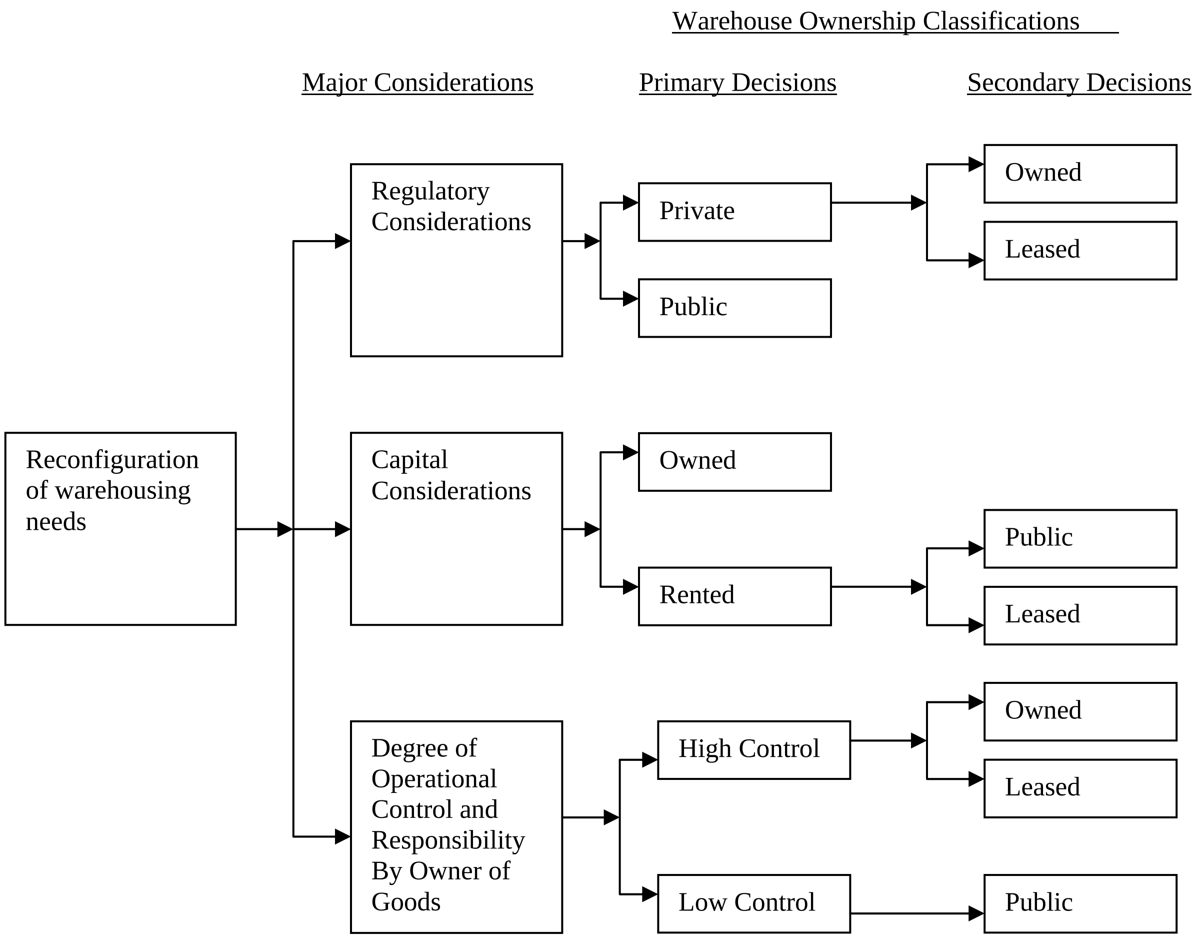
White Paper: Warehousing Ownership Considerations - Private versus Public/Contract

- The following represents the major considerations in evaluating warehouse ownership alternative:



- The circumstances under which public or private warehousing may be favored:

	← Circumstances Favoring	→
Important Factors To Consider	Private Warehousing	Public Warehousing
- Market		
+ Geographic location	Stable	Shifting
+ Level of demand	Stable, High	Volatile, Low
+ Seasonality	Uniform	Seasonal
- Product Line		
+ Promotional items	Limited in number or importance	Frequent and important
+ Physical Characteristics	Requires special handling or storage	Standardized handling and storage
- Transportation Mode	Stable	Subject to change

Private versus Public/Contract Warehousing

- The decision to use private versus public/contract warehousing is driven by five primary considerations:

1. Management: availability and philosophy

   Does the organization currently have sufficient management to operate a new warehouse operation? If the answer is no, what is the risk of a start-up with unknown and untested managers? Are rewards given for reducing personnel and assets your company control? (Warehousing is asset intensive and most new operations require capital for facilities and equipment.)

2. Capital: cost and availability

   Financial strategy has a major influence on the private-or-public question. Most companies measure their success by examining the ratio of <u>net profits</u> to <u>sales</u> and emphasizing the bottom line. A growing number of corporations place equal or greater emphasis on their ability to <u>receive a return on assets, which is a blending of profit margins and capital turnover</u>. <u>Capital turnover is the ratio of total assets to sales revenue, and this ratio can be improved either by increasing sales or reducing the number of assets controlled be the corporation</u>. When a corporation concentrates on improving return on assets, human resources are rewarded for reducing inventories and minimizing the quantities of fixed assets.

3. Control

   The strongest argument for doing it yourself is control. However, if the search and selection for a public/contract warehouse is conducted properly and if expectations are clearly defined and performance is monitored, then the user can achieve greater control. Additionally, electronic monitoring allows users to achieve greater control over 3rd Party warehouse operations. If something goes wrong it can be detected quickly.

4. Labor

   Cost and availability of labor and union/non-union are important considerations.

5. Flexibility

   Flexibility in space, systems and labor are very important considerations. Can space be expanded or reduced with relative ease? Can the labor force be expanded or reduced with relative ease? How important is it to be able to keep up with technology?

Private versus Public/Contract Warehousing

- Advantages and disadvantages of public/contract warehousing versus private warehousing:

Advantages	**Disadvantages**
Public/Contract Warehousing:	
• Conservation of capital	• Lack of control - overstated concern for two reasons - competition and expectations & performance clauses in contracts
• Ability to increase or decrease space quickly	• Communications problems - computer to computer compatibility
• Reduced risk - facility obsolescence, technology changes, volume	
• Economies of scale - personnel, building costs, material handling equipment, expertise, specialized services, consolidations with other shippers	
• Flexibility - location, volume (space), personnel	
Private Warehousing:	
• Degree of control	• Lack of flexibility - space (short-term)
• Flexibility - design and operations	• Financial constraints - long-term, risky investment; start up costly and time consuming process; ROI may be greater if funds are channeled into other areas
• Less costly - operating costs can be less if achieves sufficient throughput or utilization	
• Tax benefits - depreciation on buildings and equipment	