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If anyone doubts where North American freight transportation and logistics is headed, check out what is happening on the windswept plain west of Chicago. What many saw as an iffy experiment when CenterPoint Properties opened a logistics park around a BNSF import container ramp in Ellwood, Ill., in 2002 is about to be validated in the most tangible of ways.

With three-quarters of Logistics Park Chicago now occupied by a dense cluster of distribution centers positioned to receive containers from the trains arriving from the West Coast, an even larger tract will open this summer on nearby property around a Union Pacific ramp set to handle domestic and international cargo.

The message is clear: Distribution center development is gravitating to railheads, and it's not hard to see why it's happening and, more important, why it points to the future. String together the most important trends in freight transport today — anticipated higher fuel prices, zealous pursuit of cost reduction, newfound openness to supply chain reinvention, a priority on carbon reduction and the abundantly clear idea that Washington wants freight to move by rail as far as possible — and you have a ringing endorsement of the rail-linked supply chain, both domestic and international.

The proposition starts with intermodal, which was up last year in dramatic evidence of a shift to the rails from over-the-road lanes. The positioning of the distribution center next to the railhead is the heart of the proposition; positioning a DC near a railhead cuts the inbound dray to practically nothing, saving on fuel, emissions and personnel costs associated with longer haul moves.

The difference between a typical quarter-mile dray within a logistics park and a 30-mile dray is a few hundred dollars in cost. If you only move 10 boxes a year, that doesn't make much difference, but if you are moving 5,000 to 10,000 containers or more, the savings rapidly grow to seven figures, and they tend to be perpetual as DCs usually represent long-term investments. CenterPoint estimates that at \$50 per barrel of oil (the price was \$76 last week), Wal-Mart's drayage savings equal the annual rent on its 3.4 million-square-foot import DC at Logistics Park Chicago, which opened in 2006.

But as obvious as such benefits might seem, major shippers until recently were not in a good position to go after such gains. With consumers in full gallop, retailers were

preoccupied with building stores and keeping them well stocked. As in any expansion, they were single-mindedly focused on growth rather than on the hard work of uncovering efficiencies, which tends to dominate companies' attention in downturns. As a result, although the U.S. appears to be recovering, supply chain reinvention as an element of the comedown from the pre-recession days is in full swing.

"It's a total shift," said Neil Doyle, CenterPoint's executive vice president for infrastructure and transportation. "When you are in a crazy growth mode, you are not necessarily making long-term intelligent decisions — you are not afforded that luxury. Now, with a bit of stagnation out there, everyone has the opportunity to really analyze the supply chain and wring out a lot of these unnecessary costs."

More often than not, downsizing retailers who believe sales will be lower in the future and require a smaller network of stores and supply chain infrastructure are driving the change.

"Shippers are saying, 'Now we have underutilized space and have to cut costs,' and so this is one of the few times in a career where everyone has the opportunity to really figure out their supply chain, and that is very exciting," Doyle said. "When I connect my two worlds, transportation and industrial real estate, what we are seeing over the last 24 months is complete in-depth analysis (by retailers and other shippers) toward cost cutting in their supply chains."

To CenterPoint, that adds up to a rail connection, although third-party operators say there's been a growing trend over several years to locate distribution facilities close to major transportation nodes. Airport authorities have seized on the idea for high-value goods and a growing number of port authorities see the interplay between shipping services and shipper facilities as inexorably linked. The shift, Doyle said, represents rejection of earlier strategies in which many DCs were built based on tax incentives without much attention to location, drayage costs or proximity to the market. The result in some cases has been warehouses sitting empty in fields, served by inadequate roads and labor forces and poor network optimization.

"What the traditional industrial real estate transaction didn't take into account, in addition to limited labor and lack of infrastructure, is that poorly located real estate is a depreciating and an illiquid asset," he said.

The tax incentives actually helped undermine the operating viability of the DC. "Show me low taxes and I will show you a lack of infrastructure. Show me cheap land and I will show you a sparsely populated area lacking a labor force. Land is cheap for a reason."

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