

CSCMP's Supply Chain [QUARTERLY]

2012 SPECIAL ISSUE

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The Annual "State of Logistics Report"



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US\$45

SPECIAL
Bonus Issue

Think globally, *site locally*

Site selection for a new distribution center has always been influenced by local costs and constraints. Now companies also need to consider global trends.

WHERE TO LOCATE A NEW DISTRIBUTION CENTER (DC) is one of the most demanding and far-reaching decisions that a logistics executive will ever make. A less-than-optimum location will result in higher costs and put the company at a competitive disadvantage that could persist for years. To choose the best location and avoid these risks, companies must consider not only local but also global factors that will affect the cost of getting their goods to their customers.

When situating a DC in the United States, not all locations are equal in terms of cost. A 2012 BizCosts.com study shows significant cost variances among surveyed DC sites (see Figure 1). These figures are based on a hypothetical 150-worker distribution center occupying 450,000 square feet and serving a national market. A comparison of a Meadowlands/Northern New Jersey DC site vis-à-vis an Indianapolis location, for example, shows a total annual cost differential of 29 percent, favoring Indianapolis. Costs in the BizCosts.com analysis include labor, construction, taxes, utilities, and over-the-road shipping in truckload lots.

One factor that has a major impact on a DC's operating cost is over-the-road shipping. Shipping currently represents the largest single cost factor in the supply chain, far outdistancing real estate and rent costs, and these costs do not look like they will go down anytime soon. Our site selection firm is projecting trucking costs will rise 5.0 to 5.5 percent this year. Carrier margins are under intense pressure from rising driver wages and health insurance premiums, increased fuel cost, and required environmental equipment upgrades. These factors will force carriers to raise rates just to stay afloat.

Transportation costs are particularly steep in California, a



key state for many companies' distribution networks. A study commissioned by the California Trucking Association found that the state's new Low Carbon Fuel Standard will likely raise the retail price of diesel fuel in California by up to 50 percent—to a projected US \$6.69 per gallon by 2020.

With escalating fuel and trucking costs, astute DC site-seekers are finding important savings in inland distribution center locations close to rail hubs. We are counseling our clients to locate their inland distribution facilities as close to rail ramps as possible, as they provide opportunities to reduce dependence on over-the-road transport and to achieve a greater utilization of lower-cost, environmentally friendly rail. Some of these rail ramps are located in smaller, less-congested, and less-costly cities, and some also have free trade zone (FTZ) status.

One example of an intermodal development that is attracting DCs is Quincy, Washington, USA. Quincy is located on the Seattle-Chicago main line of the Burlington Northern Santa Fe (BNSF) Railway in central Washington state and is close to Interstate 90 and the ports of Seattle

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and Tacoma. The intermodal terminal at Quincy includes more than 10,000 feet of track and can provide shippers with distribution, cross-dock, and storage capacity. Quincy is also home to the Pacific Northwest-Chicagoland Express “Cold Train,” which carries fresh and frozen foods direct to Midwest markets. DCs with large power requirements can also take advantage of Quincy’s green, hydro-generated power at rates that are among the lowest in the country.

Global matters

As our firm enters its fifth decade of providing location counsel, never have our DC site-selection projects been so affected by what is happening overseas. Consider this list of variables: political uncertainty in the Middle East and North Africa, the expansion of the Panama Canal, inflationary wage pressures in China, the return of manufacturing jobs to the United States, hyperextended and overly risky global supply chains, Asia’s insatiable demand for coal, the European debt crisis, the “greening” of corporate investment decisions, the new free trade pact with South Korea, parity of the U.S. and Canadian dollars, and Japan’s nuclear meltdown and tsunami. These and other global events are influencing investment and location decisions for new distribution and warehousing operations in the United States.

One development that is projected to have a big impact on the location of new warehouses in the United States is the revamped Panama Canal, scheduled for completion in 2014. The expansion project includes a new set of locks that will allow increased traffic and wider ships. These new ships, dubbed the Super Post-Panamax Class, will have a capacity of 13,000-plus 20-foot equivalent units (TEUs), nearly three times the capacity of today’s ships. These ships will cost approximately 25 percent less to operate on a per-slot basis, providing a significant incentive for carriers to move containers directly to East Coast ports rather than overland from West Coast ports.

With an eye to the increased traffic and new super ships, East Coast ports have been upgrading, dredging, and expanding their facilities. In tandem, a wave of regional distribution warehouses is being built nearby. These new distribution hubs will be similar to the “big box” warehouses that were constructed in California’s Inland Empire to serve the ports of Los Angeles and Long Beach. Among the new hubs we see developing are: Cranbury/Robbinsville, New Jersey, just south of Port Newark/Elizabeth; York, Pennsylvania, a short dray north from the Port of Baltimore; Pooler, Georgia, near the Port of Savannah; and Doral and Miramar, Florida, both close to the Port of Miami. This con-

[FIGURE 1] U.S. WAREHOUSE OPERATING COST RANKING

Distribution Warehouse Location	Total Annual Operating Cost (in US dollars)
Meadowlands/Northern New Jersey	\$22,223,804
Chicago, Illinois	\$19,682,301
Riverside/San Bernardino, California	\$19,312,685
Lehigh Valley, Pennsylvania	\$19,152,519
Phoenix, Arizona	\$18,230,611
Columbus, Ohio	\$17,774,780
St. Louis, Missouri	\$17,122,556
Orlando, Florida	\$16,850,239
Kansas City, Missouri	\$16,597,343
Dallas/Ft. Worth, Texas	\$16,172,986
Atlanta, Georgia	\$15,902,179
Charlotte, North Carolina	\$15,813,648
Indianapolis, Indiana	\$15,793,726

[SOURCE: BIZCOSTS.COM, 2012]

struction is being further encouraged by historically low industrial land costs and multiple sources of funding for port-related projects. The Boyd Company is projecting overall demand for new warehousing space linked to the East Coast’s emerging Inland Empire to be very substantial, upwards of 500 million square feet during 2012–2013.

Another global factor influencing DC growth in the United States is parity between the Canadian and U.S. dollars. Never has it been so inexpensive for Canadian companies to establish a brick-and-mortar presence in the United States, especially considering the unprecedented real estate bargains in markets throughout the country. South Florida; Phoenix, Arizona; Las Vegas, Nevada; and Albuquerque, New Mexico, are among the cities on our Canadian clients’ short lists. Additionally, as the U.S. housing market shows signs of long-term improvement, the Canadian forest products sector is beginning to recover. We expect this development to fuel interest in Pacific Northwest sites like Seattle and Quincy, Washington, and Portland and Medford, Oregon.

Next year and beyond

Even with a sluggish overall economy, we are optimistic that the distribution sector will experience a sustained economic recovery in 2013, as we see some needed relief on the global stress meter and put election uncertainties behind us. If the economy does pick up, we expect no change in the overall trend of smaller distribution centers being built in “green buildings” near rail hubs and site-selection decisions influenced by global events and changes in the global economy. △

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