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## Falcon Logistics: A Truck Fleet is Fleeting

On March 8, 2016 Mylo T. Melendrez, vice president of warehouse operations at the Philippines-based logistics provider Falcon Logistics, Inc. (popularly known as Falcon), found his truck fleet caught up in a bottleneck. As he paid a visit to the company's cross dock in Pasig he realized that it was hot not only because it was summer time, but also due to the tension heating up between two employees — Evelyn Hernandez, warehouse coordinator and Kathleen Sanchez, transport coordinator.

Hernandez had been on the phone all morning with a client who wanted to ensure that her company's shampoo was delivered on time. The pressure was on for Hernandez, prompting her to push Sanchez to move the product along more quickly. Sanchez's hands were tied — all of Falcon's trucks were stuck in traffic. Hernandez insisted that Sanchez do something. Sanchez replied that it was no one's fault — they were following the delivery schedule.

Melendrez watched the dispute unfold before his eyes and felt the stress stretch up his spine. He closed his eyes hoping for the eureka moment that would help him solve the problem.

## Falcon Logistics, Inc.

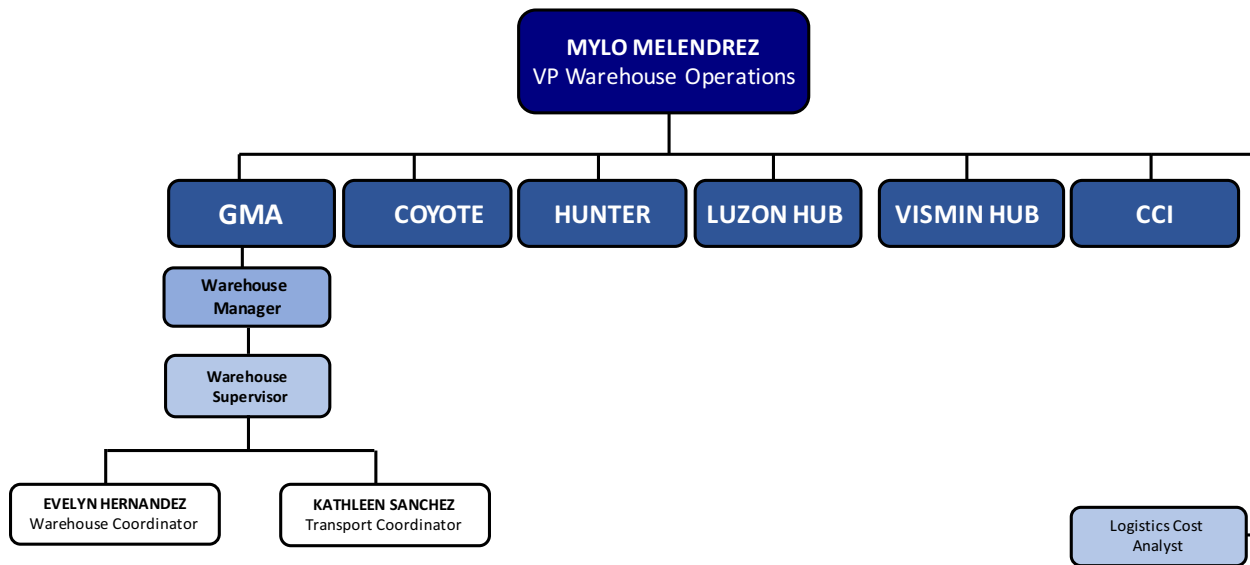
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Falcon Logistics is one of the subsidiary companies of Falconer Corporation - the country's largest integrated logistics solutions provider. Falcon's customers included local and multinational companies in the consumer manufactured goods, retail, automotive, electronics, healthcare, food, and fashion industries. Falcon acted as a single point of contact where customers could seamlessly leverage the company's wide range of services such as warehousing, transportation, and inventory management.

Melendrez supervised operations at Falcon's several warehouses (see **Exhibit 1**). For each warehouse, there was a cross dock where shipments were broken up and placed on smaller trucks for delivery at retail outlets.

### Exhibit 1

Falcon's Organizational Chart of Warehouse Operations



Source: Internal Company Document, 2016.

The company operated fine during the first and second weeks of the month. Nevertheless, there was a surge in demand in the third and fourth weeks. During this time, Falcon did not have enough delivery trucks to meet demand.

At the GMA cross dock, Falcon made an average of 160 trips per day during the first two weeks of the month. Each truck went to two to five different drop points per day (see **Exhibit 2**). Nevertheless, in the last two weeks of the month that number increased to 190 truck trips daily, and at times surged to an extreme of 220-230 trips daily.

