BENEFITS OF BUILDING AN EFFECTIVE DISTRIBUTION NETWORK IN TODAY’S OMNI-CHANNEL ENVIRONMENT
It's safe to say that just about every logistics professional reading this Special Digital Issue is feeling the enormous pressure that e-commerce has introduced to their operations. Indeed, this new, rather hasty world has introduced more risk, complexity and headaches than we’ve ever faced before.

Today, we’re all working to figure out how to manage omni-channel order fulfillment while establishing a more efficient distribution and transportation network strategy to accommodate smoother inbound flow as well as next-day or even same-day delivery windows. To do this, retailers, distributors, suppliers and manufacturers now feel they have to innovate, adapt and evolve—or get knocked out of their respective market positions.

In an effort to push the culture of innovation forward, the editorial staff of Logistics Management has collected these seven features that are designed to help shippers get a better grasp of the e-commerce and omni-channel fulfillment realities and offer some practical solutions for how shippers can better manage logistics at the speed of now.

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  It goes without saying that in these days of rapid e-commerce growth, consumers are getting more accustomed to getting what they want, or ordered, when they want it. This, in turn, creates challenges for retailers to get orders to customers, challenges that can be expensive but needed. That is a key takeaway from the 2017 Holiday Outlook recently issued by PwC.

- JLL research highlights top ten U.S. markets to establish a warehousing presence  
  Recent research from commercial real estate firm JLL indicates some markets are better than others for shippers and 3PLs.

**Welcome**

Demystifying an omni-channel world

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*Source: NRF 2017 Consumer Survey*
As e-commerce sales continue to explode, growing and sustaining multiple sales channels can be overwhelming for shippers. Their customers expect a seamless experience—whether they're shopping via web, mobile, marketplaces, social or traditional bricks-and-mortar. Faced with rapidly growing sales volume, shippers encounter numerous hurdles in their quest to keep omni-channel customers happy while still maintaining profitability. Transportation, warehouse space, labor, and technology are a few of the most common pain points.

Get closer to your customer with an omni-channel fulfillment distribution network

How a multi-node network, paired with powerful technology, can help tackle the biggest transportation, e-commerce, and omni-channel challenges that shippers are facing in the current market.

BY BRIDGET McCREA, CONTRIBUTING EDITOR
Heighened customer expectations for fast, free shipping can be difficult to deliver on in today’s transportation market. Fluctuating fuel costs and tight carrier capacity pose major challenges. Capacity issues can get particularly onerous during peak shipping seasons, when even companies like UPS and FedEx scramble to figure out how to secure and pay for the infrastructure necessary to service their customers.

Space and staffing issues compound shippers’ problems. Labor can be hard to find with national unemployment hovering at a historically low rate. Industrial real estate is also in short supply and increasingly expensive.

“The cost of moving products is only going to go up,” says Steve Congro, Saddle Creek Logistics Services’ director of omni-channel fulfillment technology. “That’s the reality of it, and it isn’t going to change anytime soon. If your business is growing rapidly and you need to accommodate multiple channels, the best solution is to rethink how you move your products.”

Effective distribution requires a critical understanding of your network, high levels of supply chain visibility, and a focus on planning well in advance for the peaks. Congro recommends utilizing a multi-node network that allows you to get as close to customers as possible and minimizes any “last-mile” gaps that keep customers from getting their goods on time.

“If you’re a seasonal retailer who does a lot of business on Black Friday, Cyber Monday, and throughout the holiday season, you really have to understand your network and how to plan for those peaks,” Congro explains. “If a customer can’t find a Halloween costume in a bricks-and-mortar store on October 20th, and if the retailer can’t get it to that customer until November 5th, that’s a lost sale.”

"If your business is growing rapidly and you need to accommodate multiple channels, the best solution is to rethink how you move your products."
—Steve Congro, director of omni-channel fulfillment technology, Saddle Creek Logistics Services

“Right now, everyone is looking for a single, unified commerce solution that helps them optimize their buying and merchandising,” says Congro. And as those stores move their products closer to the end consumer, they also need high levels of visibility enabled by robust warehouse management systems (WMS), transportation management systems (TMS), and order management systems (OMS) like those that Saddle Creek provides to shippers.

These solutions provide visibility into what’s moving through bricks-and-mortar, what orders are being placed online and more. With that real-time data in hand, shippers can determine the best logistics approach for each order (i.e., which fulfillment source is the fastest, most cost effective to ship from).

