

# MM&D

MATERIALS MANAGEMENT & DISTRIBUTION

CANADA'S SUPPLY CHAIN MAGAZINE



## Going bananas

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# Trends IN LOGISTICS MANAGEMENT



Some have suggested 2018 will be a challenging year for business. That's why we decided to share a number of our top trends that will shape the landscape in the coming year and beyond.

In the following special section you'll read about network design, customer service, supply chain visibility, cost control, automation and HR and risk management. A common thread we found this year is the prevalent concern about staffing. Whether it's figuring out how to automate, or locating your facilities where there are qualified personnel available, finding and managing human resources is top of mind for many supply chain executives.

## Network design trends

Land, staffing and access remain priorities

By Treena Hein

**D**istribution centre location and network design have become increasingly important issues for senior management, "and never more than in the current environment of uncertainty over trade relations and agreements," states a recent report by location consulting firm The Boyd Company of Princeton, New Jersey.

Transportation issues, labour availability, customer service strategy and much more play roles in designing a distribution network that's going to see a company thrive through the next few years, but cost is obviously an overriding factor. In terms of the least costly

location for a DC that would serve the huge Northeastern US megalopolis market – the richest, most highly-concentrated mass marketplace in the United States – The Boyd Company analysis puts Eastern Ontario (communities along the 401 Highway between Toronto and Montreal) on top.

### Human resources

Indeed, Cornwall, in that very region, has seen significant growth in supply chain activity. Of all its benefits, Cornwall's economic development manager Bob Peters believes human resources is perhaps the most important. Cornwall puts a strong emphasis on

helping companies with their supply chain networks, he says, by providing lots of help with recruitment. City staff attend job fairs on behalf of companies, for example, and also post jobs on ChooseCornwall.ca.

"We may be only Canadian municipality to run a job board for area companies," Peters notes. "Cornwall has also heavily invested in the Cornwall Business Park, and currently offers over 300 acres along Highway 401 for immediate development. We have excess capacity in municipal services such as water, electrical rates that are as much as 25 percent below other Ontario communities and a robust fibre-optic communications network. We have supported the development of logistics and supply chain studies at St. Lawrence College."

While both Walmart and Giant Tiger have chosen Eastern Ontario for new DCs, Sleep Country Canada recently chose Brampton in





southern Ontario. This will help the firm boost capacity in the Greater Toronto Area to support aggressive growth plans for years to come, which includes new store openings and growth in new categories such as lifestyle accessories, the company said in a statement.

### Proximity

Leon's Furniture chose Delta, British Columbia for its new 430,000-square-foot DC for easy access to import goods. While land prices and the reliability of the builder were also important, the firm says it chose Delta because "it's becoming the largest seaport in Canada" and because Leon's receives a very high volume of product from Asia.

John Boyd, principal at The Boyd Company, notes that congestion and delays are becoming increasingly common at major US ports, "creating opportunities for Canadian ports to gain market share in the growing North American container shipping market". In addition to Delta, these port locations include Saint John, New Brunswick; Prince Rupert, BC; Halifax, Nova Scotia; and Montreal, Quebec.

Indeed, Delta's port could see the addition

of a new terminal in the next few years to take advantage of the growth in trade with Asia-Pacific countries. This terminal would double the port's shipping container capacity.

In addition to port, rail and highway convenience, "with the extremely limited industrial land inventory remaining in Metro Vancouver, Delta is one of the few municipalities that has industrial-zoned land available for development," says Delta's director of corporate services Sean McGill. Delta also has incentives in place to encourage industrial development, a business-friendly atmosphere and safe residential communities, which McGill describes as "ideal for raising families, which means DCs are able to find quality local employees because people want to live, work and play here."

### Omnichannel strategy

DC positioning aside, customer service strategy is also a large factor in network design. In the US Target is undergoing a significant network change in the name of better service as it shifts to more small stores. The firm opened 11 small-format outlets in October this year in New

York and four other locations, with more to come in 2018. Target also plans to remodel 1,000 of its 1,800-plus stores by 2020, stating in a press release that they will "serve as hyperlocal distribution centers to fulfill digital orders faster" as the company creates "a networked shopping experience, with stores, digital channels and supply chain working together..." Target adds that it is "transforming the way we replenish our stores."

When asked for specifics on how remodelled stores will serve as hyperlocal DCs for faster fulfilment of digital orders, Target communications lead Kristy Welker says it's about mass customization and being locally relevant.

"In the last few months, we've expanded ship-from-store capabilities from 1,100 to 1,400 stores in advance of the fourth quarter," she says. "Today, more than 95 percent of 'Order Pickup' orders are ready to be picked up within the hour." Welker did not comment on how Target is "transforming" the way it is replenishing its stores, other than to say that the firm's small-format stores receive more frequent product delivery. **MM&D**

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# Cost Control

Costs remain a top concern

By Treena Hein

Costs and how to cut them are always forefront in supply chain management. Indeed, survival in today's current business climate requires "the need to be ruthlessly efficient," says one supply chain executive quoted in a recent white paper from the 'Beyond the Horizon' research project, conducted by Michigan State University's Patricia Daugherty and David Closs in partnership with the APICS Supply Chain Council.

