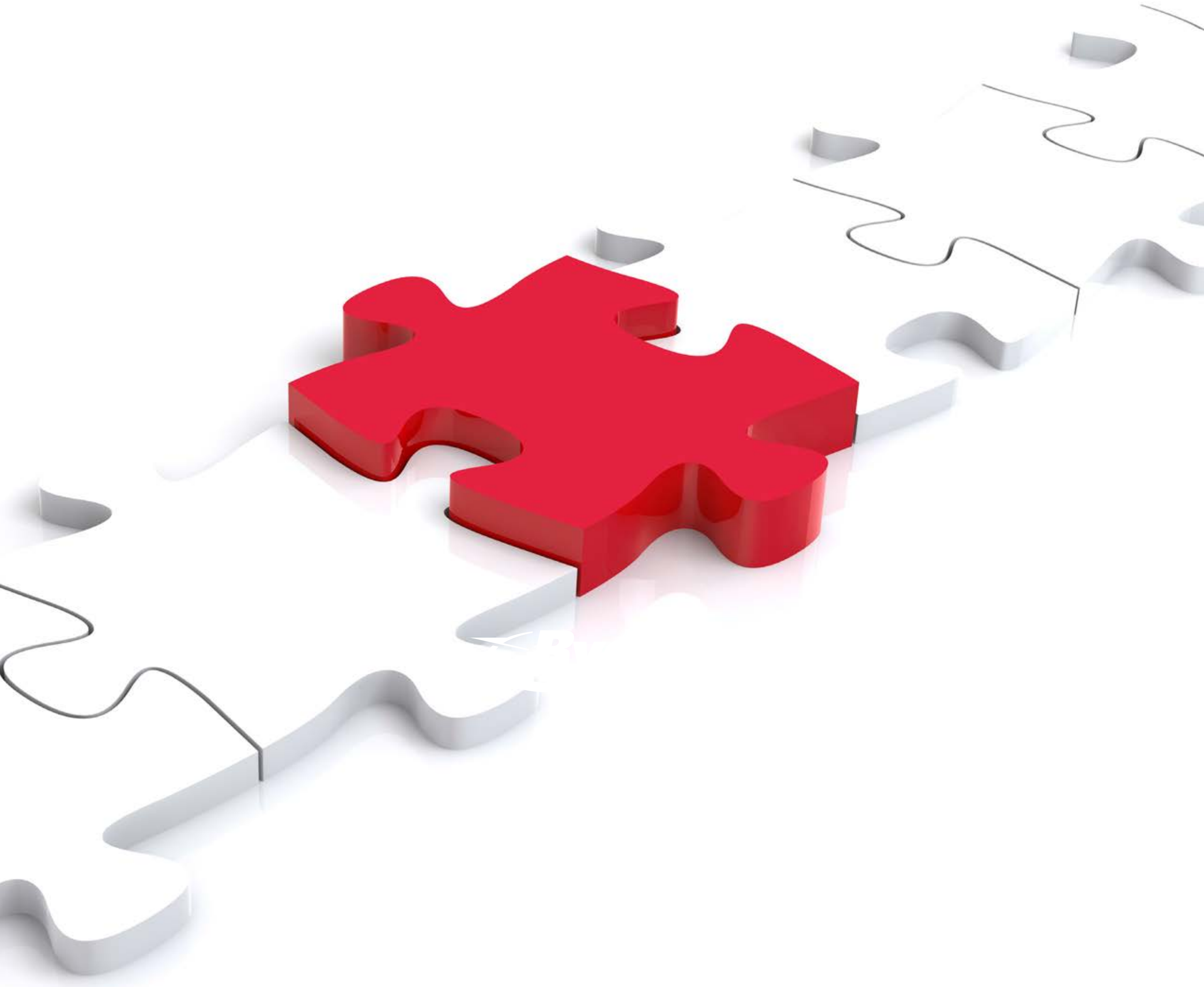
SPECIAL REPORT



ACHIEVING WORLD CLASS LOGISTICS THROUGH CROSS-BORDER CAPABILITIES

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For more than a generation, China was the destination of choice for offshore supply chains. The reasons made sense. An abundant and low-cost labor pool, cheap oil, and production costs generally less expensive than those found in the U.S., encouraged many manufacturers to relocate industrial operations overseas. Additionally, trade routes to and from Asia were many and reliable, albeit no faster than the speed of a freighter or container ship crossing the Pacific Ocean. Yet, rising wages and real estate costs in China, increases in oil prices, the delays inherent to transpacific shipping, and even shutdowns and logjams at U.S. seaports, forced some manufacturers to look elsewhere.

In this report, you'll learn why companies are making a move to nearingshoring operations in Mexico, challenges companies face in the industry today when it comes to cross-border logistics, and solutions to overcome the disruption and achieve a world class logistics operation.

