



# Volatile Business Environment Demands Flexibility

## *“Virtual” Logistics Infrastructure Helps Increase Focus, Profits*

Many companies that today are downsizing in reaction to an economic downturn were three years ago struggling to keep pace with rapid growth. That’s why today’s successful CEOs and business owners are not so much great marketers or deal makers, but great agents of change. Leaders who have built organizations that can adapt rapidly to changing business requirements.

Companies that are more “virtual” – temporary or contract staff, limited fixed assets – have expenses that shift to match their revenues. In a down economy, that’s a significant advantage compared with competitors with large fixed assets who continue to pay a level of overhead and infrastructure not required by the current sluggish revenue stream.

A company’s logistics infrastructure is an often-overlooked area for reducing fixed costs. Logistics costs eat up an average 10 percent of a company’s revenue for such things as warehousing, transportation, and interest on in-stock inventory.

Some of these costs, however, can be shifted from fixed to variable. For instance, outsourcing to a public warehousing service provider allows a company to pay only for the monthly space and services it requires. This “pay as you go” strategy enables a company to shrink or grow its logistics infrastructure based on need, leveraging the infrastructure and staff of the logistics provider.

This is particularly beneficial for firms whose warehouses largely are *empty* during slow selling seasons and *overflowing* during peak.

In addition to shifting from a fixed-to variable-cost structure, outsourcing to logistics experts can help a company:

- Improve return on assets through the sale of owned buildings and equipment. These assets become cash that can be reinvested for a 10–15 percent return.
- Quickly enter and leave markets with no capital investment. Contracts for public warehouse space often can be terminated within 30 days.
- Reduce systems investments. Logistics providers typically employ state-of-the-art warehouse management systems, leveraging systems costs across many customers.

While many industries struggle with negative or low single-digit growth rates, the third-party logistics industry is flourishing, as more manufacturers outsource logistics to focus on their core business and improve flexibility.

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### Examples:

- A major greeting-card company wanted to provide a distribution capability for its new Web start-up without capital investments. The company now outsources

fulfillment of Web orders to an outside logistics partner.

- A large home-improvement retailer struggled to manage logistics in support of huge volume spikes for its spring selling season. The company made a strategic decision not to expand its own capacity and now outsources its multi-facility overflow needs to a logistics provider with a national network of distribution centers.
- A manufacturing firm wanted to reduce its inventory of raw materials and improve the efficiency of its manufacturing operation. The company shifted storage of raw materials to an outside logistics provider. The provider instituted a supplier-managed inventory program, deferring inventory ownership until delivery by the provider to the manufacturing line. This freed valuable space for manufacturing, while increasing inventory turns and working capital.

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### Bottom-line

A company with significant logistics-related fixed assets must ask: “Is my warehouse infrastructure flexible enough to economically adapt to market changes?” If not, the answer may be using third-party providers to create a more virtual infrastructure.