



Top Site Selection Factors: Shipping Costs - Money Taking Precedence Over Time

The Top Site Selection Factor series outlines the factors that ranked high in importance by the executives responding to Area Development's 25th Annual Corporate Survey. Find out why and how these factors should be evaluated in your next move...

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With an increasingly globalized world, one filled with ever-growing demand for vast quantities of goods from countries around the globe, shipping - and its costs - has begun to play an important role for many companies. In fact, inbound/outbound shipping costs ranked eighth among the site selection factors in Area Development's 2010 Corporate Survey, with an 84 percent importance rating. Factors such as rising fuel costs and distances from vendors, suppliers, and markets served are all playing a greater role in shipping-cost decision-making.

To be sure, the economic downturn also has had a significant effect on the shipping industry as a whole, impacting how these companies hire, serve their customers, and make money. Because companies are taking a critical look at their shipping costs, the shipping industry has been forced to do the same.

A New Focus on Costs

"When companies were making enough and selling enough, they weren't really focusing on the costs of shipping because price wasn't really as big a deal," says Jeff Tobin, general manager for Beverly, Massachusetts-based Extreme Packing Solutions. "Now that companies are not selling enough product, and they don't have that extra money, they are asking where they can save money."

Money, in fact, has now replaced time on the scale of shipping importance, says Tobin. Whereas once a company might want something shipped overnight, paying almost whatever price the market would bear, Tobin says companies are now opting to ship things a little slower in order to shave a few bucks, or perhaps thousands of dollars, off the bill. "Instead of getting something to a customer in two days, they are putting it on the ground truck, which saves them money," he says.

In fact, shipping costs have become such a concern for many companies that the importance of time can fall by the wayside fairly quickly. "People will ask how much it costs to get something there overnight, and when we tell them the price, they say, 'Well, I don't care when it gets there, what's the cheapest we can possibly do?'"

Grant Wickes, vice president of business development for Wasp Barcode Technologies, doesn't see this new emphasis on cost as such a bad thing. "The richness of profit margins is not going to return to where it was years and years ago; if there's one positive byproduct of the recession, it's the conscious focus on costs," he says. "Revenues are coming down or are flat, so one way to maintain profits it to be acutely aware of expenses."

Better Tracking Systems

Wasp Barcode specializes in barcode tracking software and solutions. And with new software technologies like these, it's now possible to

carefully track shipments from the time they leave a company's warehouse to the time they reach a loading dock around the world. This allows companies to find the cheapest routes and best vehicles (air, rail, truck), all in an effort to keep costs down.

"We have pulled out a line item on the expenses of shipping, which we can track as both a revenue piece and an expense piece, when before it was just buried," says Wickes. "That gives us a tangible piece in trying to visibly track the revenue we get from our shipping line items and what it costs to ship out."

This knowledge of what things cost to ship can now help businesses make tough decisions, even if it's a decision to eat the costs. For example, if a company spends \$100,000 in shipping their goods, that may be a number that's too high, or it may be a number that the company just marks down as the cost of doing business.

Additionally, with the rising cost of fuel and a lesser emphasis on time, a lot of companies are now relying more on rail to get their goods from one place to another. In Area Development's 2010 Corporate Survey, railroad service ranked near the bottom in 25th place. However, it's importance rating increased 8.6 percentage points over 2009, and it was considered "very important" or "important" by more than a third of the survey respondents. Railroads can typically handle more cargo and usually have fewer costs. For businesses that have shipping as a central focus, those savings can add up.

Tracking Internally to Save Money

One area of shipping, however, that could use some additional scrutiny is getting products to their rightful owner once delivered, says Wickes. "The process of a package going out the dock door to a third-party shipper is pretty tight and efficient because you have a manifest," he says. "Where things fall down is when the package gets delivered to a company's back door, and the dock signs for the delivery. Then it has to be internally delivered to the individual, and that piece of the equation is still inefficient."

What's needed is an internal package tracking system, which has still not been perfected, he says. "If you have a company that gets hundreds of packages at the back door, there's nothing right now that's widely used to take it from the dock to verifying that it got dropped at an individual's desk or other destination," Wickes notes.

He underscores this problem in the trade show industry, when businesses typically send their trade show booths ahead to a hotel or convention center and find out they have been stuck in storage room or stashed in a closet. With no internal tracking of the shipment, companies can end up sending their shipments efficiently, only to end up wasting significant money in lost goods. "I was at a trade show in Toronto this summer where 10 percent of the people didn't have their booths because the packages didn't arrive or couldn't be found," says Wickes. "Think about that stress."

Still, the shipping industry continues to find greater cost efficiencies, and companies are now paying more attention to how things can be shipped at greater savings, which is something Wickes has noticed. "You keep peeling back the onion in efficiency, and when you get the first layer done, you look for another and another," he says. "People will continually look for where efficiencies can be gained, and that's one of the most positive things that will come out of this recession."