The Shift from China

China seemingly had it all, with low wages and real estate costs supporting a thriving supply chain base. Even the cost of a barrel of oil, around $20 back in 2001, kept the cost of shipping raw goods and finished products low across the Pacific. Then conditions changed. Chinese labor and manufacturing costs began to rise, as did the price of oil. Labor costs went from 82 cents an hour in 2001 to almost $6 an hour in 2017, noted Bloomberg.com, or an almost 700% increase. Oil spiked from $20 to $96 a barrel in 2014 and now to $52 a barrel in 2018. “Suddenly the benefits of making things in China aren’t so apparent,” the publication wrote, “especially if you’re selling those things to consumers in the U.S.”

What’s more, as consumer buying trends demanded quicker speed to market, inventory stranded on container ships crossing the Pacific for anywhere from 10 days to more than three weeks became an unnecessary burden. Add to that labor strike risks at U.S. West Coast seaports that lead to shipping bottlenecks and threatened shut downs that left vessels idling or anchored just offshore from California to Washington.

Manufacturers had turned their sites to Indonesia, Malaysia, the Philippines, Singapore, and Thailand, or the ASEAN countries. These also include Brunei, Cambodia, Laos, Myanmar and Vietnam. Favorable demographics, labor training and business conditions, improved productivity, and an “integrated free trade area and economic community” appealed to global companies, Forbes reported. Yet, no matter how favorable the ASEAN became as compared to China, the Pacific Ocean remained a formidable and costly logistical impediment to sustained growth.

Enter Mexico

Long a destination for a variety of industrial and manufacturing sectors, Mexico is enjoying a spike in attention across all industries. According to Peerless Media Group research, approximately 49 percent of companies have considered reshoring at least part of their supply chains to Mexico by 2020, citing favorable logistics outlooks in the U.S. (90 percent), the diminishing cost structure differential (87 percent), and increases in domestic demand (80 percent). About one-third of companies are nearshoring to place production closer to the consumer, and about 40 percent of those surveyed plan to return sourcing to the U.S. or Mexico.

According to a survey from Peerless Research Group, 46 percent of respondents have already engaged in or plan to nearshore within the next five years. Of those companies, 63 percent say Mexico is the leading destination, citing lower freight costs and improved speed to market.

Not surprisingly, the logistics industry has surged in-kind. Truck and rail traffic between the U.S. and Mexico set record highs over the past 5 years; the value of truck freight is up over 10 percent year-over-year, according to statistics from the U.S. Bureau of Transportation Statistics.

In response to the activity on both sides of the border, numerous industries have seen increased real estate investments in distribution centers, supply-chain logistics, even intermodal facilities that serve manufacturing operations and warehousing across North America.

As new supply chains come on-line in Mexico, the U.S., and Canada, there are numerous other challenges in establishing “world class” logistics. And, as the industry changes, many new challenges will arise.

The Benefits of Nearshoring

Against this backdrop, companies are eyeing Mexico as a nearshoring destination. Being closer to the U.S. market provides manufacturers a host of benefits, including:

Proximity. The value of proximity cannot be overstated. A shipper can move freight from Mexico to the U.S. by ocean in 48 hours; by truck, it can take 24 hours or less. This compares to two to six weeks from Asia via pan-Pacific ocean container carrier routes, leading to faster customer service cycle times, especially for customized products. Working in the same or proximate time zones also allows companies to dispatch personnel to factories or facilities often a few hours away by plane or truck. Moreover, proximity creates opportunity to strengthen collaboration and cultural understanding between the U.S. company and its in-country workforce.

Growing truck and rail traffic. More than 1.6 million trucks crossed the U.S.-Mexico border in the first quarter 2018, up 2.9 percent from the same period the year before. The value of goods rose by 9 percent over the same time last year, noted the Journal of Commerce, citing U.S. Bureau of Transportation statistics.

Lower labor and production costs and the strengthening dollar. The low-cost labor pool that made China the darling of the global manufacturing sector has undergone a significant change compared to the Mexican market. In 2000, Mexican labor costs reportedly were 60 percent higher than those in China. Today, they're reportedly at par or lower than labor costs in China. With manufacturing output projected to grow upward of 4.5 percent by 2019, this could translate to between $20 billion and $60 billion in economic output by 2019, notes Boston Consulting Group. While Mexico saw a 67 percent increase in average manufacturing sector wages from 2004 to 2017, productivity gains and a depreciation of the peso against the dollar helped offset wage growth, BCG concludes.

A Cause for Caution

Though lower in cost and closer to home, nearshoring manufacturing operations to Mexico is not without its challenges. Among some areas of concern are:

Educating a young workforce. The country's young, relatively untrained population means many manufacturers must invest in training programs to create or improve labor skills. Additionally, the driver shortage that continues to challenge the U.S. market exists for cross-border operations as well.

