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What Business Leaders Need to Know About: West Coast Logistics

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The next stage--expanding capacity.

The good news for West Coast gateways is that containerized imports are continuing to rise, pushing volumes to new records and driving demand for transportation and logistics services from the Puget Sound all the way south to San Diego. But, the massive amounts of imports transiting major seaports are straining the supporting infrastructure and slowing down supply chains for many shippers, especially bigger companies in the retail and electronics sectors, for instance, who are importing thousands of containers a year through West Coast ports.

In 2006, the Los Angeles-Long Beach port complex handled just over 70 percent of the West Coast's container volume, followed by Seattle-Tacoma with 17.4 percent, Oakland at 10.7 percent, and the remainder handled by Portland, Oregon. Given these statistics, it's not surprising that the infrastructure surrounding the Los Angeles-Long Beach port complex is experiencing the most impact.

To accommodate expanding freight volumes, Southern California's Inland Empire, located east of Los Angeles in the counties of Riverside and San Bernardino, has been on a building binge in recent years. With 20 million square feet of total industrial space under development in the third quarter of 2006, the Inland Empire qualifies as one the nation's hottest markets. However, while lease rates are considerably less than those in Los Angeles county, the 60-mile drive can easily take three hours or more when traffic is bad.

The writing on the wall

One of the early visionaries who anticipated how increased trade from Asia was going to impact the U.S. West Coast was Richard Allen. Ten years ago, Allen visited the AllianceTexas industrial park in north Fort Worth, Texas. The visit prompted him to "further understand trade patterns, and specifically what was starting to happen with the movement of goods in the United States," explains Jon Cross, Director of Marketing, The Allen Group (www.allengroup.com).

Allen began making plans for an industrial park in Visalia, California, located in the state's Central Valley. The 444-acre MidState 99 (www.midstate99.com) distribution park was the result. "This park has a great centralized location that, because of the UPS hub there, allows a company to reach 98 percent of California overnight at ground rate," says Cross. Aside from the centralized location, the facility benefits from a strong workforce and an affordable cost of living rate. Cross adds: “We can be very competitive against other markets, such as Reno, Oakland, and Sacramento. We’ve got better lease rates and we’re surrounded by key infrastructure.”

Several years ago, VF Outdoor, a subsidiary of VF Corporation, known for apparel brands like The North Face and Reef, was looking for a site to build a 1 million square foot regional distribution center. “California was at the top of their list, but the company was also considering Reno, Nevada and Arizona,” says Larry Montgomery, The Allen Group’s Director of Development for Central California. The company’s apparel imports were coming in mostly from Asia and shipping primarily through LA/LB, so having a California location was preferable. The Allen Group built the facility and VF Outdoor was operational in less than a year.

The Allen Group’s second California facility is in the city of Shafter, near Bakersfield. The International Trade and Transportation Center (ITTC, www.ittc.com) is home to a 1.7 million square foot regional distribution center for Target Corporation. Facilities of this size are becoming more prevalent. For example, the average size of warehouses built in 2002 was 120,000 square feet. In the first half of 2006, it jumped to 216,000 square feet, reports Grubb & Ellis. Naturally, land costs, lease rates, and operating costs become all the more significant when you’re talking about warehouses of this size. Cross points out that at ITTC, the cost per square foot is about $4.50, which is considerably less than lease rates in other major California markets. The ITTC facility is another case of anticipating future demand, says Cross. “It was designed as a fall-out for the overpriced, overdeveloped Los Angeles market. This was ten years ago; we were ahead of our time. When you consider driving time, a trucker can make it to Bakersfield just as easily as to the Inland Empire. The Bakersfield area is becoming the ‘new’ Inland Empire,” remarks Cross.

Rail offers a key component

The trade imbalance that exists on the international level also exists on a facilities level—plenty of containers are trucked in full of merchandise, but not much is leaving. One way to help reposition empty containers/trailers is to make better use of rail. The Allen Group is talking with BNSF Railway (www.bnsf.com) about the viability of a transload facility at ITTC, which would accept dedicated, or unit, trains delivered to the site and pulled off the main line. Containers could then be redistributed throughout California and the western U.S. region. Likewise, empty containers could more easily be repositioned back to the seaports.

Reducing drayage costs is another reason shippers prefer having a warehouse located near an intermodal facility, and why The Allen Group is eagerly pursuing discussions with railroads about one day putting an intermodal facility in the Central Valley, explains Cross. “The amount of money a company can save on drayage costs is enormous. For example, if you have a 1 million square foot building located a mile away from an intermodal facility versus a 1 million square foot building located 50 miles away, and both buildings are receiving 30,000 containers a year; using a $0.78 drayage cost figure (on average), if you calculate that out, the first company will spend $23,000 a year on drayage, the other company will spend $1.1 million on drayage.”

Seaports responding

Despite the congestion challenges, real estate issues, and air quality concerns facing West Coast seaports, particularly Los Angeles and Long Beach, there have been some decidedly positive changes in the past few years. In many ways, the logistics meltdown in Southern California two and a half years ago was a wakeup call for transportation and logistics service providers in the region. Some shippers diverted their inbound Asian cargo to other West Coast ports or used all-water service to the East Coast. Seaports and service providers alike recognized that they would have to improve their productivity and competitiveness in order to continue to attract and retain shippers.

Apparently, it’s working. Last year, Dukal Corporation, a medical products company headquartered in Hauppauge, New York, made a dramatic change in their supply chain strategy for containerized shipments coming from China to their distribution center in New York. They worked with Ozburn-Hessey Logistics (www.ohlogistics.com) to analyze various options—where to locate their distribution center (they were running out of room in their Long Island, New York facility), which gateway seaport offered the best transit time, and which option was the most cost-effective.

"Ultimately, we concluded that locating our distribution center in Memphis was best," explained John Grasso, vice president of operations for Dukal. Not only that, the company would save one week in transit time by moving their containers through Los Angeles-Long Beach then via rail to Memphis versus using all-water service to the East Coast. The icing on the cake was the cost savings. Dukal is saving $400 per container on the ocean freight plus another $400 on drayage.

Dedicated air cargo finds its place

West Coast seaports aren't the only ones feeling crowded these days—airports are also feeling the added pressure from Asian imports. Admittedly, while the airports themselves may be able to handle more freight, it's the surrounding infrastructure (crowded roads, high-rent warehouses) that has forced some shippers to look for alternatives.

The Southern California Logistics Airport (SCLA, www.logisticsairport.com), a dedicated cargo facility in the city of Victorville, is gaining attention. It offers shippers express global access to airfreight forwarders and carriers and maintains on-site 24-hour U.S. Customs service and a dedicated, congestion-free air corridor. SCLA also boasts two intercontinental runways.

In recent weeks, the SCLA announced that Atlanta-based Newell Rubbermaid signed a lease for a 407,600 square foot build-to-suit industrial facility at the multimodal transportation hub. The facility is expected to be operational in September.

The Newell Rubbermaid deal is significant because it really shows how quickly things have changed in the logistics market. According to a report in Victorville's Daily Press, five years ago nobody was interested in the SCLA. The big companies who were looking for facilities in the Inland Empire weren't interested in the airport. But that's not the story today. "It's come 180 degrees," according to a real estate broker for CB Richard Ellis. "It's definitely at the top of everyone's list," he told the newspaper.