Fast, free shipping
Amazon is another powerful force that’s pushing shippers across most business-to-consumer (B2C) and business-to-business (B2B) channels to rethink their distribution networks.

“Amazon makes up about 45% of the $450 billion e-commerce market,” Congro points out, “and it has created a mindset around free, fast shipping—it’s really driving that charge.” Even though the e-tailer lost over $7 billion on shipping in 2016, it continues to push the envelope on free shipping (for the 2018 holiday season, for example, it expanded the benefit to all shoppers—even non-Prime members).

The average retailer, distributor, or merchant simply can’t afford to lose all that money in shipping, Congro says. Instead, they must focus on how to meet their customers’ demands by offering either free or reduced shipping within a reasonable timeframe. To achieve this goal, many are working with third-party logistics providers (3PLs) like Saddle Creek to develop multi-node networks that position products as close to the customer as possible for faster, more economical deliveries.

The multi-node approach is new for shippers who initially viewed their e-commerce operations as being “separate” from their traditional business activities with separate inven-
A 3PL can also help shippers broaden their network without having to invest in more real estate. With more than 40 locations situated across the U.S., for example, Saddle Creek helps clients of all sizes get closer to their customers and also supports those companies with a robust technology infrastructure that they use to run their supply chains.

“Shippers need to be able to spin up new locations rapidly and then tie the whole system together with first-class technology systems that support a profitable business model.”
— Steve Congro, director of omni-channel fulfillment technology, Saddle Creek Logistics Services

“If you want to be near a certain population base, we probably have a location nearby,” says Congro, who sees speed-to-market as a key reason to work with a 3PL to establish a multi-node network in today’s business environment.

“A lot of companies are still using enterprise resource planning (ERP) systems combined with physical real estate to try to tackle the challenges of e-commerce and omni-channel, but this approach just isn’t agile enough for today’s market,” Congro points out.

“Shippers need to be able to spin up new locations rapidly and then tie the whole system together with first-class technology systems that support a profitable business model.”

Where’s my inventory?
The cost of shipping continues to rise in an era where competition for customers is fiercer than ever. Labor costs are also taking a toll on shippers’ bottom lines, and pushing them to find alternatives to their age-old shipping approaches.

For example, utilizing a third party’s flexible space and staffing can be more cost effective than investing in permanent overhead. And working with an experienced 3PL to set up and orchestrate a multi-node supply chain network is another key strategy to minimize freight and labor costs and improve profitability.

Using a multi-node network with sophisticated technology, shippers can quickly and confidently answer the most important questions that answers they need and make good decisions based on that intelligence.

“Simply spinning up warehouses around the country that don’t talk to one another and hoping that the strategy pays off simply doesn’t cut it in our current business environment,” Congro advises. “However, by developing a multi-node network where you can

“By developing a multi-node network where you can view all of your inventory and see all of your orders at any given time, you can achieve the nirvana that everyone is desperately searching for right now.”
— Steve Congro, director of omni-channel fulfillment technology, Saddle Creek Logistics Services

companies are asking themselves right now, which are: ‘Where’s my inventory located and what’s the fastest, cheapest way to get it to my customer?’

By combining good supply chain visibility with a logistics partner that understands the ‘ins and outs’ of today’s market, shippers can get the

80% of retailers need to improve cross-channel inventory visibility.

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Bridget McCrea is a contributing editor to Logistics Management
Managing a supply chain through omni-channel growth

BY BRIDGET McCREA, CONTRIBUTING EDITOR

For the last 16 years, The Honest Kitchen has been making exceptional, human-grade foods for pets. Based in San Diego, CA, the company has slowly expanded from a focus on dehydrated products and built its national brand around pet foods that range from meals to supplements to broths, all of which are made in the USA.

Through this growth process, The Honest Kitchen has had to rethink its logistics network and how it gets its products to distributors, retailers and end customers. “Our supply chain has grown more and more complex as time goes on,” says VP of operations Jake Fuller. With a single manufacturing point for its expanding product line, and a dual distribution strategy utilizing Saddle Creek Logistics Services’ distribution centers in Joliet, Ill., and San Diego, the company sells primarily through independent pet stores.

“We’re currently in about 5,800 independent stores around the country,” says Fuller, “including Pet Supplies Plus and Hollywood Feed.” The manufacturer also sells through e-commerce outlets like Amazon and Chewy, plus its own website. The latter requires a lot of small-parcel shipments that The Honest Kitchen works with Saddle Creek to orchestrate on a daily basis.