## Exhibit 2

### GMA Cross-Dock Drop-off Points



Source: Internal Company Document, 2016

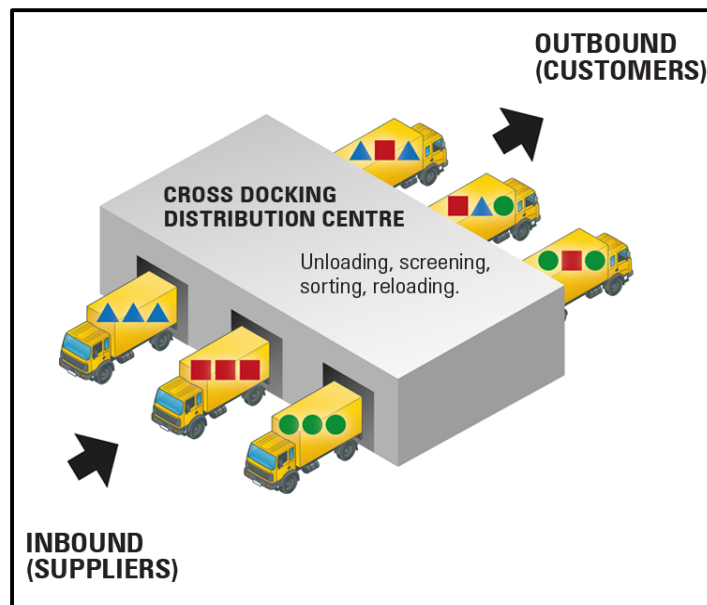
## Cross Dock Solutions

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Cross-docking is a distribution system in which items delivered to the warehouse are not received into stock but are prepared for shipment to another location, typically via truck, shipping container, or rail<sup>1</sup> (see **Exhibit 3**). Falcon now had 17 cross docks in the country, including the GMA Cross dock facility. The typical cross dock was 2,000-5,000 square meters in size. Large cross docks could receive deliveries from 220-230 trucks per day.

### Exhibit 3

#### Cross-Dock Operations



Source: Schiava, G. "Cross Docking, The Ultimate Panacea for Warehouse Design?" *Eureka*. September 2013. Accessed 16 Sep. 2016. <<http://eurekapub.eu/productivity/2013/09/14/is-cross-docking-the-ultimate-panacea>>.

Cross-docking eliminates the need for storage, so less space is used. Smaller warehouses in turn have lower staff costs. Cross-docking also improves delivery time and customer service.

Cross-docking is additionally recognized as an ideal solution for goods with a high turnover. It is suitable for the food, medical, and fashion industries.

Cross-docking also has its drawbacks. It requires a high degree of organization and the use of state-of-the-art information technology. This means that cross-docking comes with a high capital requirement, which could offset the savings from reduced storage. In addition, cross-docking is not appropriate for products requiring additional packaging or goods with a low turnover which require storage.

## The Philippine Retailing Landscape

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Logistics was considered one of the biggest, most obvious challenges for the retail sector in the Philippines due to its archipelagic geography. In fact, it was cheaper to ship a container to Taiwan than Cebu.<sup>2</sup>

## Strategic Choices

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Falcon's strategy for addressing its logistics problems was to request 20-30% more trucks from other third-party logistics (3PL) providers during peak times since these trucks are also being utilized by the other subsidiary units of Falconer Corporation. Falcon outsourced most of its cross-docking operations to 3PL truckers during this time, and the truckers usually demanded a guarantee of 22 work days per month. This arrangement left Falcon at a disadvantage when an expected spike in delivery volume did not

materialize. Nevertheless, it gave Falcon a guaranteed truck fleet to handle distribution services when there was an increase in demand. Melendrez was seeking a better solution to address the company's dilemma.

Just as individuals were making use of smart phone apps such as Uber and GrabTaxi, Melendrez was exploring the option of using the Mober app, which provided a van delivery service to bridge the gap in truck operations during peak times. This was a good solution but there was a drawback — as Falcon's clients became aware of Mober, they would consider doing business directly with the company.

Melendrez also considered investing in an additional truck fleet of 4-, 6-, and 10-wheeler trucks. This would require a large capital outlay which has implications to Falconer Corporation, whose other subsidiary units also utilize this truck fleet. As simple as the solution seemed, Melendrez knew he had to consider what these trucks would do during non-peak weeks. He would have to strike a balance between maximizing the profit from Falcon's existing and potential customer base while minimizing costs.

Melendrez anticipated a further increase in demand for cross-docking operations, which pointed toward choosing this long-term solution.

### Fleeting Options

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Melendrez was satisfied with the options available to him, but he wondered if there was a better alternative he had not considered. Whichever option he chose, there would be short-term and long-term implications. Melendrez sighed heavily as the clock ticked. He would have to come up with a plan quickly.

### Endnotes

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<sup>1</sup> Commercial Warehousing. "Cross-Dock Operations." Accessed 16 May 2016.

<<http://www.commercialwarehousing.com/transportation/cross-dock-operations/>>.

<sup>2</sup> Planet Retail. "Interview: Philippine Seven CEO on Why C-stores are Set to Boom." Accessed 5 May 2016.

<<http://www1.planetretail.net/news-and-events/interview-philippine-seven-ceo-why-c-stores-are-set-boom>>.