To be sure, companies are using a wide variety of cost-cutting measures in their supply and distribution networks, but one major factor is the strategic placement of large, highly efficient DCs. Leon's Furniture, for example, just opened a state-of-the-art 430,000 square foot DC in Delta, BC that it says will "generate meaningful cost savings and efficiencies over the next several years" as its online and bricks-and-mortar businesses continue to grow. The company names good land prices, as well as the growing port traffic and their building contractor's reliability as the main factors in deciding on Delta.

## Industrial rents

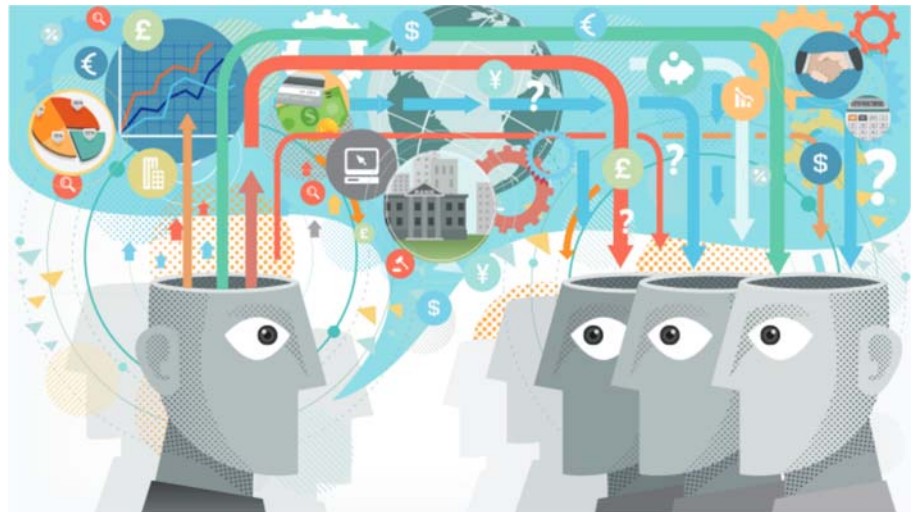
Besides a strategic facilities plan (including the consideration of leasing a building versus ownership), Jesse Micak, principal at LIDD supply chain consultants of Montreal and Toronto, lists labour, transportation costs and IT systems—as well as investments in the necessary human to keep them effective—as increasing areas of cost concern in supply chain roadmaps.

"Industrial rents for warehousing space are also expected to see healthy increases on both sides of the border," states a recent report by location consulting firm The Boyd Company of Princeton, New Jersey, "in the range of 6.2 to 8.5 percent nationally and well over 10 percent in hot Northeast and Eastern Canadian warehousing markets like Toronto, the Boston area and New York and New Jersey."

Principal of the firm, John Boyd, adds that the fact that the Canadian dollar has remained in the 70 to 80 cent range against the US

dollar for much of the past year has built up demand for DC space related to more affordable Canadian manufactured products.

"Warehousing lease rates, especially for modern big box facilities, are on the upswing in all major Canadian logistics hubs from current averages of \$8.10 to \$11.00 in the Vancouver market; \$6.80 to \$7.10 in the Calgary market; \$7.60 to \$8.20 in the Edmonton market; \$6.55 to \$7.20 in metro Toronto and \$4.65 to \$7.95 in Montreal," he explains. "Flat shipping rates are helping to moderate overall DC costs, but they contrast sharply with hefty increases in other DC oper-



ating costs related to Canadian real estate, construction and labour, up 6.2, 5.9 and 2.7 percent respectively, from 2016 levels."

## Outsourcing staffing

Boyd says his clients are increasingly outsourcing staffing and HR functions to specialized third-party agencies specializing in the logistics sector in order to keep inflationary labour cost pressures in check, especially for recruiting, training and discretionary benefits. Other operating costs such as taxes and utilities are also critical, given continued price pressures from off-shore competitors. "Improving the bottom line on the cost side of the ledger is the only choice for many DC operators," Boyd notes.

However, Canada is well positioned in North America for DC cost effectiveness in



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Boyd's view, due to the exchange rate, low land costs, absence of development fees in many markets and lower benefit costs (owing to Canada's health-care system). "Accounting firm KPMG ranks Canada first among the G7 nations in terms of tax policies because of its low corporate taxation rates," he adds. "These advantages tend to offset administration issues at the border."

Circling back to technology, Boyd identifies "considerable" future savings in the use of semi-autonomous trucks, where trailing trucks are electronically tethered to a lead human-operated truck, a process known as platooning. Ford Motor Co. is establishing a major autonomous R&D centre in Ottawa and General Motors of Canada will be opening a similar research facility in Markham, Ontario.

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