

THE SUCCESS OF 3PLS AND MEXICO AS A LOGISTICS HUB

THE CONTINUED CASE FOR NORTH AMERICAN SHIPPING





We love to put **order** in your chaos.

Morai Logistics Inc. is a 3rd party logistics provider with an operating agency agreement representing Mode Transportation. We are a powerhouse logistics team based in the Greater Toronto Area and do business throughout North America, including Mexico. Our team is dedicated to our terrific clients and we strive to take the chaos out of your supply chain. We are always on the lookout to do exceptional work with remarkable people and companies!



Introduction

On February 4, 2014, we released a **white paper** detailing the different ways the logistics landscape had changed. Developments in the industry had created new challenges and opportunities all along the supply chain, shifting the world of transportation.

The last few years has seen many **developments** in the realm of logistics. The recent carrier, port, and labour issues; rate instability, primarily in ocean carrier; and rising costs in other areas of the world, specifically China, has led a number of global companies to reconsider their outsourcing strategies.

‘Nearshoring’ and ‘nearsourcing’ continues to be important for many North American companies as both start up and established businesses are turning to these strategies in greater numbers than ever. These companies, primarily American, which in the past may have looked to China for outsourcing their manufacturing, are now bringing their services closer to home for the reasons already mentioned.

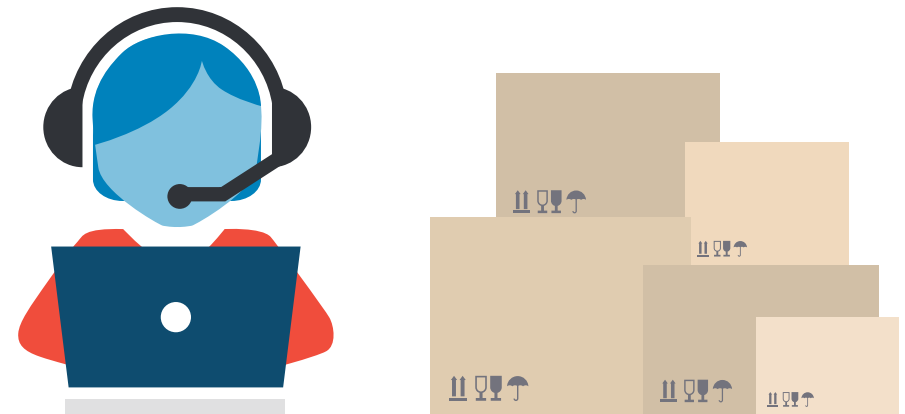


With China's continued decline as the destination of choice for manufacturing, Mexico is continuing its climb as the most attractive alternative.

It has the winning combination of real estate, land development, and a highly-skilled and cost-effective labour force with regards to industrial capacity.

Along with nearshoring and nearsourcing, there has also been a rise in the use of 3PLs. More and more companies are realizing the utility of being partnered with the right 3PL.

These partnerships have ensured seamless transitions into new markets which in turn have minimized the negative impact on the service to the end customer for the companies involved.



WHY IS MEXICO SUCH AN ATTRACTIVE LOGISTICS SPOT?

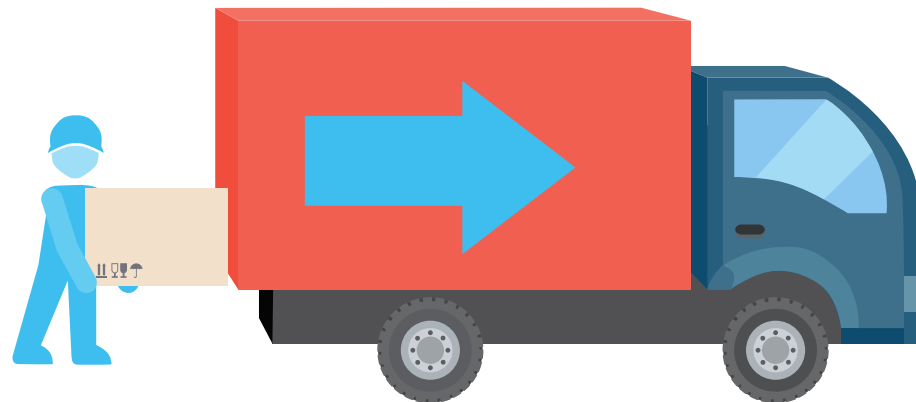


FROM **ORIGIN** TO **SUCCESS**

According to 2014 Penske Logistics Inc. **survey**, 75 percent of North American CEOs reported that they have had customers shift some of their operations from China to Mexico.

There are **many reasons** that Mexico has become the destination of choice for companies looking to outsource their supply chains. It's vastly improved infrastructure; increasingly skilled labour force; its proximity to the United States, as well as all Central and South American countries; and rapidly improving economic growth are all points in its favour.

