

Exporting goods via airfreight

[Environment](#), [Air](#)



Running head: Cost components Most people consider transporting goods by airfreight as generally more expensive compared to other modes of transport. However, this is not always the case as sometimes shippers can offset the high airfreight cost by saving on various cost components. This paper shows that sometimes, airfreight is the least expensive way to transport goods by pointing out and discussing on five cost components that may reduce the total cost of goods when transported by air.

Introduction

Airfreight costs have their basis largely on the rates that carriers charge. Transportation rates are in two types namely class and commodity. The higher of the two rates is the class rate, which is the standard rate for all commodities moving from one destination to another. On the other hand is the commodity rate, sometimes referred to as a special rate because shippers receive it from carriers as a reward for either large-quality shipment or regular use. Recently, another rate known as a contract or negotiated rate has emerged. This rate is favorable to small businesses, which do not have the shipping volume required for the above two rates. Under contract rates, a carrier and shipper negotiate a rate for a specific service where the two parties finalize the terms of the service, rate and other variables in a contract.

Exporting goods by means of airfreight has a substantial effect on international business. A range of cost components may reduce the high cost of goods associated with airfreight. Cost components refer to groupings of cost elements such as process costs, direct labor, materials among others. Different users define these cost components to match needs in their

organizations. In other words, cost components vary from one location to another. People also select cost components as containing variable (proportional) and/or fixed costs (Sedgley & Jackiw, 2007). These cost components include inventory-holding costs, infrastructure costs, theft and damage costs, congestion costs and Speed and time costs.

The business dictionary defines inventory cost as the cost that one incurs by holding goods in stock. This cost includes depreciation, warehousing, insurance, capital, taxation, shrinkage and obsolescence cost. It is usually expressed as a percentage of the inventory value, which is the determination of the cost of inventory that has not been sold at the ending of an accounting period. As one holds goods, their value may depreciate leading to losses. He would also be paying for their storage in a warehouse. The goods also need to be insured against risks such as fire, theft among others. They are also subject to taxation by the government, may shrink and reduce in mass or even become obsolete or old-fashioned. One can avoid all these costs with the use of air transport, as inventory ownership transfer is a fast way to shift cost off the shipper.

Another cost component is infrastructure costs. Infrastructure cost is the cost incurred in establishing the fundamental facilities or the basic underlying framework or features of a system or an organization. The fact that air transport is not obstructed by topography makes it a cheaper and convenient mode of transport. This is because aircrafts can transport goods to areas that are inaccessible via other means of transport. For example, where there are no large water bodies to support water transport and in hilly or mountainous regions where construction of railways and roads is

impossible. At times, rail lines and roads become worn-out and impassable demanding high cost of repair. There has also been an increase in the rate of fatal road accidents coming from such roads, careless driving and poorly maintained vehicles (Gudmundsson et al, 2009).

We also have theft and damage costs. The Business dictionary defines damage cost as the total cost moving goods incur in the process of palletizing, packaging, loading, unloading and documentation charges, marine insurance and carriage / transport costs. However, most air cargo today moves in sealed metal containers therefore cutting down on theft and damage. Sealing these containers ensures that the goods reach their destinations intact. In addition, cases of hijacking in air transport are very few compared to other modes of transport such as marine, railway and road transport.

Under congestion costs, the fact that most air cargo is transported in sealed metal containers helps make aircraft loading and offloading easier and faster. In case of congestion in air transport, it does not lead to queuing. This is unlike in road and marine transport where vehicles and ships queue for long in their respective terminals awaiting loading or offloading.

Speed and time costs are very significant cost components. Delivery time of a shipment is the time it takes to move a shipment from its origin point to its destination point. Transporting goods by air is much faster and cheaper especially over long distances compared to long-distance transportation via other transportation modes. Some goods such as express mail need urgent delivery while others such as cut flowers and live seafood are highly perishable. Failure to deliver them in time may lead to great losses. For such

goods, the only suitable option is air transport as it is the fastest of all modes of transport. Fast delivery times allow lower inventory costs thus offsetting the high air transport cost largely.

Conclusion

Although aircrafts do not carry bulk and heavy goods including iron ore, oil, grain and coal, they, as Rutkoski says, are very significant modes of transport that carry a major high-value shipments share. Often, savings in the aforementioned component costs counteract the high airfreight costs.

References

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