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A Sweet Spot for LCL

The faster than traditional ocean, yet cheaper than air alternative.

One of the newest transportation options available to shippers transporting products from Asia to the U.S. is gaining in popularity. Less-than-container-load (LCL) shipment options began to be offered about five years ago by leading ocean carriers and leading international cargo delivery trucking companies. The 'sweet spot' targeted in these transportation options is the niche between dependable, time-reliable yet expensive airfreight carriers and cost-effective, yet slower transit offered by ocean carriers. The LCL alternative combines cost and speed advantages, offering shippers time-definite and cost-effective service for products that need to get to their destination faster than traditional ocean service.

WT100 checked in with the providers of two of these LCL services to find out how the service operates and the advantages these services offer shippers with a tick-tock supply chain.

OceanGuaranteed LCL Service

Several years before APL Logistics and Con-way Freight partnered to provide their OceanGuaranteed LCL service, APL began testing the waters by conducting customer forums that included potential shippers from retail, manufacturing, and e-goods importers.

"We quickly realized that there was a definite need for this service because shippers were airfreighting cargo on a just-in-case basis," reports Tony Zasimovich, vice president of international logistics services for APL Logistics. "But in many cases, while paying high costs for airfreight service, the products shippers brought into the country wound up being delayed or just sitting around. We realized there was a huge need for many shippers to have a buffer inventory. So we launched this service that would provide guaranteed, time-definite service with all of the predictability built around that, yet with significant cost savings."

Then, APL targeted the major global sourcing areas, which was primarily China, Japan, North Asia, and Singapore. "We looked at where the majority of airfreight tonnage was originating from, so we could design a service that would offer a very strong competitive alternative service to airfreight," explains Zasimovich.

Zasimovich notes that APL's partnership with Con-way is unique and is the marriage of the best asset-rich companies in the industry. "OceanGuaranteed is structured as an asset-based service with absolute control of port terminals, ships, and trucks with a service reliability level of 98 percent. If you don't have control over the global supply chain process, you cannot guarantee the service, as we can." The service

ships from 11 Asian ports, primarily into the Port of Los Angeles and to a lesser degree into the Port of Seattle.

Gary Smith, director of marketing for Con-way Freight, adds, "Con-way is best-in-class in LTL cartage and APL is best-in-class in ocean and origin handling and each company is premium-service oriented. APL provides a single invoice and a single phone number so the process is totally seamless and shipments are not handed off from company to company." He notes that traditional ocean transit could take up to three or four days just to unload a single ship.

"OceanGuaranteed is this sweet spot in the middle of the two extremes in terms of cost and time," continues Smith. "We can offer day-definite delivery because we guarantee that your shipments will be last on the vessel at the point of origin and first off at destination. This is where you get the 30 percent savings in time and the day-definite guarantee by shaving off days on the front end of loading and the back end of unloading."

Having control over the end-to-end supply chain is critical to the success of this model. "We examined where we had direct service versus relay feeder service," continues Zasimovich. "Because when you relay at a hub port, you may not control all the variables you need for a precise service like this. So we focused on key sourcing markets where we had direct-line service so we could control or minimize any delays or any handoff issues." Owning its own terminal at the Port of Los Angeles contributes to the control required.

OceanGuaranteed is about 30 percent faster than standard ocean transit and costs up to 75 percent less than traditional airfreight, notes Smith. "The service offers origin-to-destination in about 13 days from Shanghai to the Port of Los Angeles. "It is the fastest or near-fastest service in the trade," reports Zasimovich. "The important part of the service is the immediate discharge of our cargo as soon as the vessel arrives in the port."

At the point of origin, vessels must be loaded in a certain way in a guaranteed block on the ship. This allows for immediate discharge of containers at destination. Cargoes are quickly transloaded from containers to trucks and then they enter Con-way's network immediately. Shipments from the West Coast to the East Coast are delivered within five days or less—and most times on average of three days. "This is because Con-way operates dedicated teams to drive trucks so they can continue to move in transit without stopping," Zasimovich explains. He adds that rail is a seven- to eight-day transit coast to coast; normal trucking takes six days, while OceanGuaranteed is just a three- to five-day transit across country because of the team drivers.