“As our supply chain became more developed and sophisticated,” says Fuller, “we’ve been leveraging Saddle Creek’s systems—including its WMS and OMS—to build out an automated system that supports our omni-channel environment.” Fuller sees the 3PL’s technology offering as particularly important for The Honest Kitchen, which “doesn’t necessarily have the internal resources to go out and develop the technology that we ultimately need to successfully optimize and drive our business.”

Saddle Creek also houses inventory for The Honest Kitchen and ensures accurate, fast shipments across the manufacturer’s omni-channel network. Over the years, Fuller says that the 3PL has helped to explore a variety of network configurations to maximize efficiency. With exponential growth on the horizon, Fuller says that the company is in active discussions with Saddle Creek about adding facilities in other locations to further improve speed to market.

“We rely heavily on Saddle Creek to help us scale up as our company continues to grow,” says Fuller. “They have the systems, processes and infrastructure in place to support our current needs and adapt very quickly as our needs change.”

Since B2B and B2C orders require a completely different approach, Fuller says that Saddle Creek’s ability to handle both pallets and single orders for individual customers gives The Honest Kitchen an advantage in the omni-channel marketplace that it serves. “Saddle Creek delivers a significant return on investment (ROI) for us by providing a level of trust and scalability that supports all of the channels that we’re working with on a daily basis,” says Fuller.

By outsourcing logistics and fulfillment to a reliable partner, The Honest Kitchen can effectively manage the “peaks and valleys” of those various sales channels, each of which has its own set of requirements. “That helps us save on labor, storage, and transportation,” says Fuller. “Their systems also decrease transit times to our customers, which is really important when you’re trying to compete with the likes of other online retailers that are providing two-day shipping or less.”
Impact on Customer Experience

Distributed order management suppliers and users tout its ability to strengthen the customer experience through better ties to store-level systems to improve buy-online/pickup-in-store efforts and to empower store associates.

BY ROBERTO MICHEL, EDITOR AT LARGE

E-commerce has made distributed order management (DOM) systems—a layer of software that sits above inventory systems and figures out how to best fulfill orders—a key part of omni-channel strategies. The routing logic in DOM quickly assesses which warehouses, stores or third-party locations should be tapped to fill an order, regardless of channel.
In short, DOM brings efficiency to fulfillment. But that’s the internal view of DOM, also known as an order management system (OMS). As omnichannel retailers seek to make stores more useful for customers who buy online, DOM’s ability to improve the customer experience is gaining attention. For options such as buy online/pick up in store (BOPIS) to work effectively, the foundation will likely involve an OMS that integrates with store-level solutions.

DOM functionality has centered around order routing, inventory visibility, order modification and ship-from-store features, says Zach Zalowitz, practice lead for omni-channel supply chain at consulting firm SCPath. While the functions OMS vendors are expanding on varies by industry, more attention is being paid to integration with store solutions, says Zalowitz.

“There are two main questions involved in designing your OMS solution: Do all my commerce systems ‘speak’ the same language, interface-wise, and second, is the business logic interpreted the same?” says Zalowitz.

“The better those two questions are answered, the more value retailers will find in their solution.”

DOM typically integrates with multiple systems to gain knowledge of inventory, logistics and labor issues. DOM integrates with warehouse management system (WMS) solutions to know what is on hand in distribution centers, as well as with store-level systems including point of sale (POS), merchandising or other inventory systems.

“One key area of focus for vendors is around store labor and capacity planning to enable better order routing decisions,” says Zalowitz. “The more finely tuned you can be around showing what labor is available for each part of each day, the more it helps manage order allocations properly. It’s not enough just to route an order to a store because that is the inventory point closest to the customer—you need the people there to service those orders.”

Today’s DOM/OMS solutions are different from the order management in enterprise resource planning (ERP) systems. ERP order management was conceived of at a time when supply chains were more linear, with a DC shipping to stores in its region, and little variation beyond that, notes Brian Kinsella, vice president for product management for Manhattan Associates’ OMS solution.

“The supply network for omni-channel has gotten far more complex,” says Kinsella. “What’s all the rage now is turning stores into fulfillment points, so now you’ve just added hundreds—or in some cases thousands—of potential points of fulfillment to a network.”

Stores as DCs?

DOM solutions may not be able to turn stores into tightly controlled DC environments, but they can use integration capabilities, rules and software intelligence to reliably figure out how much available goods are in specific stores without disappointing either e-commerce or walk-in customers.

Stores tend to be chaotic environments for inventory control, especially outside the backroom, where customers are moving goods, trying them on or purchasing them. As a result, says Zalowitz, as part of an enterprise order management (EOM) project, omnichannel retailers may need to consider an inventory protection strategy.

