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Winning Direct Import Supply Chain

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Abstract

This abstract provides a concise overview of strategies for improving the ordering and optimizing supply chain for a direct import business. As businesses increasingly turn to direct import models to streamline operations and reduce costs, the need for effective optimization becomes paramount. This article explores key strategies, including Consolidation, Planning and sustaining the right inventory levels, Demand and Supply levers, risk assessments and mitigation, supplier relationship management, technology integration, legal compliance, and sustainability initiatives. By delving into these approaches, companies can navigate the complexities of international trade, enhance communication, mitigate risks, and ultimately establish resilient and efficient direct import supply chains that contribute to long-term success and competitiveness in the global marketplace.

Keywords:

Direct Import;
Vendor Collaboration;
Ocean Freight;
Inventory Turns;
Containerization.

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1. Introduction

Direct Import Supply Chains offer businesses the opportunity to cut costs and enhance efficiency by bypassing intermediaries and establishing direct relationships with international suppliers. However, successfully managing a direct import supply chain requires careful planning and the implementation of effective strategies. In this article, we will explore some of the top challenges faced and key strategies that companies can adopt to optimize their direct import supply chain operations. Readers can find several published articles on direct import businesses and strategies that have helped them to elevate the performance and achieve goals. This article not only touches on the overarching strategies that can be applied across industries, but it also attempts to shed some light on reactive as well as proactive approaches, common pitfalls and ways to mitigate them. Additionally, it gives a perspective from the supplier side as well, which could be critical when setting up solid relationships and seamless execution.

In its basic form, Direct Import Supply Chain involves moving finished goods or raw materials from overseas to our domestic warehouses in a timely fashion, so as to make it available to our customers or post processing (conversion to finished goods for customers). Mode of transportation could be air, ocean, railroad (domestic) or a combination of all.

2. Approach

The approach taken in this article is to identify the top challenges faced, their respective impact on the organization and follow through with few overarching strategies that could help us to get ahead of the situation. An additional deeper look is then taken by breaking down our options into 2 buckets – Demand and Supply. In all these steps, the article also tries to review what the organization wants and how it impacts the supplier priorities and ultimately how it ties back to the preferences of the organization's customers. The methods used are based on real life experiences with Direct Import Planning, and references from theories/articleson this subject.

3. Results and Analysis

The strategies and fidings are broken down broadly into the following areas.

3.1. OCEAN / AIR FREIGHT

Choosing between ocean freight and air freight is critical decision and each has its own benefits and disadvantages. Cost benefit analysis could be done to compare various attributes such as price, size of shipment (bulky items), environmental considerations, stable schedules, transit times, accessibility, holding costs and product types (seasonal Vs. evergreen, perishable items, high value items etc.). Striking the right balance between these attributes and the organization's priorities is crucial for building an efficient and effective international supply chain.

3.2. CONSOLIDATION

Price is one of the most critical factors for the organizations considering Direct Import Supply Chain and that means minimizing air freight and bringing the raw materials or inventory via ocean freight could be the chosen option, unless the nature of the product or cost benefit analysis demands air freight. For ocean freight, leveraging 40-foot containers is the most common practice, to get the biggest bang for the buck. What this entail is that the organization could potentially end up bringing egregious inventory levels, resulting in high storage costs, locked up inventory and capacity issues. Another problem stemming from this is disproportional inventory levels within certain regions of the organization's network, leading to negative customer experience as well as incremental expenses for inventory re-balancing. The option to consolidate inventory at the source and destination would be a great solution to mitigate these risks.

Consolidation at the source could be leveraged to ship products from multiple overseas vendors, thereby reducing the Days of Coverage (DoC) you need to bring inhouse on a single shipment. This means more control over your inventory levels, enabling the business to prioritize your top products and bring in limited quantities of slow movers, supporting higher inventory turns. Although a significant investment, this could partially be offset by the expenses incurred for ensuring quality at the vendor facilities and help to reduce downstream negative impact owing from lower quality products.

