



# Trends in supply chain management: Cost control

## Costs remain a top concern

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Costs and how to cut them are always forefront in supply chain management. Indeed, survival in today's current business climate requires "the need to be ruthlessly efficient," says one supply chain executive quoted in a recent white paper from the 'Beyond the Horizon' research project, conducted by Michigan State University's Patricia Daugherty and David Closs in partnership with the APICS Supply Chain Council.

To be sure, companies are using a wide variety of cost-cutting measures in their supply and distribution networks, but one major factor is the strategic placement of large, highly efficient DCs. Leon's Furniture, for example, just opened a state-of-the-art 430,000 square foot DC in Delta, BC that it says will "generate meaningful cost savings and efficiencies over the next several years" as its online and bricks-and-mortar businesses continue to grow. The company names good land prices, as well as the growing port traffic and their building contractor's reliability as the main factors in deciding on Delta.

### Industrial rents

Besides a strategic facilities plan (including the consideration of leasing a building versus ownership), Jesse Micak, principal at LIDD supply chain consultants of Montreal and Toronto, lists labour, transportation costs and IT systems—as well as investments in the necessary human to keep them effective—as increasing areas of cost concern in supply chain roadmaps.

"Industrial rents for warehousing space are also expected to see healthy increases on both sides of the border," states a recent report by location consulting firm The Boyd Company of Princeton, New Jersey, "in the range of 6.2 to 8.5 percent nationally and well over 10 percent in hot

Northeast and Eastern Canadian warehousing markets like Toronto, the Boston area and New York and New Jersey.”

Principal of the firm, John Boyd, adds that the fact that the Canadian dollar has remained in the 70 to 80 cent range against the US dollar for much of the past year has built up demand for DC space related to more affordable Canadian manufactured products.

“Warehousing lease rates, especially for modern big box facilities, are on the upswing in all major Canadian logistics hubs from current averages of \$8.10 to \$11.00 in the Vancouver market; \$6.80 to \$7.10 in the Calgary market; \$7.60 to \$8.20 in the Edmonton market; \$6.55 to \$7.20 in metro Toronto and \$4.65 to \$7.95 in Montreal,” he explains. “Flat shipping rates are helping to moderate overall DC costs, but they contrast sharply with hefty increases in other DC operating costs related to Canadian real estate, construction and labour, up 6.2, 5.9 and 2.7 percent respectively, from 2016 levels.”

### **Outsourcing staffing**

Boyd says his clients are increasingly outsourcing staffing and HR functions to specialized third-party agencies specializing in the logistics sector in order to keep inflationary labour cost pressures in check, especially for recruiting, training and discretionary benefits. Other operating costs such as taxes and utilities are also critical, given continued price pressures from off-shore competitors. “Improving the bottom line on the cost side of the ledger is the only choice for many DC operators,” Boyd notes.

However, Canada is well positioned in North America for DC cost effectiveness in Boyd’s view, due to the exchange rate, low land costs, absence of development fees in many markets and lower benefit costs (owing to Canada’s health-care system). “Accounting firm KPMG ranks Canada first among the G7 nations in terms of tax policies because of its low corporate taxation rates,” he adds. “These advantages tend to offset administration issues at the border.”

Circling back to technology, Boyd identifies “considerable” future savings in the use of semi-autonomous trucks, where trailing trucks are electronically tethered to a lead human-operated truck, a process known as platooning. Ford Motor Co. is establishing a major autonomous R&D centre in Ottawa and General Motors of Canada will be opening a similar research facility in Markham, Ontario.