

SECTION V - WAREHOUSING AND DISTRIBUTION

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 of equipment available, many shippers find them invaluable as distribution centres.

Public warehousing in central market locations can be used by British Columbia and Alberta shippers wishing to penetrate 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 small shipments.

For example, if our hypothetical Calgary (see page 3) shipper must fill ten orders of 1,000 lb. each for customers in different locations in Arizona 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 in Tucson or Phoenix 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 Calgary shipper.

Cost Savings Through Freight Consolidation and Warehousing

| DISTRIBUTION OF COST COMPONENT | BEFORE | AFTER |
|---|----------------|----------------|
| a) Shipment size | 1,000 lb. | 10,000 lb. |
| b) Number of shipments | 10 | 1 |
| c) Rate in \$Cdn. per cwt. | 40.22 | 22.48 |
| d) Cost of transportation | 4,022 | 2,248 |
| e) Warehousing costs (minimum charge would apply) for less than 30 days | - | 150 |
| f) Cartage to 10 customers \$50/trip | - | 500 |
| g) Interest charges (15 days 15% on \$20,000 worth of goods) | - | 125 |
| h) Total distribution cost | <u>\$4,022</u> | <u>\$3,023</u> |
| COST SAVINGS (i.e., difference) | | \$999 |

In this example, the shipper would save nearly 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 shipments 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