

SECTION V — WAREHOUSING AND DISTRIBUTION

Public Warehousing

At one time, warehousing was thought of only as a means of temporarily storing goods before shipping them to fill orders. Today, with most warehouses offering a multitude of services and the most modern equipment available, many shippers find them invaluable as distribution centres.

Public warehousing can be used by Central Canadian shippers wishing to penetrate Southern U.S. markets in two important aspects — transportation consolidation and improved customer service. The consolidation of a number of small shipments destined to an individual shipper's many customers helps achieve overall savings in transportation and handling costs. As is evident from rate information presented in Section III, the rate for a single large shipment is lower than for numerous smaller shipments.

For example, if a Toronto shipper must fill ten orders of 1,000 lb. each for customers in different locations in Texas at similar times, he would do well to consolidate the ten 1,000 lb. shipments to each destination into a single 10,000 lb. shipment to a centrally located warehouse from which the goods can be redistributed to the ten individual customers at a relatively low cartage cost. The following table dramatizes the cost savings achieved by our hypothetical Toronto shipper.

Cost Savings Through Freight Consolidation and Warehousing

A. Total distribution cost before consolidation warehousing:	
— 10 truck shipments FAK @ 1,000 lb. door-to-door transportation cost of \$43/cwt	\$4,300
B. Total distribution cost after consolidation and warehousing:	
— 1 truck shipment FAK @ 10,000 lb., shipper to central warehouse, transportation cost of \$25/cwt	\$2,500
— warehousing costs (minimum charge would apply) for less than 30 days	150
— Drayage to 10 customers @ \$50/trip (average)	500
— Interest charges (15 days @ 15% on \$20,000)	125
— Total new distribution cost	\$3,275
C. Cost Savings	\$1,025

In this example the shipper would save a quarter of his freight bill. Savings would be even more dramatic if truckload lots could be justified. In order to make the decision to consolidate ship-

ments and redistribute through warehouses, the exporter should basically determine whether the total cost of warehouse handling and storage, interest on inventoried goods, redistribution drayage, plus the cost of a larger quantity (or full truckload) shipment, is less than the LTL costs of shipping the equivalent quantity in many small shipments.

Making well-planned use of warehousing in one or more major Southern U.S. centres can also serve as a valuable marketing tool through improvements in customer service that can be brought about through the shortening of delivery times, and by avoiding or reducing out-of-stock situations. Customers will also appreciate the reduction in their own storage requirements and inventory carrying costs made possible by quick order processing and delivery by the shipper's warehouse/distribution centre. *Your company can gain an enhanced reputation when customers begin to recognize it as a quick, reliable and cost-competitive supplier.*

Warehousing rates are based on storage, handling, and clerical charges. As is the case with transportation modes, rates are negotiable and vary with commodities stored, type of storage and other services required.

Bonded Warehouses in Free Trade Zones

Another way in which you can achieve savings in the costs of shipping into or re-exporting from Southern U.S. points is through the use of free trade zones (FTZs). FTZs are located in or near U.S. Customs ports of entry and are considered as being outside U.S. Customs territory for purposes of import entry.

Generally speaking, foreign or domestic merchandise may be moved into an FTZ for storage, exhibition, assembly, manufacture or other manipulation or processing. While foreign or domestic goods are held within an FTZ or if foreign goods are to be re-exported from an FTZ they are exempt from U.S. Customs duties, quotas and federal excise taxes.

There is no advantage to be gained from moving Canadian goods which have been sold for immediate delivery to a U.S. customer through an FTZ. However, if for some reason you wish to process the goods further and/or store them for a period of time prior to delivery to a U.S. customer or prior to re-export to a customer outside the U.S., using an FTZ can offer several benefits.

- Goods can be held in an FTZ for an indefinite period — an important advantage for merchandise subject to import quotas.
- On FTZ-held goods sold to a U.S. customer, U.S. import duties and federal excise taxes would not be payable until the goods are removed from the FTZ for final delivery.
- U.S. duties and taxes payable upon the removal from an FTZ of goods which were