

Five questions: Why is Kern good for distribution centers?

By JENNY SHEARER, Californian staff writer
jshearer@bakersfield.com | Tuesday, Nov 11 2008 5:37 PM

Distribution centers are big business in Kern County, and costs to operate them here are among the lowest in the nation, according to a new study.

Location consulting firm The Boyd Co. of Princeton, N.J., ranked Bakersfield No. 8 of 30 cities surveyed. It would cost \$17 million per year to operate a new 500,000-square-foot-facility with 225 hourly employees in Bakersfield, the study found.

Ahead of Bakersfield are Mohave Valley, Ariz.; Salt Lake City/Provo, Utah; Tucson, Ariz.; Albuquerque, N.M.; Phoenix/Mesa, Ariz.; Boise, Idaho; and Reno/Sparks, Nev.

The firm monitors business climates, labor conditions and cost trends, among other factors.



Photo by Alex Horvath / The Californian

Consultant John A. Boyd Jr. talks about why Kern County is a good place for distribution centers.

The Californian met with consultant John Boyd Jr. Tuesday. Responses were edited for length and clarity.

Q: Why visit Bakersfield?

A: Distribution will continue to be the next big generator of jobs in Kern County. Last year, the industry grew by 10 percent. We project that to grow. Target is doing an enormous expansion; it's a great endorsement for the county.

Among the big issues we discussed today is the idea of competition. Historically, (California) competed and lost projects to Las Vegas, Salt Lake City, Phoenix and, to a lesser extent, Albuquerque. My last visit here, I spent the whole time talking about Mexico and Las Vegas. The reality today, those markets have been victims of their own success. Land costs have skyrocketed in those markets. Labor costs have

increased dramatically. We like to position our clients ahead of trends; companies are always looking for what's next.

Q: Can you say more about that?

A: Indian reservations are where smart companies are beginning to contemplate putting distribution center facilities. And this is true for a few reasons. No. 1, one of the big issues not talked about or written about is the cost of water.

Reservations have priority when it comes to water rights. Water's cheaper. And the other, this is interesting, too, there's tax credits that make investing on reservations very pro-business. It's a logical extension of what's happened with the gaming industry. Google is regarded as a pioneer with their site-selection decisions — their newest information warehouse is in Pryor, Okla., on land that has an Indian designation.

Cost comparison to operate a distribution center			
Metro areas	Chicago	Bakersfield	Mohave Valley, Ariz.
Nonexempt Labor			
Weighted average hourly earnings	\$16.09	\$14.67	\$12.23
Annual base payroll costs	\$6,892,956	\$6,284,628	\$5,239,332
Fringe benefits	\$2,619,323	\$2,388,159	\$1,990,946
Total annual labor costs	\$9,512,279	\$8,672,787	\$7,230,278
Electric power costs	\$552,924	\$568,380	\$369,600
Natural gas power costs	\$432,600	\$427,700	\$444,780
Amortization costs	\$4,091,370	\$3,842,613	\$2,807,492
Property and sales tax costs	\$1,716,008	\$980,589	\$473,742
Shipping costs	\$7,157,614	\$1,845,310	\$1,834,344
Heating and air conditioning costs	\$1,094,000	\$631,179	\$569,724
Total annual geographically variable operating costs	\$24,556,795	\$16,968,558	\$13,729,960
NOTES:			
(1) Totals reflect a 500,000 sq. ft. distribution center employing 225 workers.			
<small>Source: The Boyd Co. Inc.</small>		<small>THE CALIFORNIAN</small>	

Q: Bakersfield doesn't have reservations. Why is it a good place for a distribution center?

A: For a company that wants to be in California, Bakersfield is a premier choice. You're within four hours of (the majority) of the population. California's the eighth largest market in the world. Industrial vacancy rates here are very low. For the past decade, everyone's been talking about outsourcing of manufacturing to China. There's good news here.

Good jobs are washing back ashore, distribution jobs. Each year, the U.S. imports \$44 trillion of goods from China, much of that

from the port of LA ... The reality of 21st century warehouses are different than how warehouses used to be

The overall industry trends are for a company to first invest with a warehouse. Land is inexpensive in Kern County. You have enough acreage where you can do a back office facility, you can consolidate. The trend in warehousing is to house multi-functions.

Q: Your study mentions a port in Baja, Mexico — Punta Colonet.

A: It might take a decade or so to reach capacity. A lot of business groups in the U.S. act as if this thing is 20 years away. Within the next decade, the port of Punta Colonet will have some competition. Even in this awful economy, state governments and city governments are positioning themselves to get ready for funding for this new port. Mohave (Valley, the lowest-priced location to operate a distribution center, and it's on a reservation) rests along the Cali-Mex corridor.

Q: What about environmental concerns and distribution centers?

A: Clean diesel is the next big issue. (Gov. Arnold) Schwarzenegger is smart to pick issues where it's easy to be pro-environment. Gas prices have come down; clearly, they're going to go back up again, because of all the big macro trends. Clean diesel, for industry survival and to be viable, you need clean diesel.

Copyright © 2008 *The Bakersfield Californian*