Problematic issues of escalating manufacturing costs and lengthy shipping lead times facing business located in many Asian countries have also been contributing factors to Mexico's success as an attractive target for industrial opportunity.





THE RIGHT ENVIROMENT FOR OPPORTUNITIES

As the 15th largest exporter in the world and with 80 percent of its economic activity being in the manufacturing sector, Mexico offers other benefits other than its geological location and rapidly improving economy.

Mexico has adopted an open economy model which has granted it access to the international market, and an increased scope of trade activities. Furthermore, it has a network of 12 Free Trade Agreements which further enhances its economic positioning and has made it the manufacturing, engineering, and sourcing base for the market in North America.

The liberal trade policies of the country has created programs designed to reduce or eliminate a variety of taxes, including import, value-added and customs operation taxes all in an effort to boost foreign investment.

Mexico's emergence as a major player in the world market has led it to take steps to ensure it can deliver a reliable, responsive and resilient supply chain. It has done this in a number of ways.

“Due to the importance of manufacturing and trade, the Mexican government has invested heavily in improving the country's railroads, seaports, roads and bridges, and has expanded its efforts to decrease crime, especially in urban areas. Additionally, Mexico boasts an increasingly skilled and educated workforce, while at the same time offering labor costs that are substantially lower than competing countries.”

writes Paul McDonald, Director of Business Development at Menlo Logistics
in an **article** for **LogisticsViewpoints**.

The country also boasts vast tracts of developable and affordable land in several different prime locations. By taking advantage of these opportunities, businesses will be able to further shorten shipping lead times.



THE RIGHT ENVIROMENT FOR FLEXIBILITY

One of the strongest reasons for nearshoring is the **reduction of lead times**, which in turn provides for more manufacturing flexibility. It is through this increased flexibility that a supply chain can react more quickly to variation in customer demand, and quicker troubleshooting and problem fixes which ultimately lead to reduced costs.

This is one of the reasons why in a **2015 Third-Party Logistics study**; respondents said their businesses are primarily moving operations to Mexico from the U.S. (55%) over China (36%).





FROM **ORIGIN** TO **SUCCESS**



CASE STUDY

WEST COAST PORT LABOUR DISPUTE

2015 saw an **incredibly costly labour dispute** in the form of the West Coast Port labour dispute. Costs were estimated to have been as high as \$36.9 billion over last year's baseline cost. Import and shipping delays cost up to \$3.8 billion this year which, when coupled with the costs of rerouting products from West Coast ports, increased the cost of carry and missed sales opportunities due to out-of-stocks, brought retailer costs up to \$7 billion.

This **article** by Elementum highlights the hardest hit industries:



- **20% of the US's 2015 fresh fruit and vegetable crop exports to Asia were delayed 3-4 weeks; rice crops are delayed 8 weeks**
- **In January, the US economy posted a 15% drop off in year-over-year exports**
- **20% year-over-year drop for 2015 in freight traffic at the Port of Long Beach, while volumes at Los Angeles declined by 19%**

The entire ordeal took months to resolve and even now the fallout is still being felt throughout the North American economy.

One of the outcomes was that retailers had to consider a revamp of their sourcing strategy and a re-examination of American manufacturing options.



FROM **ORIGIN** TO **SUCCESS**

PARTNERING WITH A 3PL



MAKES FOR SMOOTH
LOGISTICS TRANSITION

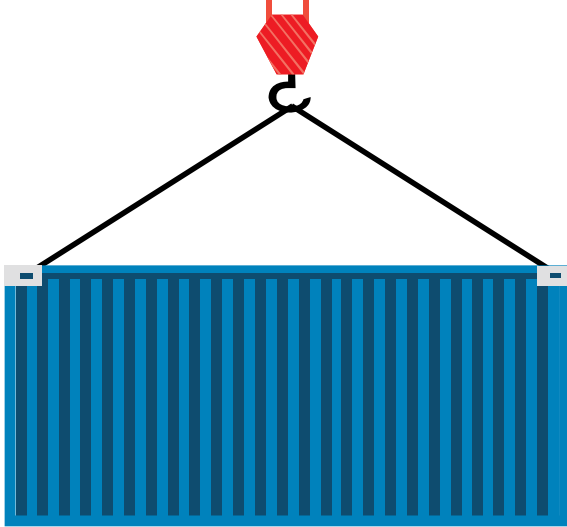
When considering Mexico or another option for your manufacturing or other logistics and supply chain needs, visibility becomes a key issue.

With the right 3PL provider with the necessary regional knowledge and expertise, visibility gaps along the supply chain can be prevented. By improving visibility, 3PLs also help identify and eliminate delays and wasteful processes before they become problems, thereby increasing profitability.

