CFI Logística

SHIPPING EFFICIENCY

CONSOLIDATION & DECONSOLIDATION

MEXICO MARKET

If you find that shipping to and from Mexico is an increasing part of your day-to-day business, you are in good company. According to the Office of The Trade Representative of the United States, Mexico was the third largest trading partner with the U.S. in 2018, with goods and services traded valued at an estimated $671.1 million. The importation of goods and services from Mexico has grown 767% since the pre-NAFTA era (1993), whereas exports in the same time period have risen 538%.[I]

This trend is unlikely to end anytime soon. When it comes to trade, certainty and predictability are two important considerations, particularly in a supply chain enviroment grappling with the effects of global pandemic. The USMCA trade agreement between the United States, Mexico and Canada increases the likelihood that nearshoring will accelerate. Nearshoring, the transition from far east importation markets to those closer to the United States, has been a buzzword in

> Nearshoring provides many of the cost benefits of offshoring - with labor costs being chief among those benefits - but **without the logistic and geological challenges**. The most apparent benefits comes through **reduced shipping costs and lead times.**[II]
>
> *(Tetakawi.com)*

business circles for much of the past decade.

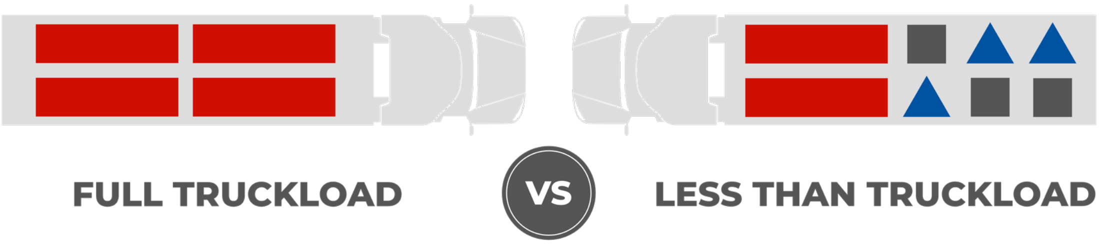
Aside from trade stability, the agreement has a new provision providing for the protection of intellectual property and requires that 75% of automobile components be manufactured in the three signatory countries in order to avoid tariffs.[III]

EFFICIENCY

Understanding the most efficient ways to manage your Mexico supply chain is critical, particularly when considering more costly modes such as less-than-truckload (LTL) and parcel. Companies that manufacture in Mexico need to get goods from multiple vendors to their manufacturing sites south of the border but doing so can create an undesirable budgetary line item if not managed carefully.

If you are a high-volume shipper, consolidation of shipments north of the border, prior to crossing can be an effective way to reduce cost and supply chain waste while lessening your carbon footprint. Getting your shipments into the truckload mode earlier in the transportation cycle can also improve the handling of your goods by reducing the number of miles your shipments are exposed to the “hub-and-spoke” nature of LTL.

LTL bridges the gap between parcel and truckload. Any shipment that is a pallet or more but does not take up an entire truck can fall into this mode. LTL carriers use a series of “reship” operations to combine freight picked up from multiple customers in multiple markets to build full trailers for the delivering market. Handling and re-handling can cause cargo claims to be a major expense item for LTL carriers. A decade ago, $25 per pound liability was commonplace in the industry. Today, virtually all LTL carriers have moved to a liability structure tiered by commodity class. This results in shippers only being able to recover a fraction of the value of their goods when all that extra handling results in cargo damage.

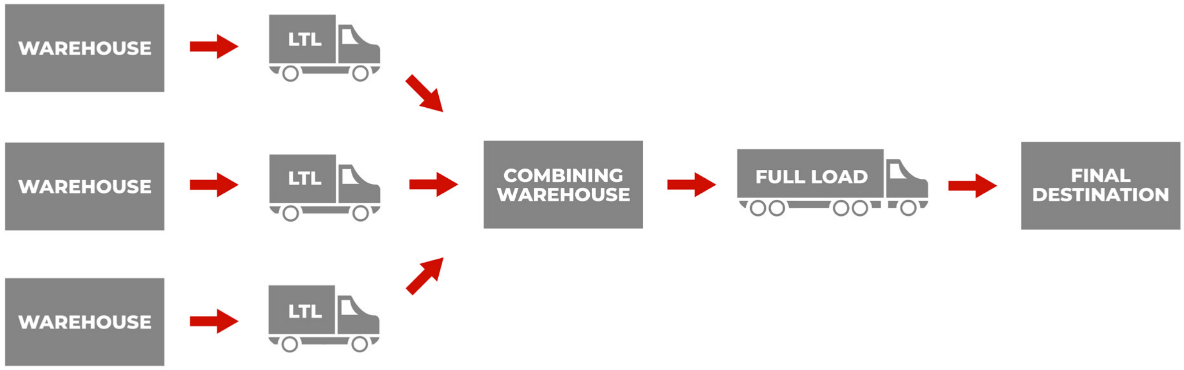


Consolidation and deconsolidation are two tools that savvy supply chain managers are using to improve cost and transit while reducing cargo damage when shipping over long lengths of hauls.

CONSOLIDATION

In consolidation, shipments enter the supply chain as parcel or LTL. Instead of shipping from the origin all the way to destination in the model described above, an intermediary point is selected where multiple parcel or LTL shipments can be combined to form a truckload.

