By Vanguard International

The global produce industry is a fascinating and entirely unique business model, with arguably one of the most delicate operational chains that spans global markets and meticulously juggles countless daily moving pieces. The industry is also no stranger to incident response, troubleshooting, and navigating large-scale challenges whether weather-related, a hiring or labor challenge, government policy adjustments, or other such challenges. All this to say this is an incredibly efficient and nimble industry that is arguably very capable of pivoting quickly when faced with new challenges.

The industry is currently facing one of the biggest global challenges we have experienced to date. It has everyone in the supply chain from growers to customers asking, "where in the world is my container?"

It is well known that Covid-19 has disrupted the entire global logistics chain, effecting every industry and every business around the world. Simply put, the global supply market was unprepared for the surge of demand for virtually every product. Whether Pelotons, electronics, home furnishings, shoes, gardening supplies, you name it, people were seeking to buy. Demand went through the roof and the supply chain was caught off guard and playing catch up.

"The supply demand was unprecedented. It was like taking back-to-school and holiday predictable demand periods, putting them together, and that still didn't properly represent demand levels," shares Tim Clarke, President of Vanguard International USA.

Demand for products out of the Greater Asia regions has been so strong that freight rates can be upwards of $20,000 for a container on the spot market. In many instances this represented a quadrupling of 'normal' rates. Rising demand for shipping containers was so strong that in many cases steamship lines would load empty containers on vessels just to get them back to Asia as fast as possible to be reloaded.

"The demand has just continued to push freight costs up and up and to date we still have not seen a ceiling," comments Clarke.

"One carrier source we work with shared that the demand on the frozen food industry side of things is so high they (carrier) are being offered $6,000 over their current rate and noted they have not found the top of what price will be offered. Luckily, they have continued to work with us within our given contracts because they are looking at our long-term relationship, but this is not the case in every scenario," shared Clarke.

Looking at the USA market, we are seeing first-hand the supply chain infrastructure completely break down. As of the last week of July there were 3,000 full containers sitting on the rail lines just outside Chicago that caused train traffic to completely halt. The containers were unable to be unpacked because storage facilities are so full there is no available warehouse space. Now these containers that should be on their way via train or truck are serving as expensive floating or stuck-in-place temporary storage solutions.

Not only are we seeing containers sitting empty or floating full waiting out the backlog, but now we are also seeing a shortage of container chassis. Containers normally come off ships, but their return is so delayed that they cannot take the containers off the boat, and when they do, there is no guarantee a chassis will be available to move it. Industry truckers are hamstrung by long weight times at ports and the shortage of equipment. You need a chassis to pull a container to the point of loading.

The result is that the once clinically dialed supply-on-demand process that defined the industry is seeing major disorganization, delays, and price surges, ultimately resulting in customers asking, "where in the world is my container?"

The added challenges when the global movement of perishables is involved

To help provide some current 'color' - at Vanguard International the focus is quickly turning to the upcoming California grape season. USA Citrus is wrapping up, and the California stone fruit season is in the latter half. With the perishable nature of fruits and vegetables shipping schedules must be precisely maintained to manage growers' risk and customers' demanded arrival dates – think ETA integrity!

Producers are given specific deadlines and always know the window of time that product can be delivered and when containers need to be returned. Those once committed and reliable timelines are becoming less and less reliable and, in many cases, negatively affecting the quality of product on arrival.

"Carriers will actually change the dates (earlier and later) with little to no notice and there is literally nothing we can do about it," shares Tim Clarke, President of Vanguard International USA.

"Our options when this happens looks like scrambling for another vessel, plugging into the container yard, and dealing with the additional charges, or in some cases we have to work with our growers to take fruit back and absorb all the charges associated with that."

When we look at the kickoff of the California grape season as usual production starts in Mexico, then moves to the desert of California, and then transitions to the San Joaquin Valley. With the current port challenges, we outlined in detail in the first part the desert producers set in stone that they simply would not ship by sea. As a result, for the first shipments this year, Vanguard pivoted to air shipments.

"The volumes for this year's grape season and quality are all looking very strong, so we are continuing to explore the best transport options to safely get the product to our customers and safeguard our growers' interests," says Clarke. "It is safe to say everyone is watching the situation closely and are on pins and needles, including our sales teams, our inspectors, our growers, and our customers. We are in unchartered waters right now."

Central to the pivot to air is the uncertainty around vessel schedules and the lack of equipment. However, shipping by air drives up landed prices significantly which is of course going to be passed on along the chain and ultimately to consumers. As you might imagine this has a huge impact on the volumes that can be shipped and sold. As production ramps up we are seeing growers more accepting of sea shipments on direct routes regardless of the challenges - meaning the container does not need to be transloaded onto a different vessel to reach its final destination.

It isn't just the exporters and growers that are experiencing challenges. The ripple effect of the current situation is being felt at every link in the supply chain. Clarke shared an example of the situation that the local trucking industry is experiencing.

A common route from the Port of Long Beach to Exeter, California and back is something local truckers can usually do two times per day. The normal wait time to load a container, chassis, and a generator set, to keep refrigeration at the proper temperature, would be on the conservative side, two hours. The wait times now are on average 6- 8 hours, meaning only 1 trip per day. This cuts revenue by 50% for an industry that cannot afford to see those margins reduced.

To share just one example – a container of mangoes and pineapples from Taiwan to Vladivostok, Russia should take six days. With all the many challenges a recent shipment took 48 days. All you need to do is take a quick look in YOUR fruit bowl to know how devastating the impact of this can be.

While customers are still asking, ‘where in the world is my container?’ when you finally do get a container of goods the price is sky-high. Overall, we are seeing prices increasing from $4,500 to $12,000 to ship from point A to point B. At the end of the day, that increased cost is going to impact the final price of goods to the consumer, which consumers are already seeing and expecting to surge even higher.

As industry leaders are working around the clock to solve the supply chain challenges everyone is facing, another massive domino is quickly approaching. Not only are back-to-school supplies attempting to be delivered, but retailers are also seeing delays in shipments and are placing holiday orders early. So back-to-school and the holiday buying season is stacking on top of an already very fragile global system causing only more pressure and rising costs. Even with the bulk of these items being non-perishable, the problem is simply the congestion this will create for all industries.

“I’ve had many conversations with industry leaders and the general consensus is that the pressure we are experiencing on our supply chain will likely not be relieved until the second quarter of 2022,” shared Clarke. “But then again, we know that there can be another unknown domino that changes that prediction just around the corner. I’ve learned to only expect the unexpected right now.”