

## With Shipments From China Resuming, Retailers' Imported Goods Have No Place to Go | 2020-04-01

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EDITOR'S Q&A

### With Shipments From China Resuming, Retailers' Goods Have No Place to Go



*The coronavirus outbreak has forced the cancellation of many shipping services from China, and the effects of that disruption will be felt for some time to come. Sailings are now being restored, but retailers might have no place to store the cargo that's about to enter U.S. ports. In this conversation with SupplyChainBrain Editor-in-Chief Bob Bowman, Bobby Napiltonia, Chief Revenue Officer with Next Trucking, discusses the challenges that are confronting retailers hit hard by the economic downturn, and what they might do to lessen its impact.*

**SCB: What pressures are you seeing on retailers as a result of the coronavirus outbreak?**

**Napiltonia:** They go from A to Z. I use the whole alphabet because in some instances I don't think we've ever seen anything like this before, regardless of who you are. The problem for retailers started with Chinese New Year. That's when China shuts down, and it takes a week or two for factories to get back on line. During that period of time, you see retailers going through the depletion of inventories in stock. Some have been forced to actually shut down and only ship certain things. Now, the products they ordered a quarter ago are now on ships coming to America. But the distribution centers have closed, which means they might not be able to take the goods once the ships reach port and the vessels are unloaded. So you're going to see a backup either at the terminals or the port, because there's nowhere to put them. That would be at the "A" level of problems.

At the "Z" level, we see certain retailers saying, "I'm allowed to do business. I need these goods." Some are transporting PPE [personal protection equipment] and a variety of other things related to the coronavirus outbreak. So the retail pressure cooker that's occurring should be interesting to see over the next one to two quarters — how they get through it with what they're allowed to sell, whether they're allowed to be open, and how they deal with taking on freight they hadn't anticipated coming.

**SCB: Even though we've seen some factories starting back up in Asia, we're still dealing with a shortage of shipping capacity. A lot of canceled sailings have to be put back on line, and containers must be repositioned. So we don't have a smooth-running supply chain on the carrier side yet, right?**

**Napiltonia:** That's right. The ships are coming. There's a need to reposition empty containers. We had a horrible problem with empties in America because of the sailings that were canceled. In February alone, the capacity of cancellations was the equivalent of activity at the busiest terminal at the Port of Long Beach for a full year, about 1.7 million TEUs [20-foot equivalent units]. Those containers are coming, and they have nowhere to go potentially.

**SCB: Meanwhile, what's happening to the trucking companies? Are a lot of vehicles sitting idle, or are they frantically driving around trying to deliver whatever loads there are?**

**Napiltonia:** We see a combination of both. In 2019, over 900 trucking companies in America went out of business, whether it was due to insurance costs or the cost of acquiring freight. We do see the pressure right now, with truckers living week to week.

**SCB: Do you expect to see more permanent closures of trucking companies as a result of the economic downturn?**

**Napiltonia:** I think we're going to continue to see this overall. I don't know that it's the economic downturn as much as it is the insurance costs associated with operating a trucking company these days. They've more than tripled in the last two years. It's going to be interesting to see when the volume comes back, how much capacity there is, what's actually left to move, and what they're allowed to focus on.

**SCB: What's your best guess as to when shipment volumes will pick up, bottlenecks and delays will decline, and cargo will start flowing again?**

**Napiltonia:** Cargo is flowing today — the ships are coming. We have customers that have been shipping from Japan and we haven't really seen that that flow stop. It was really about the ships from China coming into this gateway. Now you're seeing a ripple effect around other terminals. For our top 20 customers, it's like a daily war room.

**SCB: When the economy does recover, will we see a surge of volume? And what will be the impact? Will the system be able to handle the increase?**

**Napiltonia:** I think it depends on retailers' supply chains and what relief valves are in place. When you close a store, nothing goes off the shelf. When you don't have the ability to take it from your warehouse and get it to the shelf, your warehouse backs up. You have no parking in the warehouse or distribution center. When there's no yard space available, what do you do? It's truly a matter of kicking the can.

The volume will come. I think the biggest unknown is a classification of freight called port of entry, or POE. Those are containers with overstock goods, typically from China, that are purchased on the water. Most of the retailers that take them would be your mainstream stores, and given that their stores aren't open, there's going to be no way to buy them. They might not even want them, because some of the items might be seasonal goods, and by the time they would accept them, it's markdown time already.

**SCB: Shipping lines want to keep their hands on as many containers as possible when import volumes go up. How will this affect the practice of transloading into domestic trailers in port areas for movement inland, so that ocean containers don't go too far into the interior?**

**Napiltonia:** I believe that will continue to happen at an high rate, where smart retailers will get ahead of their supply chains and actually start planning for where else they can ship goods to, so they're not paying for containers that are just sitting around.