For example: an automotive company that needs to source an assembly plant in Mexico with tier one supplier shipments scattered throughout the Midwest. Instead of making individual LTL shipments to Mexico, their provider could ship the product to a cross dock in Chicago. At that point, multiple LTL shipments are consolidated into a truckload. Instead of a long LTL length-of-haul with a much higher likelihood of damage, the truckload mode is introduced early in the life cycle of the shipments; reducing cost and decreasing the risk of a cargo claim.

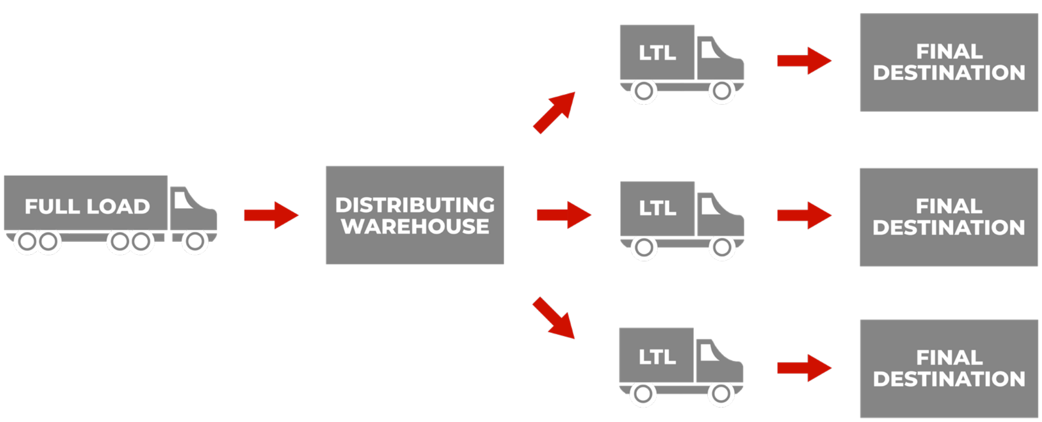


Many shippers are using consolidation to some extent. Laredo, Texas, is a common location for shipments to be consolidated so that several smaller orders can be combined and cross the border as one large shipment. This provides benefit in the form of savings on cross border transport expenses, but it often leaves a lot of money on the table. In this scenario, LTL shipments still maintain a long length of haul.

LTL can be three or four times more expensive than the truckload mode. If you have a high concentration of southbound shipments in the northeast or midwest, does it make sense for these to remain LTL shipments until they reach Laredo? As an alternative, establishing consolidation in a market such as Harrisburg or Chicago would limit your exposure to costly LTL and allow the benefits of mode shifting into truckload to be fully realized.

DECONSOLIDATION

Deconsolidation is the opposite approach, applicable for northbound shipments. In this example, the supplier is located within Mexico and sources products to multiple locations in the United States. Instead of the shipments beginning as LTL, they are shipped as a truckload to a cross dock in the US where the shipment is broken down and distributed as LTL. The scenario is inverted but the benefits are the same. Cost, and oftentimes transit, are improved. Damage likelihood is decreased.



DETERMINING WHICH APPROACH IS RIGHT FOR YOU

If consolidation, or deconsolidation for that matter, is the right option for you, selecting the right partner is critical. Most shippers realize the importance of a potential partner that can assist them with business analytics and selecting the optimal consolidation point. While these are key indicators of a successful partnership, the asset position of the partner is equally important. Although COVID-19 has in some instances provided a temporary reprieve on capacity tightness, the fundamentals driving shortfalls has not changed. The long term driver shortage trend is very much still in tact and the fundamentals driving trucking companies out of business, such as higher

	TECH ENABLED ASSET BASED PROVIDER	INTERMEDIARY
CONTROL OF ASSETS	✓	
STABILITY WHEN SPOT RATES SPIKE	✓	
DATA ANALYTICS	✓	✓
SHIPMENT VISIBILITY	✓	✓
CAN ADJUST QUICKLY TO DEMAND SPIKES	✓	

insurance premiums has not changed. In such an enviroment, selecting an entirely outsourced model carries with it the inherent risk of intermediation.

CFI combines best-in-class US truckload capabilities with CFI Logistica's six terminal network in Mexico. The company has been doing business in Mexico since 1985. These assets, combined with our intense supply chain knowledge and analytical capabilities, warrant your consideration as you evaluate partners in the consolidation and deconsolidation space.

Jason Dekker is the Director of International Business Development for CFI Logistica. Established in 1997, CFI Logistica delivers outstanding logistics and cross-border service to and from Mexico. Inbound cross-border goods from Mexico are seamlessly managed and expedited for delivery into distribution centers, where they are staged for order fulfillment and final-mile delivery via an owned intra-Mexico LTL network. Learn whether consolidation or deconsolidation would be the best fit for your supply chain by contacting **Jason.Dekker@cfidrive.com**.

I https://ustr.gov/countries-regions/americas/mexico Online. Accessed 1/6/2020
II Why Companies are Nearshoring to Mexico,
https://insights.tetakawi.com/why-companies-are-nearshoring-to-mexico: Accessed 6/16/20
III What is USMCA? https://foxbusiness.com/markets/usmca-trade-deal-nafta, Online. Accessed 2/02/2020