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Can Retailers Survive the West Coast Port Mess?

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First the bad news: The chronic congestion tying the West Coast ports in knots is on track to cost U.S. retailers some $7 billion this year, and losses could total nearly $37 billion by the end of 2016.

And the good news? At the moment, there doesn’t seem to be much to speak of.

But perhaps there is less-bad news: Even as retailers grapple with endless shipping delays, missed sales

and financial losses, it is within their power to break free of the logjam at the Port of Los Angeles. Indeed, there are other shipping options available to retailers, and they are already beginning to implement them, from rerouting goods to other ports to buying and warehousing extra inventory. The problem is that these are expensive fixes with a limited shelf life, and they have already put a crimp in some retailers' earnings.

It isn't a pretty picture. Rock-solid assumptions about the economics of shipping goods in from overseas have been irreversibly disrupted. Last year's costs are neither a relevant nor reliable baseline, and retailers, already facing stiff financial winds, are bracing for a gale. Welcome to the new normal.

What's up at the Port?
Admittedly, the Los Angeles port gridlock has been a long time coming, brought on by a perfect storm of chassis shortages, insufficient truck and rail capacity, too many too-big-to-fail vessels converging on overtaxed ports, and, of course, a simmering dispute between the Pacific Maritime Association and the International Longshore and Warehouse Union.

While the causes of the gridlock are well-documented, there is a Rashomon-like variability in our interpretations of the story, and who is really to blame. Some retailers and industry observers have suggested that the LA port strike is the core issue and that the situation will ease once the dockworkers and the port and shipping operators work out a deal. The reality is not that simple.

The port mess is not just about slowdowns, stoppages and lockouts. Labor-management standoffs always get resolved and eventually this one will too. But that won't make the problem go away, because the causative factors are as overdetermined as they are ruinous. This is a chronic ill that won't yield to easy cures.

What's the impact?
That said, there are work-arounds, but for now, it's only the retail giants that are well-suited to pursue them. The fact is, if you import upwards of 50,000 containers a year, you're moving much of it through Los Angeles and Long Beach because those have historically been the fastest and most economical ports of entry. But like a prudent investor, you're well-diversified: You have the infrastructure in place to receive shipments from all major U.S. ports, so it's a relatively simple matter to reallocate your spend, say, by shifting two or three percent of your shipping from Los Angeles to Seattle or even New York. True, it will cost you a lot more and take you longer to move your goods — but it's doable.

However, if you're a smaller retailer — even a highly profitable one — you probably lack sufficient sales volume to operate out of multiple ports and don't have the flexibility to relocate. It's Los Angeles or nothing, unless, of course, you can import your goods by air. Some fast-fashion companies, which send smaller shipments via air and have already built that cost into their pricing, have an advantage here.

For large, mid-size and smaller retailers, these are painful dilemmas that demand carefully worked-out solutions, but decisions have to be made. With Washington evincing no appetite for stepping in, retailers need to investigate new supply chain options — fast.

What can retailers do?
Some retailers are already using more expensive shipping options such as air freight. Others are temporarily shipping to other ports, such as Seattle and Portland, but those too are dealing with their own glut. As I've noted, these are short-term remedies at best.

Over the coming weeks and months, retailers will need to make significant capital investments in port

equipment, including the chassis they need to unload their goods. They'll also need to find more durable ways to hedge their exposures to West Coast ports, such as infrastructure buildouts, partnerships and outsourcing opportunities. There has been much discussion of routing more ships from Asia through the Panama Canal to ports on the Gulf and East Coasts.

But even these measures will eventually prove of limited efficacy. Longer-term, retailers will need to invest in supply chain visibility technologies, giving them the end-to-end perspective that makes it possible to reroute shipments around a port strike, or to locate a product shipment in transit to provide customers with accurate backorder estimates. They will also need to rethink their sourcing strategies and give more serious consideration to near-shoring. Railing goods up from Latin America and Mexico could be a more practicable solution than shipping them from Hong Kong to Boston and New York.

But the solution with the greatest staying power will be to bring manufacturing back to the U.S. Outsourcing and importing made good business sense when the costs of labor, goods and transportation were vastly lower, but in many industries, the scales have already tipped: For example, it is now cheaper to source and produce furniture domestically than to import it.

In 10 years, "made in America" may be the norm. When all is said and done, that may prove to be the good news that's currently in such short supply.

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