

# SPACE:

## The third party solution

**T**hird party distribution or contract logistics may be one of the winners in these tougher economic times.

Industry sources estimate that businesses can shave an average 30% from their total distribution costs by contracting out rather than leasing or owning cavernous warehouses that could be half empty.

Utilisation of assets and space requirements are compelling issues, according to Ben Evans, Managing Director of Christchurch-based Online Distribution Services.

“When times are good businesses can run out of storage space and when times are slow they have too much room.

“If you have too much storage capacity in your warehouse you are paying for area you do not use. When there is not enough room your warehouse becomes inefficient. Third party logistics solves this problem by only charging customers for what storage they use when they use it.

“The current financial environment has promoted a paradigm shift from traditional business models.”

The Kiwi DIY attitude has previously been an impediment to third party logistics in New Zealand. Overseas it’s a different story – in the U.S., for instance, 85% of companies opt for it.

Evans: “In the past New Zealand companies have been a little apprehensive because they’re used to having control and they’re worried that it will be too complex for someone else to handle. Our argument, though, is that we do this all day, every day – for all sorts of companies.”

Gary Seear, industrial sales and leasing specialist at Colliers International in Christchurch, says third party logistics is an increasing trend in New Zealand as businesses move warehousing and distribution operations outside of organisations to take advantage of lower total costs, better quality and improved efficiency offered by specialist third party logistics providers.

Online Distribution Services, established in 1988, is one such company, acting for more than 140 New Zealand, Australian and multi-national companies – which translates to enormous economies of scale and bulk buying power.

### The argument for 3PL

- Retires excess warehousing cost.
- Provides flexible storage. Can expand and contract on seasonal and business demand. Eliminates fixed term leases etc.
- Provides better use of working capital.
- Expands manufacturing facilities into space previously occupied by storage.
- Provides visibility. Status reporting of sales activity and stock movement.
- Delivers economy of scale.
- Delivers an activity based costing model. (No activity, no charge)
- Can be customised to meet precise delivery specification.
- Head count reduction which delivers labour cost savings. It’s difficult to hire half or a third of a person.
- Provides a service to competing companies without conflict.
- Increases core business focus.

Its range of industries and clients are diverse, and include Briscoes, Ebos Healthcare, Constellation New Zealand (formerly Nobile Wine Group), Red Seal Natural Health, USL Medical, Bundaberg Brewed Drinks, the TAB and Ballantynes, for which Online Distribution has handled inventory and stock management for over six years.

The challenge Ballantynes faced was receipting and pricing orders from a large number of suppliers including apparel, cosmetics, homewares and food, as well as carrying out vital bar-code linking with Ballantynes ERP system and quality control functions, all within valuable retail space.

“We now look after Ballantynes logistical and warehousing functions, performing all checking, linking, and pricing functions offsite, freeing up valuable human resource and retail space,” says Evans.

Soft drinks giant Bundaberg Brewed Drinks, whose product lines include Bundaberg Ginger Beer, Lemon Lime & Bitters and Royal Crown Cola, faced huge seasonal challenges with inventory levels increasing 300% over summer months.

Evans: “This presented a massive resource challenge but outsourcing meant that with no

minimum order size or storage charges are imposed, Bundaberg’s logistics charges directly mirror their activity. We are becoming a crucial factor in our clients Inventory Management, helping plan, handle and administer processes along our clients entire supply chain.”

Online distributes products via its 11 warehouses (encompassing a total of 18,500m<sup>2</sup>) in Christchurch, Auckland and Sydney. Although traditionally leasing warehouses, it was prompted to build in Christchurch’s Port Hills Rd when it couldn’t find premises to fit the bill. Since then, Colliers has sold the property to ING Property Trust in a sale and partial leaseback.

“Normally we like to stick to our knitting. We don’t want to be property owners because that may not be in the best interests of our clients. Anything we do with property has to be for the purpose of making our business more effective – not for making money out of property.”

**“Companies are realising that it is far more efficient to have distribution facilities in both Auckland and Christchurch to service the whole of the country overnight”.**

When Online developed the Port Hills Rd site, it was with a master plan in mind of also building a four level block of serviced offices for clients needing a satellite office. This is currently under way and set for completion in August. Demand for these serviced offices is strong, with three floors already leased.

Gary Seear: “Along with that comes a requirement for satellite offices alongside their product.”

Of the current climate, Ben Evans says he’s been through downturns before and the pattern is usually similar in his industry.

“When things tighten up, the first thing we see is a slow down in activity. Not long after, the phone starts ringing with businesses looking at how to trim their costs by not renewing their warehouse lease.

“Every business is different but we’ve worked with many companies who have saved 30% of their total distribution costs by logistic outsourcing.”



*Ben Evans (left) with Colliers industrial specialist Gary Seear.  
"Christchurch is becoming a real distribution hub".*