There are three areas of emphasis that would include-in-transit visibility for all inventories:

- 1. From point of origin to final destination**
- 2. Information concerning production status, which includes**
- 3. Projected inventory at destination distribution centered as well as accurate ETAs and data that would allow for easy comparison of expected performance to actual performance.**





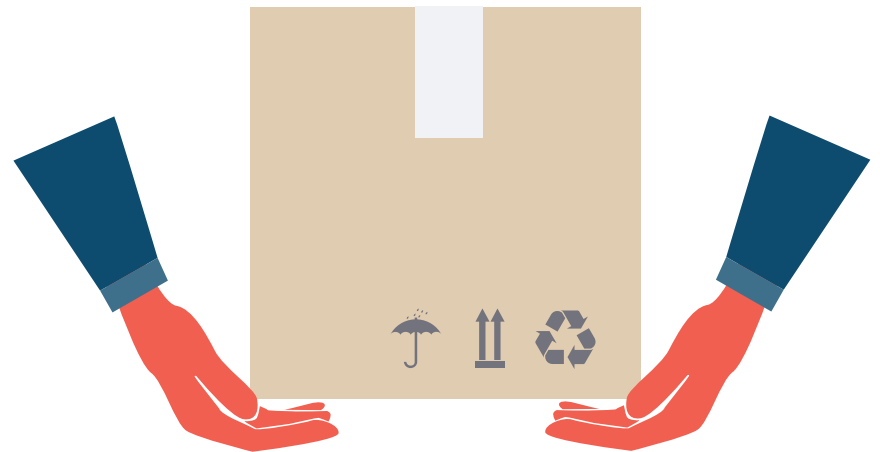
Another way partnering with the right 3PL can benefit a business seeking to outsource to Mexico is in knowledge about workforce culture and experience. A 3PL with regional knowledge, experience and expertise can effectively provide a manufacturer assurance that the workforce hired meets the specific and unique needs of the business. It can hold employees accountable for process compliance which is a critical component in driving a continuous improvement roadmap for the partnering companies.

By partnering with the right 3PL, a manufacturer can also ensure that adequate liability coverage is provided. A company that sources to a 3PL that offers a proven network that includes transportation and a variety of services that mitigates the risks associated with liability, will greatly reduce its risk of loss exposure from lack of coverage.

GROWING SUCCESS OF 3PL PARTNERSHIPS

According to the **2017 Annual Third-Party Logistic Study** which was presented at the most recent Council of Supply Chain Management Professionals (CSCMP) annual conference in Orlando, many 3pls have evolved from tactical service providers to collaborative partners that take on greater accountability and control.

The study found that 91% of 3PL users reported that their relationships with 3PL providers are successful and that their work is yielding positive results. 75% of shippers also reported that use of 3PL services contributed to overall logistics cost reductions. The majority of both shippers (73%) and 3PL providers (90%) also reported that 3PLs offer new and innovative ways to improve logistics effectiveness.



The results of the study also show that shippers are increasingly taking advantage of logistics providers' expertise in supply chain consultancy services (19% vs 11% from last year), IT services (17% vs 11% from last year).

Worldwide, there are four industries expanding industries which accounts for a large share of the boom in 3PL partnerships. These industries include industrial, healthcare, technological, and food & groceries. This, combined with the growing logistics services demand from the e-commerce market, increase in cross-border trade between the U.S and Mexico, and the growing complexities of in-house logistics operations has led to 3PLs playing an integral part of many global supply chains.





FROM **ORIGIN** TO **SUCCESS**

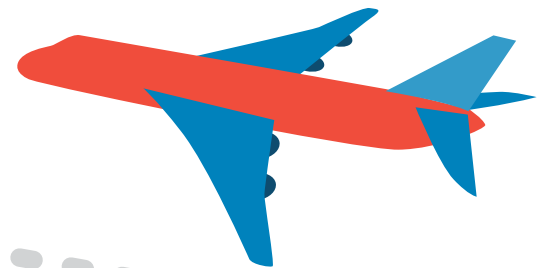
SUMMARY AND CONCLUSIONS



Moving manufacturing plants and supplies chains to Mexico is not an easy decision. It is dependent on a number of factors including a company's stage of development. For example, a company with established roots in China might be hesitant of the jump due to the cost of re-establishment. In the long-term however, the costs of remaining may overtake the costs of re-establishment closer to home due to the rising labour costs in China, the continued expansion of trade opportunities with Mexico, and the overall benefits of nearshoring presents over offshoring.

What will be a critical element for companies that have made the transition or plan to make the transition is to have a partnership with a transportation and logistics provider that understands the dynamics of logistics in Mexico.

By being aligned with the right partner, a company can ensure that the transition into this new market is seamless and in doing so, also ensure that any negative impact on the service to the end customer is minimized.



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