Weak infrastructure and need for government investment. Suitable roads, telecommunications and other infrastructure are in short supply, especially outside established sourcing communities or in emerging, rural or less developed markets. Realizing this, Mexico launched the Transport and Communications Investment Program. That program would invest some $8 billion in more than 200 transportation infrastructure and communications projects. It will build and/or modernize some 82,000 miles of highways, almost 17,000 miles of railroad, 76 airports (64 with international flights), and 117 maritime ports, of which 68 are containers ports. By 2030, Mexico hopes to rank in the top 20 percent of the World Economic Forum's Infrastructure Competitiveness Index.

Border crossing delays and capacity issues. Border crossings historically have been fraught with compliance issues that create long transit times and delays. Southbound shippers need a Mexican customs broker for all freight imported into Mexico. Northbound shippers need a U.S. broker, a mastery of Mexico's Customs for exportation, as well as Customs-Trade Partnership against Terrorism (C-TPAT) certification to help expedite border crossings. Additionally, for every three loaded trailers headed north from Mexico, only one loaded trailer heads south. This ongoing equipment and LTL network capacity unbalance and resulting crunch leaves both trailers and LTL networks in short supply.

Overcoming New Challenges

While the move to nearshore operations has opened a new avenue for companies, supply chains continue to grow in complexity forcing companies to adjust their strategies in order to have a world class supply chain. Here are a few examples of challenges companies face and the solutions used to help overcome the disruption:

CHALLENGE: There is a lack of door-to-door visibility because multiple providers run different portions of your transportation. You have limited visibility to loads in-transit, and have no visibility to loads at Mexico/ U.S./Canada points of consolidation.

SOLUTION: Integrate multiple GPS providers with a third-party logistics (3PL) transportation management system. You can also outsource to an experienced 3PL to take on the role of border manager, coordinating the efforts of all stakeholders.

CHALLENGE: Border crossings historically have been fraught with compliance issues that create long transit times and delays. Between Mexico and the U.S., southbound shippers need a Mexican customs broker for all freight imported into Mexico. Northbound shippers need a U.S. broker, a mastery of Mexico's Customs for exportation, as well as Customs-Trade Partnership against Terrorism (C-TPAT) certification to help expedite border crossings. In Canada, having a customs broker with knowledge of the process can expedite border crossings.

SOLUTION: Work with a 3PL that is familiar with Mexico/ U.S./Canada rules for imports and exports. The right 3PL can ensure your carriers are C-TPAT, FAST, AEO Mexico, and Safety Act certified, as well as prepared with ready documentation, established schedules, and able to monitor the physical flow of freight.

CHALLENGE: There is a lack of centralized part and packaging data making it difficult to build loads and maximize trailer capacity.

SOLUTION: Spend the time needed to collect good data. Actively engage both suppliers and customer resources for part/packaging information. Having the right data leads to a strong plan for every part.

CHALLENGE: Prioritizing critical inventory has become difficult because of the use of multiple providers during transit and limited bridge hours.

SOLUTION: Partner with a 3PL to act as the end-to-end border manager, as well as to contract or perform border crossings and dedicated dray services directly.

World Class Operations

By partnering with Ryder, you can have a world-class, end-to-end logistics solution that moves your products seamlessly between Mexico, the U.S., and Canada. At Ryder, we do this by working with you to incorporate best-in-class solutions to provide you with a single point of access to all the services, tools, and expertise necessary for successful cross border supply chain operations.

Our network is supported by innovative technology, one of North America's largest fleets of trucks, an expansive infrastructure of maintenance facilities and warehouses, and some of the most talented people in the industry. We develop relationships with local authorities across North America, recruit and manage drivers and technicians, invest in the latest and most efficient vehicles, excel in safety, and comply with associated regulations, all on our customers' behalf.

We are uniquely positioned to meet the demands of customers with operating footprints across Mexico, the U.S., and Canada. Our solutions include dedicated Mexico carrier pickups, leveraged multi-client distribution centers – including cross-docks – to deconsolidate/consolidate freight, dedicated international shuttles including border dray, customs brokerage, and U.S. transportation.

We are one of the largest, and most influential, logistics players in Mexico. Having key relationships with the highest quality providers – carriers, customs brokers, equipment providers, and engineers – we are able to simplify operations of organizations that have complex networks and various brokers.

Through a strong security organization focused on safety and innovative technology, we have developed proprietary procedures to secure facilities and freight while in transit. Additionally with the use of innovative technology, you gain end-to-end visibility of your freight and ensure it is secure at all times.

Because of these capabilities, we are able to provide multi-client border crossing services to lower security risks and improve efficiencies. In fact, we facilitate over 17,900 North American border crossings every month – with an average border crossing time between 2 and 4 hours in Mexico and under 20 minutes in Canada. These solutions help improve speed to market, get you closer to customers, and allows you to gain access to new markets by leveraging an established infrastructure and geographic footprint.

To learn more about achieving world class logistics, as well as our other services in Mexico, the U.S., and Canada, visit **ryder.com**.

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