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BIG WIN FOR LITTLE GUYS

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WILLIAM HOFFMAN Memo: Smaller warehouses see increase in demand as shippers adjust distribution to regional networks

Shippers in an increasingly creaky economy are deciding that, when it comes to distribution facilities, smaller is better.

'We are in a recessionary environment without a doubt,' said John H. Boyd, president of site selection consultants The Boyd Co. 'But the smaller guys are well-positioned to capitalize on this trend.'

Just a few years ago shippers were consolidating their distribution operations into multimillion-square foot warehouses - Wal-Mart's 4 million square foot mega-DC at Baytown, Texas, being the poster child for that tendency. But the pendulum began to swing back as global logistics operations started to affect consumer distribution networks, Boyd said.

'This is not cost-driven,' said Boyd. 'This is customer service-driven.'

Long lead times from sourcing in Asia, the Middle East and South America are forcing international manufacturers and retailers to shorten delivery times to consumers in North America and Europe. As a result, Boyd said, mega-DCs are giving way to more regional warehousing near ports and end-consumer markets, a strategy also more appropriate to the current financial crunch and uncertain outlook on fuel costs.

Smaller, family-owned and operated warehouse company networks said their clients are bucking the slide that pre-occupies larger developers such as ProLogis and AMB Property.

'We're actually finding it quite active, as (shippers) are ' very actively looking at their existing profiles, supply chain costs and involving us and looking at alternative locations,' said A.J. Wilson, senior vice president of sales and marketing at E*Fill America.

E*Fill is a network of more than two dozen shareholding warehouse operators with more than 50 million square feet of capacity, Wilson said. Facilities range in size from 250,000 to 400,000 square feet in more than 100 locations across North America.

That allows E*Fill to construct distribution networks as well as providing space flexibility, Wilson said. Additionally, about one-third of the business includes contracted service providers who offer specialty services such as temperature-controlled storage.

Shippers like the stability offered by family-owned companies, said Mark Richards, vice president of Associated Warehouses, a network of regional operators. 'Customers know they are going to be there tomorrow,' he said.

Associated comprises about 50 companies operating warehouse space in some 500 locations. Facilities run from 100,000 square feet up to 500,000 square feet.

Smaller warehouse companies tend to be privately or family-owned, of long-standing (E*Fill's shareholders have been in business more than 60 years, on average) and run conservatively. Most don't experience the financing complications of larger providers, Richards said.

Yet even mid-size distribution center operators feel the economy's pinch. 'There's no question that importers' volumes have slowed significantly,' said Bill Butler, president and CEO of Weber Distribution.

Weber runs 19 facilities, mostly in the western United States, with 4.5 million square feet of capacity in buildings ranging from 40,000 to 985,000 square feet. The company also does truckload and LTL transportation for food and beverage, consumer packaged goods, chemical and hazardous materials shippers.

Weber's food and beverage customers are still growing, Butler said, but instead of the 5 to 7 percent rates of recent years, it's down to 2 to 3 percent for many.

Customers are also reporting more trouble financing inventory. While Weber doesn't extend days outstanding on receivables, Butler said customers have become more attentive to inventory and Weber helps with periodic reports on the quantity and quality of stock in an effort to accelerate inventory turns.

That validates Butler's investments over the years in up-to-date warehouse management and inventory tracking systems Weber customers in better times took for granted.

Things don't look as good on the asset-based transportation side. There, the glut of capacity and upheaval caused by 2,500 truck company bankruptcies so far this year will take six or nine months to bring supply and demand back into equilibrium, Butler said.

Like most mid-size and smaller warehouse operators, Richards is more sanguine than many in transportation and logistics about the near future.

'I think generally (smaller warehouse operators) are positive (though) they are expecting that growth will not be at the pace it has been in the last several years,' he said. 'But I have not heard people expressing significant concern for 2009.'

The New Year should find executives better prepared for tough times than 2008, which Butler said caught many flat-footed. 'I think 2009 is going to be another slug-it-out year, (but) I think people are more prepared mentally, so they'll make swifter, better decisions,' he said.