Days of Coverage (DoC) = Inventory on Hand / Average sales

Inventory turns = Cost of Goods Sold / Average Value of Inventory

Consolidation at the destination is another main strategy that can be applied to avoid sending inaccurate quantities to the final destination resulting in inventory getting locked up. Due to the longer lead times (usually 30-45 days in transit alone + the production / vendor processing time), the demand picture would have materially changed by the time product arrives into organization's warehouses. Consolidating the destination helps to store and tranship the units required at the time and hold remaining inventory, thus minimizing unnecessary inventory re-balancing efforts.

3.3. INVENTORY TURNS

If you have products that are sourced from overseas or those with long lead times, inventory turns is one of the top metrics that you would pay extra attention to. Domestically sourced products will have the luxury to course correct quickly, even if an erroneous decision landed you with excess inventory or depleted your inventory. For long lead time products, you would pay a much heftier price and could lose customers for ever owing to the tight competition.

An estimation of targeted service levels to your customers for these specific products or product categories could be a good first step here. Products could be grouped into several buckets based on category, brand, velocity etc. and each group could carry a targeted service level to its customers. Once this is finalized, the safety stock levels can be derived based on these target service levels. A standard formula is as shown below.

Safety stock = $Z \times \sigma LT \times Davg$, where:

σLT =standard deviation of lead time

Davg = average demand

The organization could continuously evaluate the safety stock levels by monitoring and refining the target service levels based on customer behaviour and preferences.

3.4. INVENTORY SAFETY AND QUALITY

Inventory ownership and quality assurance is one of the critical pieces of the Direct Import puzzle that the organizations continuously work on. Establishing stringent quality control measures to ensure that products meet or exceed specifications in unavoidable step for sustaining the customer experience the organization aims for. Implement regular inspections and audits at supplier facilities. This proactive approach minimizes the risk of defects, improves product quality, and enhances customer satisfaction. Integrate sustainability into the supply chain by selecting suppliers committed to ethical practices and environmental standards. Aligning with sustainable and responsible partners not only meets corporate social responsibility goals but also mitigates reputational risks. As outlined in the earlier section, some organizations opt to invest to establish a consolidation centre overseas to not only support inventory flow, but also to facilitate a tighter Quality Assurance (QA) process within their control.

3.5. DEMAND LEVERS

Gauging the change in customer preferences or demand picture in a timely manner is not an easy task for any organization. Segregating the top products by pareto analysis or a similar process and running a separate strategy for these versus the slow movers would be handy. Organization often rely on several models or data analysis methods such as evaluation of click through rates and conversion rates to continuously track the customer demand and refine strategies. One area that often gets reduced attention is New Product launches or expansion of assortment. Dedicated strategies and close monitoring of customer feedback or adoption has to build into the planning process, especially if these new entrants are coming from overseas.

Several organizations implement an 'Integrated Business Planning' (IBP) process which acts as strong ally to review the past performance, customer trends, future promotions and risks to quickly turn around and apply corrections and fixes to sail forward in order to meet the annual operating goals. The beauty of this process is that all relevant verticals take part in this exercise, the outcome of which will be actionable workstreams for each of the verticals to close the gap towards the goal. The idea is to support each other, have visibility to the common goal and triangulate the numbers between functions such as Finance / Accounting, Inventory Planning and Warehouse Operations.

3.6. SUPPLY LEVERS

There could be several short, medium- and long-term strategies pursued in this section and it varies by the nature of business, organizations priorities, life cycle etc.

a. MOQ and Lead Time – Minimum Order Quantity (MOQ) and Vendor Lead Time (VLT) which refers to the time it takes from the time you order to receive the product into your warehouse, plays a critical role in your Ordering Strategy, inventory levels and turns. Strong negotiations to minimize MOQ and lead time or even ratcheting it down in phases are common in the industry to keep the inventory levels in check. Lower these numbers, the better for the organization.

b. Assortment Review and SKU Rationalization – Frequent review of assortment is of great importance to the overall success of Supply Chain as well as the business. Although, the widest / biggest selection is always better from a customer standpoint (as it gives the customer a lot of options to choose from), this is not always viable. Retails giants such as Amazon and Walmart often keep this as part of their principles, but unless you have the sales volume at that level, keeping all selection available under the sky can often backfire. Trim selection if they are not adding value to your customers and creates overhead for your business. However, make sure that they are not leaving a void in options to your customers after carefully evaluating factors such as substitutability, brand loyalty, demographic preferences etc.