Under these strategies, says Zalowitz, an appropriate stocking level is set for each item by department and store so there is enough ‘protected’ inventory to avoid stock outs in stores, while also guarding against committing to online sale of items in a store that could prove difficult to locate.

Factors such as how deep to set the inventory for an item, its sales velocity, and how prone an item is to loss or ‘shrinkage,’ are typically taken into account in inventory protection. "The critical misstep some retailers take is to use ‘blanket’ protection across the board for all items in the store, which leads to lost sales," Zalowitz says.

While most DOM solutions have logic to support inventory protection, explains Zalowitz, inventory updates from store-level systems present further opportunities for fine-tuning protection levels because the OMS knows what is on hand.

For most retailers, a merchandising system integrates with a POS to give DOM a complete view of inventory. Intra-day signals from a POS give a DOM a more real-time inventory view. Without this signal, Zalowitz explains, the protection levels must increase to offset "stale" inventory knowledge.

"The best DOM in the world is only going to be as effective as the data you feed into it," he says.

DOM vendors may offer merchan-
DOM’s impact on customer service

Dining or POS solutions as well, and in these cases, they have typically pre-integrated the solutions so OMS can get timely updates. “A DOM system is opened up pretty deeply with application programming interfaces (APIs) because it relies on data from other systems to work,” says Ian Rawlins, strategy leader at Aptos, a vendor that offers DOM, POS and other retail solutions. “[By contrast, some point-of-sale systems, especially the older ones, are like closed universes. They are a little more difficult to work with, even though we can use our APIs to push and pull data.”

Many retailers have been adopting new POS solutions the last couple of years, says Rawlins, first to prepare for chip cards, but more recently, to have an interoperable POS for omni-channel. With Aptos’s suite of solutions, he adds, the DOM and POS can work together to simplify things for the customer, so that if a customer at the store wants to order a couple of items from the store’s e-commerce site and buy one item in person, the Aptos software can do it in one transaction.

“The way we think about order management, with every decision we make about how the software works, we put the customer in middle of it and then wrap the software around those workflows,” says Rawlins.

One of Aptos’s customers drawn to this blending of software needed for in-store retailing and online order management is TUMI, a luggage brand that sells online as well as through its own stores and other retail partners. Earlier this year, Aptos announced that TUMI, an existing customer for Aptos’s software including POS and customer relationship management solutions, selected Aptos Enterprise Order Management for DOM duties.

The overall solution is aimed at enabling TUMI to integrate physical and online retail channels, and enable shoppers who go into stores to have an “endless aisle” fulfillment options. Flexibility for TUMI’s customer is the goal, says Rob Cooper, general manager for TUMI North America, in an Aptos announcement. “Aptos Enterprise Order Management will allow us to present our vast product assortment to customers in an ‘endless aisle’ format, while ensuring products can be fulfilled with the customers’ convenience in mind.”

DOM’s integration points
DOM solutions have other key points of integration besides store-level systems, points out Fab Brasca, vice president of solution strategy with JDA, though certainly a view into store inventory and store labor is critical for BOPIS. JDA is a partner with IBM’s Sterling Commerce for DOM software, combining IBM’s DOM with JDA’s lineup of supply chain management software, including WMS and some planning software.

For example, the integration can link DOM with JDA’s replenishment strategy using the true source of demand can be considered, which can be tricky for omni-channel retailers. For example, a customer may walk into the store, where an associate orders a product for home delivery fulfilled from a DC. The true point of demand is the store, so ideally, explains Brasca, DOM should link with replenishment planning to consider such patterns.

“In today’s world, when you think about replenishment, you need to capture these multiple points of data for a single transaction to truly understand where that inventory should be in the future,” says Brasca.

DOM solutions typically need to integrate with multiple systems, DOM vendors need to provide excellent integration technology, says Jennifer Sherman, senior vice president of solution strategy for Kibo, a DOM vendor that also offers e-commerce and mobile POS software. “You have to have a robust integration layer—one that ensures that the integrations put in place don’t have to change even if the underlying software does,” says Sherman.

Kibo also offers some basic WMS-level functions, including the ability to pick, pack and ship as well as some wave planning, as part of its platform. Sherman calls it a “WMS light” capability that suits some of its users, though some may choose to integrate Kibo’s OMS with a separate WMS.