The service offers the fastest handoffs on ocean and land as possible, according to Zasimovich. "We offer tremendous data feeds throughout the supply chain so customers have full visibility and can see every handoff and every transaction." He adds that OceanGuaranteed service is about \$1.70 per kilo—about 60 percent to 75 percent less than the standard airfreight of \$4, \$5, or \$6 per kilo.

This service is well suited for retail, apparel, automotive, and e-goods shippers, Zasimovich says. The service is zip code based and delivers to about 45,000 zip codes in the U.S. to the DC, to the store, and even to home deliveries.

Preferred LCL

In May of 2010, UPS launched Preferred LCL Ocean Freight (Preferred LCL), its second LCL service, which is designed for faster transit and day-definite delivery, reports Jimmy Crabbe, vice president of global ocean freight services based in Atlanta. The Preferred LCL service began shipping out of Japan into the Port of Los Angeles; then just a few months later, in the first quarter of this year, UPS added origins out of China, Korea, Taiwan, Hong Kong, Vietnam, Thailand, and Singapore. “We added these locations to our portfolio of services because we saw a need in the marketplace for a faster, guaranteed, and more time-definite LCL service, which differs from our standard LCL offering,” Crabbe says. The two entry points for this service in the U.S. are the Port of Seattle and the Port of Los Angeles.

Preferred LCL offers the perfect niche between traditional slower and less expensive LCL and the traditional, more expensive yet faster consolidated airfreight option, Crabbe explains. “This new service sits right in between both of those traditional services from a transit-time standpoint as well as from a price perspective. It provides our customers with the option of a service that is faster than standard LCL transit and cheaper than airfreight.”

Because of the predictability of transit time the service requires, UPS has a dependable stable of primarily tier 1 ocean carriers to operate Preferred LCL services. “As a global top ten NVO logistics provider, we have a significant amount of containers moving from any point in the world to any point in the world,” reports Crabbe. “Consequently, we require extremely high-volume commitments with multiple shipping lines. This model offers us a high degree of flexibility in terms of using the ideal carrier to support the specific service requirements this Preferred LCL service offers to our customers.”

From the time containers arrive at the U.S. port, they are immediately moved into UPS’s asset-based network so UPS can meet the transit-time commitment deadlines of its customers. “Our shipments are bar-coded and tracked in the same way that a UPS package is tracked throughout the supply chain journey,” explains Crabbe. “But in this case, we are tracking a container which is being pushed through our logistics network using the same UPS technology upon which we built our reputation in the industry.”

A lot can happen throughout ocean transit—such as inclement weather conditions, Crabbe says. “With the flexibility our UPS domestic network provides, we can expedite shipments as soon as they touch ground in the U.S., allowing us to meet those day-definite commitments. We have the means within our network to change the routing, if necessary, of a particular Preferred LCL shipment to make that transit-time commitment—just like we do with any other package we ship.”

Crabbe reports that Preferred LCL shipments are within the control of UPS throughout the global supply chain journey, from origin to destination. “We can shave off up to 40 percent of the door-to-door delivery transit time offered by standard LCL services. Our delivery commitments are very reliable and they are something that we measure very closely. Customers using Preferred LCL services can reduce their inventory, both at origin and at destination—which results in leaner supply chain optimization.”

The service opens new opportunities for traditional consolidated airfreight shippers. “These shippers could reap substantial savings if they can afford a longer transit time by adding a few days to their transit time. They need to ask themselves if their supply chain can sustain this method. What is important to remember about Preferred LCL service is that it is reliable and predictable. What makes it such an attractive option is that it focuses on that nice niche.”

Although the service is designed to accommodate every industry sector, Crabbe notes UPS is seeing a high degree of interest from among traditional airfreight shippers such as high-tech retailers and manufacturers, e-goods retailers, retail automotive, and healthcare. “For traditional ocean freight

shippers—such as retailers and automotive suppliers—who want to speed up their supply chain by paying a bit more, but not as much more as using airfreight, this is an option worth examining.”

UPS has high expectations for the continued success of this service. “We are focused on an untapped market right between consolidated airfreight and standard LCL,” says Crabbe. “Furthermore, the service is supported by the UPS domestic network and UPS technology, which offers the best price-to-quality ratio you can find in the market. So, what I suggest to shippers is that they ask themselves how often they use airfreight and could they consider using a less expensive reliable service such as Preferred LCL simply by making small changes to their supply chain.” wt

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