c. Containerization – There are several analytical models available including standard out of the box modules from software companies such as Blue Yonder, Manhattan Associates etc. which could help you build efficient containers for your overseas import planning. A strong analytics team of your organization could even build an inhouse tool in Python, R etc. The goal is to minimize the buffer on slow movers and bring in the appropriate amount of products that was calculated per your safety stock levels. In other words, any efficiencies stemmed from the need to containerize should be minimized. The model should also consider the projected capacity utilization of your warehouses and plan accordingly.

d. Planning around Supply gaps - Keeping a close track on the pulse of ocean transportation including weather disruptions, port congestions etc. and vendor closures such as Chinese New Year (CNY) are critical when bringing inventory from overseas. Diversification of port options whenever possible will help minimize dependencies. It is imperative to monitor global container availability and anticipate potential shortages or imbalances in specific regions on trade lanes. Maintaining proactive communication with shipping lines and freight forwarders will help secure container bookings in advance. Advanced tracking technologies such as RFID, IoT sensors, Cloud-based tracking platforms etc. could be utilized to monitor cargo movements in real-time and proactively identify potential disruptions. There are several options available for collaborative platforms or digital solutions that enable transparent communication and information sharing among supply chain partners including carriers, shippers, freight forwarders and custom brokers. Clear communication channels and escalation processes should be established to address delays or exceptions in a timely fashion to minimize the impact to operations.

e. Vendor Collaboration - Cultivating strong relationships with international suppliers is crucial for the success of a direct import supply chain. Regular communication, transparency, and collaboration can help build trust and facilitate smoother operations. Consider visits to supplier facilities to better understand their capabilities and processes. Overcoming language barriers is essential in international trade. Utilize clear communication channels and, if necessary, employ translators or bilingual staff to facilitate effective communication between the buyer and the supplier. Emphasize the importance of accurate documentation and specifications. Quality control can also be improved by effective collaboration with vendor partners. Scheduling regular touchpoints to share forecasts, initiating standing orders (for example, X unit of top mover products every month), commitment to buy back if supplier holds inventory solely for your business, smoothing out orders and locking a forecast plan for evaluation on accuracy etc. some of the strategies that could help build trust and confidence with suppliers.

f. Delayed Allocation – This would be a strong addon if leveraged with the right level of vendor collaboration. Delayed allocation simply means, you are delaying the determination of the quantity needed to be shipped until the sail date. This would mean that vendor could start their production based on a set quantity that is either communicated in advance or through an order, but at the time of shipment, the quantity needed is changed. Vendor has to agree to hold the manufactured units earlier committed for a defined period of time. The organization should also ensure the quality of the product is not compromised at the vendor premises used for storage. The advantage to this collaborative mechanism is to reduce inventory holding costs and utilize the space for other products that are more relevant at the time.

g. Inventory Re-balance – If consolidation of imported inventory domestically is not feasible, the business could consider re-balancing inventory in the network. A cost benefit analysis could guide the business to compare against holding cost, transfer cost and cost to provide incremental customer experience. This strategy should go hand in hand with the determination of substitutable items that customers are okay to shift to in case their original choice is unavailable.

h. Diversification of Suppliers - Consider diversifying sources to minimize dependency on a specific region or supplier. This strategy can provide flexibility and resilience in the face of disruptions, ensuring a more robust supply chain.

3.7. TRAINING AND LEGAL/REGULATORY COMPLIANCE

To sustain the efficiencies and continue to adapt to the changing needs for Direct Import Supply Chain, it is an integral to invest in the professional development and training of staff involved in direct import operations. Equip them with the necessary skills and knowledge to navigate the complexities of international trade, cultural differences, and evolving global market trends.

Staying abreast of the legal and regulatory requirements in both the exporting and importing countries is an important step for a successful Direct Import Supply Chain execution. Work closely with legal experts to ensure compliance with customs regulations, import duties, and other international trade laws. This proactive approach can prevent costly delays and penalties

4. Conclusion

Optimizing a direct import supply chain involves a combination of strategic planning, effective communication, and the utilization of advanced technologies. By addressing the challenges inherent in international trade and implementing these strategies, businesses can create a resilient and efficient direct import supply chain that enhances competitiveness and fosters long-term success

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