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Macroeconomic Factors Exacerbate Peak Season Challenges

Rethought logistics strategies provide relief for shippers

Even in optimal economic and market conditions, retailers and brands face planned and unplanned peak challenges. These exist across the supply chain, impact customer experiences and can limit revenue.

Repeatable, predictable and generally manageable, planned challenges include pre-peak inventory builds, demand spikes and network capacity constraints. Though these challenges create risk, there are accepted principles to manage them.

Conversely, unplanned challenges keep logistics professionals up at night and are largely outside their control. What happens if parcel carriers can't keep up with volume? What happens if consumers' purchase behavior changes in unexpected ways? What happens if the inventory is in the wrong place, at the wrong time?

Last year, logistics professionals faced ample planned and unplanned challenges.

Planned

Supply	Demand
Seasonal Inventory Build	Forecasted Demand Spikes
Safety Stock Reserves	Seasonal Promotions and Flash Sales
Distribution Network Expansion	
Transportation Carrier Capacity Caps	
Bulk-Buy Opportunities	Demand Variances vs. Forecast
Disruption Delays Inventory Arrival	Consumer Shopping Behavior
Transportation Carrier Performance	

Unplanned

Planned challenges

+ In 2021, retailers built inventories earlier than ever to prepare for the holiday surge

+ Some held as much as 40% more inventory at the end of Q2 last year compared to 2020[1]

+ Large parcel providers charged additional fees of $6.15 per package and $60 for large shipments[2]

+ The industrial vacancy rate hovered around 4%[3]

Unplanned challenges

+ Port congestion hamstrung brands' inventory additions as orders dwelled on unprocessed vessels[4]

+ Even when inventory was stateside, carriers, burdened with excess volume, struggled to maintain service levels

+ At the height of last year's peak, major carriers dipped below 2020's on-time performance by as much as 9%[5]

The combination of factors resulted in mixed performance across logistics networks. Some brands and retailers capitalized on increased demand, while others struggled with inventory availability.

Supply chain challenges resulted in mixed performance throughout the sector. Some logistics networks performed admirably while others lagged. Even under the duress of tectonic shifts in buying behavior and supply chain coordination:

+ Brands and retailers netted $834B in revenue last holiday season[6]

+ But out-of-stock messages increased by 172%[7]

+ Some large carriers maintained above 95% on-time rates for much of peak season[5]

+ Aggregate customer satisfaction levels were comparable to pre-pandemic peak season numbers[8]

The 2022 challenges shippers face only stand to grow. Rapidly devolving macroeconomic conditions jeopardize peak season strategies and revenue in the process.

Macroeconomic conditions exacerbate disruptions

Supply chain challenges have not subsided. And, the current macroeconomic environment exacerbates them.

+ Inflation reached a 40-year high,[9] and consumer sentiment hit its lowest level in over a decade—both of these increase the risk of demand forecast variance

+ Industrial capacity is tight and expensive—in Q1'22, the vacancy rate dipped to 3.3% vs. 4.9% in Q1'21 and asking industrial rents increased to a record-high $8.94/sq ft, up 11.8% YoY, increasing risks to distribution network expansion to support peak demand surge[10]

+ Diesel fuel prices rose 63% YoY and drove parcel surcharges to record highs, which increases risks to parcel carrier performance and margins[11]

+ Unemployment remains low, and labor costs in the logistics sector are up 5% YoY—jeopardizing businesses' ability to add Q4 labor to meet customer demands[12]

+ The average time for vessels to arrive at West Coast U.S. ports from China was 111 days in Q2'22 vs. 46 days pre-pandemic, which risks inventory arrival and proper distribution[13]

Planning for peak season challenges

Peak season perpetually stresses logisticians. However, this year, annual difficulties and shifting macroeconomic conditions pose a unique threat. Brands and retailers should continue to improve peak season plans. The following timeline and checklist illustrate how to craft and adopt a peak season strategy when specific challenges hit.

Q1: Analyze	Q2: Align	Q3: Assess	Q4: Action
Peak season performance across supply, demand, planned and unplanned quadrants 1. What went well? What should the organization continue? 2. What didn't go well? Where can the business make trade-offs to improve performance? 3. What didn't go well? Where are direct improvements to make?	1. Align internal teams 2. Identify scenarios and create plans to address them 3. Put necessary executional foundation in place (tools, systems, processes, partnerships, etc.) Implement and test	1. Re-assess business, market and customer context 2. Identify new opportunities 3. Identify potential threats 4. Prioritize 'must dos' and identify trade-offs 5. Identify which actions to take as peak scenarios unfold	October 31st: Halloween kicks off holiday peak season November 25th: Black Friday November 28th: Cyber Monday December 25th: Christmas Day December 25th-January: Post peak promotions and reverse logistics peak season (and the cycle repeats)

Peak season logistics checklist

Here is a granular look at how businesses can prepare for peak season 2022.

	Supply	Demand
Do Once	☐ Work with parcel carriers to align forecasts/determine caps	☐ Warehouse, transportation, labor capacity
	☐ Add additional carriers if demand forecasts exceed parcel caps	☐ Inventory arrival and availability across the network
	☐ Determine how to fast-track distribution networks if stockouts arise	☐ Sell-through and in-stock rates of high priority SKUs
	☐ Work with warehouse providers to align forecasts with space/labor	☐ Supply chain bottlenecks
	☐ Secure additional warehouse and transportation capacity if needed	☐ Bulk-buy opportunities
Continuously Monitor	☐ Determine high priority SKUs for in-stock promotion and prioritization	☐ Inventory location and proximity to demand channels
	☐ Place SKUs strategically for fast replenishment	☐ Trends that affect sell-through and in-stock rates
		☐ Macroeconomic conditions

Offsetting peak season challenges

Managing planned and unplanned challenges, while mitigating macroeconomic environment risks, requires logisticians to understand key competencies and ruthlessly prioritize.

1. Network visibility—dynamically understand parcel, warehouse, and labor capacity; current demand by channel

2. Understand failure points—prioritize where the issues in your business exist, and have a clear plan to tackle

3. Decide what tradeoffs can be made—prioritize what matters most and understand what levers can be pulled, and when (including when it's ok to fail)

Sources

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About Flexe

Flexe solves the hardest omnichannel logistics problems for the world's largest retailers and brands. Integrating technology, open logistics networks, and elastic economic models allows Flexe customers to move fast, at scale, and with precision. Founded in 2013 and headquartered in Seattle, Flexe brings deep logistics expertise and enterprise-grade technology to deliver innovative eCommerce fulfillment, retail distribution, same-day delivery, and network capacity programs to the Fortune 500.

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