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# ECODEV

ISSUES AFFECTING ECONOMIC DEVELOPMENT  
by Jeremy Woods, CCIM, SIOR

## Tapping Into the Power of Supply Chain Integration

In 4 B.C., Greek philosopher Plato said necessity is the mother of invention. That statement is as true today as it was then. During the past few years, it became a necessity for companies to find cost savings and run their businesses more efficiently to survive tough economic times.

In addition to network rationalization, inventory optimization, warehouse auditing, and other efficiencies, companies also grew increasingly focused on energy consumption and sought to lower their carbon footprint through reducing utilities costs, optimizing equipment operation, and improving process flow.

Occupancy and facility costs increasingly show up on companies' radar screens. Depending on the location, current lease payments on your distribution space may be well above prevailing market rates. There has been a renewed focus on taking advantage of a soft real estate market by renegotiating facility leases to further reduce costs.

It's accepted practice to approach each area of supply chain, energy use, and real estate with the requisite due diligence each deserves—many companies see these areas as separate and unrelated tasks. Focus on each individ-

ually and you can achieve good results but lose potential valuable synergies.

Integrating and focusing on these three areas as part of an orchestrated strategy is key to gaining the additional leverage you need to maximize each. It's like taking three smooth, round pieces of metal and adding teeth, creating gears that drive one another.

For example, say your 400,000-square-foot distribution center is coming off a 15-year lease signed in 1996. You rode out the storm, but now have a new account in process and may need an additional 50,000 square feet. Your company has a separate initiative to reduce its carbon footprint.

You have three seemingly separate problems—a lease coming up, a need for more space, and a desire to become more green. How might you wrap these issues together to maximize your result?

Here's a potential plan: After conducting a warehouse audit of your existing facility, you determine that by reconfiguring your racking and increasing pick face density, you can free up enough space for your potential new account and accommodate projected growth for another five years. Now you can negotiate a matching renewal

term with confidence. You prepare a detailed request for proposal, outlining what it will take to reconfigure your space, and include these costs in your request (including the cost of the study itself). In addition, you will require your 400,000-square-foot space to be retrofitted with new high-efficiency T5 lighting to replace the costly metal halide fixtures.

Done in proper sequential order, this orchestrated process enables you to leverage each issue to create an overall benefit. Adding it all up looks like this:

- 1. Warehouse audit: ..... \$25,000
- 2. Inventory optimization measures (racking reconfiguration): ..... \$225,000
- 3. T5 lighting retrofit: ..... \$150,000
- 4. Tenant allowance from landlord on 5-year renewal: ..... \$400,000
- 5. Utilities cost savings with new lighting: 15 cents per SF/year: ..... \$60,000
- 6. Rental savings on the 50,000 SF no longer needed: ..... \$200,000
- Total savings over 5 years: ..... \$1,700,000**

By organizing your issues into a cohesive strategy you are able to realize the power—the necessity—of integrating your supply chain, energy use, and real estate. ■