challenge since American companies sought to cut costs by shifting more production to countries where manufacturing was cheaper. The surge in global trade in recent years has added to strains and charges for all forms of transport.

As a result, some manufacturers are developing costly buffer stocks -- which can mean setting up days' or weeks' worth of extra components -- to avoid shutting down production lines and failing to make timely deliveries. Others are shifting to more-expensive but more-reliable modes of transport, like air freight, which is faster and less prone to delays than ocean shipping. Some companies are turning to new information technology to keep supply chains flowing and hiring experts to help determine the best U.S. ports to use each week.



American manufacturers have had a fitful recovery since the recent recession, with tougher competition on the global stage and a range of rising costs at home for labor, health care, raw materials and energy. U.S. overseas sites also feel the pressure of rising materials and energy costs. Manufactured goods made up about 85% of last year's \$472.4 billion deficit in goods and services, which factored in a hefty surplus in services as well as a small positive in agricultural products.

While the fall of the dollar is expected to boost manufacturers by making American exports relatively cheaper and more competitive compared with imports, it's unclear when relief will come on the logistics front.

U.S. exports of manufactured goods last year totaled \$627.1 billion, while imports of such goods, including components used by U.S.-based producers to make finished goods, amounted to \$1.03 trillion. That import side is expected to keep growing as more production leaves the country. The influx of imported goods creates bottlenecks in U.S. transport networks, affecting even domestic producers who take in nothing from overseas.

John Ficker, president of the National Industrial Transportation League in Arlington, Va., estimates that transport costs for manufacturers have increased 5% to 15% in the past year. Rising fuel prices are a factor, but so is the cost of shifting to more-expensive forms of transport and other premiums paid to get products to the market on time.

Youngers & Sons Manufacturing Co. in Viola, Kan., paid a premium to a local producer to quickly fashion metal parts -- ductile iron castings for use in construction equipment -- to replace a shipment from China that got stuck in a shipping delay earlier this year. Like most small U.S. producers, Youngers survives by promising its larger customers bulletproof delivery dates. Waiting for the delayed parts to arrive wasn't an option.

"Every problem you have adds cost," says Wayne Youngers, chief executive of the family-run maker of metal parts for oil-drilling, construction and hydraulic equipment. Youngers, which launched its outsourcing drive two years ago, had planned to be importing by now twice as much as it actually does. It has slowed the pace largely because of transport problems.

[Caterpillar](#) Inc., while reporting record net profit in the third quarter, acknowledged that supply-chain bottlenecks sparked higher operating costs that ate into the heavy-equipment company's profit margins. The company had to pay hefty premiums to rush supplies to its assembly lines as well as higher prices for commodities such as steel that were in short supply.

"We've had a challenge getting trucks to carry our machines to port to meet ships on time," says Jim Owens, Caterpillar's chief executive.

Stepped-up security also is boosting costs and delays. Things like more spot inspections and building fences around transportation hubs add to expenses. Bill Goff, general manager of Crawfish Center LLC in Ville Platte, La., a small fabricator of crawfish traps, was left scrambling earlier this year when a shipment of wire mesh got snared in a random security screening at the port of Los Angeles. The 10-day delay forced Mr. Goff to halt work on a large order and shift to items that were less in demand just to keep workers occupied.

Other U.S. producers are retaining their own assembly lines as a backup, and firing up production to fill delivery-related gaps. Producers usually shed or reduce domestic manufacturing capacity and facilities when they shift overseas. Companies also are looking for domestic backup suppliers for things they are buying overseas. It's a pricey alternative, and such suppliers aren't as plentiful as in the past.

Vernon Ellis, director of product development for Lawrence Hardware LLC, in Sterling, Ill., says the company uses its large U.S. factory as a selling point to reassure customers, which include many U.S. megaretailers.

"We tell them that if something does happen -- a terror attack or a port shutdown, we still maintain our capability" to produce, says Mr. Ellis. He adds, however, that the company, which imports about 60% of its products, doesn't like to do that, because of the lower margins on such U.S.-produced goods.

Lawrence is already looking beyond the end-of-year holiday shipping rush to the Chinese New Year, which falls in February. To prepare, the company doubled some of its overseas orders for shipment at the end of January, Mr. Ellis says, figuring that this will create a buffer to offset the several weeks in March when product won't arrive because of the holiday shutdown on the other side of the world.

John Hyatt, vice president of Irwin Brown Co. in New Orleans, a freight forwarder, says many U.S. producers are reconsidering how they operate their vaunted "just in time" systems, which cut costs by reducing inventories to a minimum. "The problem for manufacturers that use [just in time] is that they're really relying on transportation to serve as their temporary warehouse, but that's not working too well anymore."

No one suggests that factories will give up on just-in-time, but some companies are setting up distribution centers next to overseas factories. The centers will ship finished goods or components directly to an end customer rather than trying to bring goods into the U.S. first and then ship them to the customer. That can shave weeks off delivery schedules. Other moves include hiring third parties that specialize in operating global distribution systems, setting up warehouses closer to U.S. ports, and bringing in products through less overtaxed ports, including those on the East Coast. Companies are also investing heavily in new information technology that allows them to plan and schedule production and anticipate disruptions to far-flung supply chains

"If you look at what's happening to imports and the need to move containers across the country, we're at the beginning of a continuing capacity crunch -- in terms of ocean, rail and motor-truck movements," says Tim Vaio, vice president, supply-chain practice at Hitachi Consulting.

But even careful planning can't insulate companies entirely. When Pacific Cycle Inc. in Madison, Wis., a division of Canada's [Dorel Industries Inc.](#), reintroduced the Schwinn Sting-Ray bicycle in the U.S. this summer, it underestimated the demand for the classic design. The bikes are made in China and come into the U.S. through West Coast ports. The company expects to bring in as many as one million Sting-Rays by the end of the year -- 10 times what it expected to sell -- and is still scrambling to get them to stores now.

Wayne Thompson, Pacific's director of global logistics, says the company increased its "safety stocks" of all types of bikes earlier this year. He expected snags this year, but admits he was surprised by the severity of the problems.

Pacific had thought it would avoid problems in Southern California ports by bringing the hot-selling bicycles in through the port of Oakland, a smaller facility that it figured would be less prone to delays. But many of the ships that unload in Oakland first stop in Long Beach or Los Angeles -- so the bicycle shipments got caught in the backup in those ports, as ships waited extra days to be unloaded and sent on their way. For next year, the company is already planning to use shippers which come straight to Oakland from Asia, rather than stopping at other ports first.

For many companies, the savings from going outside the U.S. are simply too great to forgo. They figure that ports, railroads and trucking companies will eventually expand capacity, particularly given the expectation that imports will continue to grow.

The North American division of France's [Schneider Electric SA](#) has hired a freight forwarder to help it assess -- on a weekly basis -- which U.S. ports to use, as it proceeds with plans to outsource some production to Asia early next year. Ben Mathews, vice president of supply management, says inventory buffers are being added in case of disruptions. Though costly in the

short run, Schneider expects to save anywhere from 10% to 30% on the items it sources in Asia, even after factoring in the costs of handling and holding the excess inventory.

"You can hold a whole lot of inventory before you eat into those kinds of savings," says Mr. Mathews.

Companies are finding ways to lessen the impact of holding those extra stocks. [Moen](#) Inc., a bathroom-fixture maker in North Olmsted, Ohio, that is part of Fortune Brands Inc., Lincolnshire, Ill., raised inventories of some imported components, but cut stocks of others, after gauging the susceptibility of various items to transportation delays. The company has also streamlined production in its U.S. factories, allowing it to continue curbing stocks of finished goods.