Customers at stake
At the store level, points out Sherman, store associates benefit from mobile apps that help them service customers who might want to order online while at the store. Retailers also should consider easily overlooked details such as signage for pickup up of online orders, as part of perfecting the customer experience. “Where we see most omni-channel efforts fail it’s because they did not involve the stores upfront, and think about all things involved in making their store associates succeed.”

“In today’s world, when you think about replenishment, you need to capture these multiple points of data for a single transaction to truly understand where that inventory should be in the future.”

—Fab Brasca, vice president of solution strategy, JDA

Inventory protection logic in DOM can help improve the customer experience by ensuring inventory in stores isn’t over-committed to online customers, or sold out for in-store shoppers. However, setting up protection rules in DOM can be time consuming, so one area of DOM evolution is in systems that self-adjust to demand and supply patterns, says Manhattan’s Kinsella. “We call it Adaptive Network Fulfillment,” he says. “It’s better if the system can be self-tuning, rather than having to have users configure 50 or 60 different flags.”

DOM solutions also should provide a means of handling exceptions or unexpected changes, such as weather events. “The best OMS providers have all made investments in better workflow-driven frameworks for exception management,” says Zalowitz. “Additionally, the DOM providers are investing in available to promise engines and in making store fulfillment functions easy to use, especially functionality on mobile devices.”

The overarching interest for both DOM vendors and users, says Zalowitz, is to strengthen the customer experience, whether it’s fulfillment for online orders or in-store workflows. To succeed, concludes Zalowitz, better, integrated software helps, but the real value is in designing processes that center on customer needs.

“I think where companies tend to miss the boat is that they think about processes like pick-up-in-store from a transactional viewpoint,” he says. “Rather, the leaders in omni-channel think about the customer’s journey first and work backwards from there. They need to think through: what does the customer need here, and how can I make the experience seamless and convenient for them?”

Companies mentioned in this article
• APTOS
• JDA
• Kibo
• Manhattan Associates
• SCPath
State of Industrial Real Estate:  
It’s crunch time

DCs are hot, especially for e-commerce fulfillment. But with so much demand, space availability is not necessarily ready to be had. Companies examining their supply chains need to be savvy about what they’re up against in terms of site selection—and realize that an ideal location will come at a cost.

Warehouses and distribution centers (DCs) has evolved immensely over recent years. The traditional warehouse was once an afterthought—a large building with the sole purpose of storing goods and tucked away in some remote location. However, today’s robust, e-commerce-driven economy has created a significant shift in how logistics real estate is viewed.

“Same-day delivery is evolving into same-hour delivery in some places, and consumers are insisting on a broader selection and availability of goods,” observes Dan Letter, a managing director of capital deployment for Prologis, a multinational logistics real estate investment trust. “As a result, selecting a market and a property are now business-critical decisions that favor high-quality space in prime locations near urban centers.”

Prologis, and other companies analyzing the industrial real estate market, find that e-commerce comprises about 20% of new leasing for DCs—that’s up from less than 5% just five years ago. “One reason for this growth,” reports Letter, “is that online retailers need approximately 1.2 million square feet (msf) per billion dollars of online sales on average, which is three times the distribution center space required for traditional brick-and-mortar retailers.”

In essence, retailers want supply chain strategies that keep store shelves stocked in a cost-effective manner and also meet the increased service demands of e-commerce.

“It’s become clear that neither one size—nor one supply chain strategy—fits all,” contends Jason Tolliver, head of logistics and industrial research for the Americas at Cushman & Wakefield. “It’s also clear that, in the paradigm of an online world, the interaction a retailer has with the customer often occurs on the retailer’s website and on the customer’s doorstep. So with that in mind, developing robust, flexible, and highly responsive final-mile networks capable of consistently meeting delivery commitments in an ever-tightening time window will remain an essential component of doing business.”

Bill Waxman, executive vice president of industrial and logistics at leasing and advisory firm CBRE concurs. “The phenomenon of next-day and same-day delivery has spurred companies to build out their last-mile networks,” he says. “This often takes the shape of a hub-and-spoke distribution network, such as a regional hub in, say, New Jersey that filters packages to a satellite DC in New York City, Long Island, Connecticut or elsewhere. Additional demand for distribution space comes from support companies, such as delivery services, 3PLs and packaging companies.”

But with so much demand, space availability is not necessarily ready to be had. Companies examining their supply chains need to be savvy about what they’re up against in terms of site selection. Indeed, location may be paramount, but it may come at a cost.

