

Timing

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Just-In-Time is out of step with today's supply chain realities

Just-In-Time has been the mantra for almost every manufacturer, from autos to toys, for the past 20 years. Originated in the Japanese auto industry back in the mid 1980s, the Just-In-Time, or J-I-T, method of managing inventory aims to minimize costs and maximize efficiency by transporting goods only as needed. Under J-I-T, transportation is supposed to be transformed from a cost into a profit driver.

That worked beautifully from 1985 to 2000. During that time, the price of almost all commodities declined, some very sharply. For the shipper, it made great sense to keep inventory down to almost nothing when it was virtually certain that the cost of a given resource would be cheaper in the next transportation cycle.

Along with low pricing was a drought of capital investment in such "old school" industries as rail cars, ships, mines and oil refineries. These sinews of our industrial age were considered obsolescent, requiring little or no capital compared to the billions being poured into computers, software and the Internet.

A funny thing happened, however, to our global economy after the bursting of the high-tech bubble in 2000. World industrial production began to catch fire.

Fueled by an explosion of easy global credit and enormous demands by two nations on opposite sides of the Pacific, the U.S. and China, a synchronized global recovery began. This reinvigoration of the world economy has resulted in a vigorous demand for many commodities needed in the manufacturing process. As demand rose, so inevitably did prices.

Changing Assumptions

Thus, three assumptions upon which J-I-T was based – a seamless transportation system, generally falling prices of many of the ingredients making up the manufacturing process, and easy availability of these ingredients from multiple sources – became severely impacted. The fact that all three elements were breaking down simultaneously shook to the core the Just-In-Time supply chain methodology.

New investments in ships, rail cars and long haul trucks have been minimal since the late 1980s. It now is obvious the international transportation infrastructure has not kept pace with the enormous growth in global trade during the past decade.

Just ask consignees waiting for their shipments from West Coast ports.

These backups impede the entire global supply chain. Tight supply lines and Just-In-Time minimal inventory work just fine in a static world with modest competition for materials.

But that is not the competitive global landscape of today. As the world changes from having an almost over abundance of raw materials to some degree of scarcity, so will the methods by which firms manage their commodity costs. As a result, a new, more effective method for managing supply chains is now being adopted by a growing number of companies engaged in international trade.

Just-In-Case

Just-In-Case, or J-I-C, is a balanced reaction to the demand for last-minute delivery of parts on one hand and bloated inventory levels on the other. It provides a company receiving the goods necessary "breathing room."

With adequate inventory on hand, the consignee is assured that his production line will not grind to a halt in the event of a global emergency. It allows a forwarder to have more flexibility in its pick-up and delivery schedules because additional inventory is held by the customer for those just-in-case situations.

The spot shortages recently experienced in a number of industries will force companies to build up more inventory than they might have when raw materials were in ample supply.

Today's social, economic and political climate makes Just-In-Case a practical solution for any company engaged in international commerce. It allows supply chains to function smoothly and without interruption, a perfect compromise between the theoretical efficiencies of Just-In-Time and the realities of today's logistics world. ■