

Logistics and profitability

How to cut costs without reducing quality

In recent years, high fuel prices and inventory carrying costs have pushed logistics to the top of the list of expanding costs for most manufacturers. With costs likely to continue rising for the foreseeable future, business owners have no choice but to audit their warehouse and transportation logistics to determine where changes can be made that will improve efficiencies and save money in the process.

“Thanks to unstable fuel prices and the increasing costs of warehousing products, now is a good time to review your transportation and warehouse logistics,” says Richard Kopelman, CPA, a partner at Habif, Arogeti & Wynne, LLP. “With several options available, be sure to weigh each one and determine whether it may benefit your company the most.”

Focusing on warehouse location, making tough decisions about inventory and working with a reliable third-party logistics provider are just a few ways business owners can contend with the hit to their bottom line and, at the same time, make improvements to the overall efficiency of their processes and policies. To obtain sustainable cost reductions and truly optimize their logistics practices, manufacturers must conduct a holistic assessment of each of the points on the supply chain.

Smart Business discussed with Kopelman ways companies can trim costs in this challenging economic environment to streamline supply chain management and, in turn, cut costs and improve the quality of their operations.

What are some of the trends you see in logistics?

Many companies begin their analysis by reviewing what their customers are buying. Specifically, they look for regular, recurring sales patterns. In some cases, it might be possible to cross dock shipments. The fast turnaround on orders helps eliminate the need to store products in your warehouse.

One way to make a warehouse more efficient is to ensure that workers have easy access to bestselling items. If a warehouse has limited space, consider leasing an offsite facility to store slow-moving products.



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Another option is to sell off old or obsolete inventory that's taking up space in the warehouse. Even if you sell the products at a minimal cost, you save money in the long run by eliminating storage costs. If the items have little or no value, look into a recycling program that would help defray disposal costs.

What about physical locations?

After analyzing your customers' buying patterns, consider where your clients are located. This analysis will help you determine the fastest and cheapest way to ship your products.

As part of this process, consider your warehouse location. Where is it in relation to your customers? The farther the warehouse is from your clients, the more it's going to cost to ship your products to them. Business owners should also consider that the farther your warehouse is from your clients, the more opportunity there is for a costly mistake to happen between the moment goods are shipped and the moment they arrive at their destination.

For example, if you're located in Georgia and most of your customers are on the West Coast, it might be cost-effective

to relocate your warehouse to a more centralized region, such as the Midwest. This new location can reduce shipping charges and speed up delivery time.

What about freight charges?

Even if you don't move your warehouse, you can still find ways to save on shipping charges. Use the analysis of your customer base to determine the areas where you ship most frequently. This information may help you qualify for a discount shipping program.

Analyze the different carriers you are using. If you can reduce the number of different shippers, you may be able to negotiate lower rates. A number of our clients have been able to significantly reduce their shipping costs by working with an outside consultant to obtain bulk shipping discounts.

After selecting a shipper, make sure the company is providing the service you expect by periodically reviewing its performance. To do this, create a checklist noting information such as the total number of shipments and the percentage of shipments delivered on time.

Should companies look at outsourcing?

If your budget or staff is limited, consider using a third-party logistics provider. These companies can handle your inbound and outbound transportation, as well as warehousing and bill payment.

They also may be able to offer freight consolidation, which could translate into your shipments gaining priority treatment at receiving docks that handle full-load shipments before partial loads.

Outsourcing the logistics function can free up internal resources and save money. But bear in mind that you're still responsible for ensuring that your products reach your customers on time and in good condition. For this reason, it's important to carefully monitor your third-party logistics service. <<

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