GDI Consulting & Training

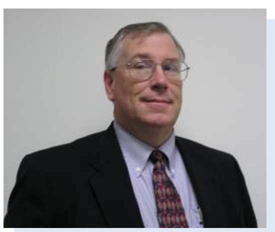
Making Breakthrough Changes at Breakneck Speed!

Friends-of-the-Firm Mini-Briefing

Get Ready… The Grinch Is Ready to Steal Christmas 2021... and 2022

by

Alan Dunn, President, GDI Consulting & Training Company, 2022



This will be the year that the Grinch steals Christmas, except the Grinch does not appear in the form popularized by Dr. Seuss in his book, *"How the Grinch Stole Christmas."* The image of the Grinch looks more like a container ship stuck in California harbors waiting weeks in queue to offload it bounty of Christmas presents. You might ask, *"why are the ships waiting so long in queue?"*

Good question.

There are several reasons why more ships are sitting idle at west coast destination ports than sailing the blue seas. One big reason, at least for California's ports, is the passage in 2019, and subsequent enforcement of AB-5 in 2021. AB-5 changed the way independent contractors are classified. It was introduced to address the enormous number of new independent contractors in California resulting from the rapid growth of ride-sharing companies, more specifically Uber and Lyft. By changing the definition of these independent drivers and pushing them into an employment situation (in contrast to being independent contractors), California legislatures got a *"twofer"* by applying the same rules to trucking owner operators. Under AB-5, most owner operators could technically no longer move freight in California. They would have to give up their independent businesses and become drivers for larger trucking companies.

You ask, *"how does this affect the transport of my Christmas gifts from Asia?"* Simple. There are around 14,000 truckers regularly serving the Ports of Los Angeles (POLA) and Ports of Long Beach (POLB). These two ports account for more than 45% of all imports into the U.S. Less than 400 of these truckers are employed by larger trucking companies in an employee classification role. The remaining 13,600+ are entrepreneurs who

- Own their rigs, or lease them, often from the trucking companies (their *"customers"*) that they work with
- Drive under those companies' state and federal trucking permits
- Rely on their customers for work assignments

Many owner operators have contracts with multiple carriers and/or retailers. These owner-operators are typically paid by the load and/or miles travelled and get a 1099 independent contractor tax form at the end of each year. Owner operators assume risks of fuel price shifts, breakdowns, insurance price changes and other unpredictable events that often befall entrepreneurs.

This is a popular business model because it helps trucking companies and large shippers to manage irregular volumes, much the same way manufacturing companies cover peak production demands with a mixture of full-time and temporary workers. With the passage of AB-5, California effectively doomed the owner-operator entrepreneur, causing a shortage of trucks serving the state AND the ports as these drivers transition into a new business model. Current transportation shortages exist because it is impossible to rapidly transition 14,000+ trucks serving California's largest ports at the same time half of the15 million trucks in California are making similar business-model transitions. Now under AB-5, carriers using owner operators to balance their demands are required to establish an employee relationship that includes wages, health insurance and other employee benefits. This is predicted to take 1 to 2 years to implement at scale.

But it gets worse. Taking direction from the California Air Resources Board (CARB), state legislatures created new law in 2020 that requires trucks picking up and delivering loads in POLA and POLB to be less than 3 years old and meet tougher emissions standards. **This shutout more than half of all trucks in the United States from entering POLA and POLB.** For owner operators serving the ports, it was a death-stroke because they do not have sufficiently available capital to change out their well-maintained and running equipment to enter any of the California ports. For larger compliant carriers, it means that they can pick up loads in the ports with their new CARB compliant trucks. They must then drive their compliant trucks across state lines before allowing non-California compliant trucks to move the freight across the country.

When a global supply chain funnels goods through a small number of ports, and the ground transportation is massively disrupted as it has been with AB-5 and the onerous CARB regulations, serious bottlenecks develop. The problem here is that the bottlenecks have been developing, mostly unseen by the public, for 3 years. Now the bottlenecks are acute and systemic. This means the bottlenecks will not get fixed by an overly simplified *"work the ports 24/7!"* pronouncement. These serious and complex problems will require 18 – 24 months to fully repair. That is right. The Grinch will be back next year, working his hardest to steal Christmas of 2022.

Working around the clock in POLA and POLB will result in no changes to the flow of goods if trucking capacity is less than port capacity. Flow manufacturing logic applies here. The process will only get done as fast as the slowest element in the process. Increase the velocity of offloading containers without solving the California-imposed trucking problems and all you will do is stack up containers. In other words, the Grinch is stealing your Christmas by keeping your gifts on ships in offloading queues and in locked containers stacked everywhere.

I wish all of this were not so. But these are the facts. They are not all the facts that explain reasons for the global supply chain mess, but they are the immediate facts. Later we can discuss the bullwhip effect as it applies to supply, demand, AND logistics. We can talk about nation-wide labor shortages and their impact on supply chain flows. But none of these extended topics seem relevant if we cannot immediately solve, or at least mitigate the self-imposed flow problems in our ports.

I normally shop at stores and online. Perhaps I should start shopping at the ports? That seems to be where all the merchandise is located these days.

About the Author

Alan G. Dunn is currently President of GDI Consulting & Training Company and founder of the Manufacturing Executive Institute (MEI). He is also the creator and lead-instructor of the 18-month Next Generation Global Supply Chain Leadership Development Program at the California Institute of Technology's (Caltech) Center for Technology & Management Education (CTME), where he has taught since 1984. Mr. Dunn also serves on the University of California at Riverside's (UCR) Advisory Board for Transformative Leadership in Disruptive Times.

Mr. Dunn specializes in supply chain management, strategic planning, manufacturing management, operations management, leadership development, cost management and business finance.

Previously, Mr. Dunn was a Vice President at Gemini Management Consulting and a Partner at Coopers & Lybrand. In both positions, he led large technical manufacturing teams through innovative productivity enhancement projects. Mr. Dunn has participated in >188 significant manufacturing and distribution projects inside >118 companies. He has worked in 24 countries and across most manufacturing sectors.

Over his 40-year career in global supply chain consulting, Mr. Dunn has served on the Boards of Directors of numerous public, private and non-profit companies. He is the recipient of the National Association of Corporate Directors (NACD) prestigious *"Director of the Year"* award in 2007.

Alan is a career Association of Supply Chain Management (ASCM) volunteer, having served as the President of the Orange County Chapter in 1984 and Chairman of ASCM in 2015. He was inducted into the *"ASCM New England Supply Chain Conference Hall of Fame"* in 2022.

Mr. Dunn has a degree in business management from California State University, Fullerton.

Contact Information

Alan Dunn, President
GDI Consulting & Training Company
P.O. Box 205
Temecula, California 92593 USA
951-587-2003
agdunn@gdiconsult.com
www.gdiconsult.com