Hot, yet cautious market

While it may seem that with so much demand, e-commerce should be at the height of its growth cycle. However, Prologis observes that the sector is still in the early stages of expansion and is only trending upward. Similarly, CBRE found that in the 50 largest industrial leases finalized in 2017, roughly 48% came from e-commerce companies.

Another banner year

U.S. industrial outlook

While that number is high, it indicates, they say, there’s room to grow.

There are plenty of examples of e-commerce’s growth. A couple include Duke Realty’s long-term lease announced in November with home goods e-commerce company Wayfair for an 874,566-square-foot, built-to-suit DC in Lancaster, Texas; and the new 260,000 square-foot facility Prologis built for Amazon in Oakland, Calif. That particular DC features 56 garage doors and is located near three highways that give access to downtown Oakland, Silicon Valley and points north.

Given all the hype surrounding the e-commerce boom, analysts particularly exclaim that last year was another banner year for U.S. industrial real estate leasing activity. Cushman & Wakefield reports that markets absorbed a total of

BY KAREN E. THUERMER, CONTRIBUTING EDITOR
246.3 million square feet (msf). “The market has now recorded over 240 msf of absorption for four consecutive years—the strongest run on record,” says Tolliver. The greatest leasing demand occurred in Dallas/Ft. Worth, Atlanta, Southern California (Inland Empire), Chicago, and the Pennsylvania I-81/I-78 Distribution Corridor. “Together they accounted for 38% of availability,” he says.

In the meantime, analysts report that the national industrial vacancy rate for 2017 was around 5% for all product types. “This is the lowest rate on record with market conditions tightening in the Midwest and South,” adds Tolliver. Aaron Ahlburn, managing director of industrial and logistics research at global commercial real estate firm JLL, points out that nearly 80 msf of industrial space was absorbed in the fourth quarter of 2017 alone. “That’s more than the similarly strong fourth quarters from 2014, 2015 and 2016,” he says. “With low vacancy rates, coastal barriers and the continued growth of e-commerce, we’re seeing demand spread beyond major cities and into secondary and tertiary markets.”

According to Ahlburn, this includes such markets as Cleveland and Columbus, Ohio; Indianapolis, Ind.; Louisville, Ky.; and Memphis, Tenn. JLL reports that over 3.2 msf of speculative product is under construction in Columbus where vacancy rates are a low 4.4%.

“Depending on the operation and business, being within two-day ground shipping to all U.S. population may suffice,” says Michelle Comerford, project director for industrial and supply chain practice leader at site selection advisory firm B Higgins Lacy Shapirs & Co.

“On average, we have seen most inland markets report higher vacancy rates, between 5% and 10%, as compared to the tight coastal markets which is under 3%,” reports Ahlburn. “These markets are land-constrained, densely populated and have entry barriers for warehouse and distribution tenants requiring larger building footprints.”

— Aaron Ahlburn, managing director of industrial and logistics research, JLL

“However, even after that space was absorbed, the level of demand was so high that developers were unable to keep up.” He attributes this to a variety of reasons, most notably more stringent financing, more rigorous entitlement processes, a more institutional and risk adverse development community, and a lack of suitable land sites.

While most of those issues continue to persist, with land being the biggest, analysts report that the development pipeline has improved. Some developers are utilizing brownfield sites, including ‘dead’ shopping malls, to construct DCs. In fact, that’s the case with Seefried Industrial Properties of Atlanta, which was hired to construct a DC for Amazon—its second in northern Ohio. Seefried located a 69-acre former shopping mall in North Randall, Ohio and is constructing, a $177 million, 855,000 square-foot DC that’s projected to open in the second half of this year. According to Seefried, the location offers two critical ingredients: proximity to population and available labor.

Land restrictions are causing others to be creative, such as Prologis, which is developing a unique project in north Columbus, a three-story, 590,000 square-foot fulfillment center scheduled for completion in third quarter of 2018. The first of its kind in the U.S., the building will feature truck ramps leading to loading docks on the second level, and a third floor served by forklift accessible freight elevators for lighter-scale warehouse operations.

“Although the multi-story warehouse is commonplace in Asia, and Prologis has developed numerous facilities there, it’s a brand new concept in the U.S.,” says Letter. “As cities grow in density, and the adverse development community, developers are challenged to operate from locations much closer to the end consumer.”

Timelines and markets

Some markets, however, are especially challenging despite their huge advantages of infrastructure (highway, rail, port access) and proximity to population centers.

“In markets such as Chicago, Northern New Jersey, Southern California, Atlanta and Dallas, developers control most of the land sites, so land prices are extremely high. ‘And although some speculative construction is occurring, it’s not at a rapid pace to keep up with demand in those regions,’ says Comerford.

“On average, we have seen most inland markets report higher vacancy rates, between 5% and 10%, as compared to the tight coastal markets which is under 3%,” reports Ahlburn. “These markets are land-constrained, densely populated and have entry barriers for warehouse and distribution tenants requiring larger building footprints.”

CBRE’s Egan finds that the markets with the most severe supply problem are on the West Coast, including Oakland, Walnut Creek, Los Angeles, and Orange County. “All are less than 2% vacant,” he says. “These markets are in high demand because they contain the perfect combination of large population, a strong consumer base, access to major port infrastructure, and scant land for new development.”

“Meanwhile, CBRE sees similar dynamics in other coastal markets such as North New Jersey, Central New Jersey, Florida, Seattle, and Savannah. Major inland-port markets like Chicago, Eastern Pennsylvania, and the Carolinas are also in high demand, but have more land. Hence, their vacancy rates are not as low as on the coast, although very low compared to history.”

In addition, the farther a DC is from the city center, the less expensive the land is and the larger the DCs can be. “For example, roughly 30 miles out from New York City, the DCs run in the range of 200,000 to 400,000 square ft,” says Mindy Lissner, executive vice president of industrial and logistics at CBRE. “They’re even larger, reaching over 1 million square feet along Pennsylvania’s I-78/I-81 corridor, which is a major regional distribution hub for the Northeast.”

By comparison, last-mile—or as some call them, final-touch centers—typically range from 40,000 to 60,000 square feet. “That’s especially true if they’re in urban-infill locations, where land is at a premium,” she adds.

Network tips

Despite all the challenges, those in the field advise logistics management executives to stay focused on a number of critical variables when evaluating distribution networks. Rich Thompson, who leads JLL’s supply chain and logistics group, suggests keying in on these three elements: Freight, labor, customer service requirements.

“Freight costs typically represent the largest operating cost of a DC, and are increasing to the tune of 10% in 2018,” says Thompson. “This is a big increase and it is driven by tightening capacity and increased costs on the part of the operators. Increasing freight costs will have a tendency for companies to have more facilities—closer to their customers.”

In addition, CBRE’s Tolliver suggests that logistics operators plan ahead and engage strategic real estate partners who can help assess the current and future state of a rapidly changing market.

“The advancement of omni-channel shopping, technology, brick-and-mortar and experiential retail, and the need to coordinate supply chain functions will continue to have widespread effects on the demand for logistics real estate,” adds Tolliver. “Although supply chain strategies will remain as varied as the retailers who pursue them, it’s clear that logistics is becoming a revenue driver, with high-velocity distribution centers increasingly considered strategic assets of a retailer’s business.”

Karen E. Thuermer is a contributing editor to Logistics Management
The supply chain- and logistics-related findings from PwC in its outlook included how:

• almost 4 in 10 consumers (39%) prefer to have their good delivered in two days or less, and
• 50% of consumers say delivery between three and five days is acceptable.

While these types of trends have become standard expectations for consumers, things are viewed somewhat differently by retailers’ supply chains. In that things like same day delivery, return shipping and related fees all have the same thing in common, says PwC: they are expensive and can have a negative impact on the bottom line, more so during the holiday shipping season than other times of the year.

“The persistent growth in online shipping, compounded by expectations of expedited delivery, has mandated a corresponding reconfiguration of the entire distribution network,” PwC said. In response, retailers have shifted their focus from behemoth distribution centers in the heartland to more nimble versions with smaller versions close to population centers. Today distribution centers dot the landscape of every metro market worldwide.”

What’s more, PwC observed that in large metropolitan areas, former manufacturing facilities in industrial parks are more often functioning as distribution centers for retailers, with proximity to highways making them highly desirable in an instant pick-up era with same-day delivery fast becoming more commonplace. And in exurban areas former malls that are close to major highways are also making way for distribution centers after zoning changes.

PwC Managing Director Tim Laseter told LM in an interview that the increased onus, or emphasis, on quick turnaround times for orders becomes more heightened leading up to the holiday season rush. And of the central themes of that is how retailers are focusing heavily on restructuring their distribution networks.

“One of my reseller clients said to me that his company needs to stop building distribution centers at highway junctions in the middle of nowhere and start putting them outside or as close as possible to major population centers,” PwC said. “That is what we are seeing as we can to major population centers,” he said. “That is what we are seeing in terms of structural changes to the network. The focus is on major metropolitan networks. For example, we likely will not have same day delivery in place like Charlottesville, Virginia for a really long time. But in major cities [and population centers] that is increasingly becoming an expectation.”

As for the holiday season Laseter said things are somewhat different, citing an old supply chain saying along the lines of ‘everybody likes speed but as a trade off what everybody wants more is predictability.’

“If delivery is promised in two days and it always arrives in two days, I can work with that most of the time,” he said. “The holiday season is pretty predictable in terms of when things are going to hit. 24-hour delivery is not a requirement as much as an assurance that the order will arrive in a timely manner. That is an important part of the holiday equation.”

PwC’s findings also touched upon free delivery, with the key takeaways being that 30% want same-day delivery, 22% want next-day delivery, and 20% indicated they want standard delivery.

This speaks, said Laseter, to consumers more often preferring the lowest-cost option. But even though it may be called ‘free shipping’, there is always a related cost,” he said. “Increasingly, as the B2C sector has 111 distribution centers that average close to 90 million square-feet [cumulatively] covering every major area of the U.S., even with a two-day promise, retailers are increasingly trying to get it done next-day just because of the volume and scale that they have and their ability to get things out. They are setting consumer expectations that ultimately is hard for others to cost-effectively match.”

As distribution network strategies, which are spurred on by things like e-commerce, automation, and last-mile logistics, among other things, Laseter said that retail supply chains need to focus less on predicting demand than shaping demand and expectations, specifically when trying to compete with the largest players, whose scale cannot be matched.

“The challenge is going to continue to be how do you shape customer expectations… rather than just playing catch-up,” he said. “Nobody wins by just playing catch-up, as that can be a losing game to play.”

Jeff Berman is group news editor of Logistics Management.
When it comes to determining the best locales for shippers and 3PLs, and other concerns, to establish a warehousing presence, recent research from commercial real estate firm JLL clearly indicates that some markets are better than others.

In its research, entitled “The top ten markets at a glance: the link between industrial real estate and population growth,” JLL clearly answers a question—“where are people moving and is the logistics market keeping pace?”

JLL called the Sunbelt region, which is comprised of markets such as Texas, southern California’s Inland Empire, and Atlanta, and are a “clear” winner in attracting domestic and international migration, as evidenced by a cumulative 10% gain in industrial market size in these regions since 2015.

JLL defined regions where there is still warehouse and buildable land available for development as “hot spots.”

On the other end, though, there are other markets, including Los Angeles, New Jersey, and South Florida, which JLL notes are major population hubs and land constraint coastal markets that are facing the challenges of near all-time high rents, pricier land options and a lack of rapidly available buildable land. These factors, said JLL, have resulted in slower inventory growth for these markets in recent years.

This subsequently results in developers being more creative in regards to land usage and investment and construction in new multistory warehouses to accommodate demand, it said.

On a percentage basis, population growth projections from 2017-2022 for U.S. warehousing markets, according to JLL include: Houston at 11.1%; Dallas at 8%; Atlanta at 5.8%; Seattle at 5.2%, Los Angeles at 4.7%, Inland Empire at 4.3%, New Jersey at 4%; South Florida at 3.6%, Eastern & Central Pennsylvania at 3.4%; and Chicago at 2.9%.

One of the biggest takeaways of this research, according to Gillam Campbell, JLL research manager for industrial property sector is the growth estimates in Texas. “Houston and Dallas are already huge population centers…with so much more growth projected there,” she said. “This makes for great opportunities for new investing. The trend of population migration in the U.S. to Sunbelt areas is really apparent [in Texas].”

JLL highlighted how warehouse development near large population hubs is viewed as a key strategy in meeting customer demand for same- or next-day delivery. And it added that having a presence in those aforementioned markets is key on that front.

“In terms of same- and next-day delivery, you are hitting on a lot of these big population markets that are also very population dense…this is especially true in the New York-New Jersey area, Southern California, Atlanta, Houston, Dallas, south Florida and Seattle.”

— Aaron Ahlburn, JLL industrial research director

While there is a major focus on the top ten U.S. markets for warehouse development, JLL’s Campbell said there are opportunities for additional growth in those markets, as well as smaller, less populated markets, too, not to the same degree.

Ahlburn agreed, adding that when looking at urbanization across America, JLL is seeing not only Tier 1 cities but also secondary and tertiary cities continuing to see population growth, in tandem with job growth and millennial population growth. “This speaks well to what you are seeing in industrial real estate,” he said. •
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*Source: NRF 2017 Consumer Survey

62% of online shoppers say FREE shipping is very important when making a purchase*