
Ikea chose Kern County, north of Los Angeles, as the site for an import distribution center.

Wide open spaces

Import distribution centers are being built farther from ports

BY BILL MONGELLUZZO

When Sears Logistics sought a site for a 1 million-square-foot western regional distribution center, it ended up with what its logistics manager called a goose egg.

The national retailer's logistics unit considered various factors that go into warehousing and distribution: distance from the main port of entry, distance from the warehouse to stores in the region, cost and availability of labor, real estate prices, local tax incentives, and others.

When the number-crunching was finished, and possible locations identified, they were concentrated in a section of Southern California that was shaped like an egg. "You get the goose egg, and somewhere in there is the optimal solution," said Mike Velton, general manager of Sears Logistics.

The location that Sears chose was Delano, in California's Central Valley. The location is 150 miles north of Los Angeles-Long Beach, the main port of entry for Sears' imports from Asia. Until recently, that was considered too far inland to serve as an efficient distribution center for import cargo. But as costs and congestion have risen in areas closer to the ports, some companies have found that inland points make good logistics sense.

Sears Logistics could have found space 50 to 60 miles east of the ports in the warehouse-heavy Ontario-San Bernardino area. Velton, however, was more concerned about moving merchandise from the distribution center to Sears stores throughout the West than in moving imports from the ports to the distribution center.

The deciding factor was the secondary transit: It is easier for Sears to get full-truckload deliveries from Delano to stores as far away as San Francisco and Seattle without compromising delivery to Southern California, its largest concentration of stores in the West. "It's the optimization of the full truckloads. It's why we have DCs to begin with," Velton said.

There are probably as many logistics optimization strategies as there are large importers and retailers, but all of the strategies are based on certain common themes.

Most retail merchandise sold in the U.S. now comes from Asia, primarily China, and the trend is accelerating. Import distribution centers are therefore being developed in the vicinity of the major gateways from Asia, such as Los Angeles-Long Beach, Seattle-Tacoma, Savannah, Norfolk and New York-New Jersey.

Some of those distribution centers are being built close to ports such as Savannah, where undeveloped land is plentiful and costs are low. But in certain areas, locations close to the port aren't necessarily the best places for a 1 million-square-foot facility.

Labor availability and turnover has become an issue, particularly in areas with concentrations of warehouses and distribution centers. Companies don't want to spend money training workers to operate hand-held computers and other technology and then watch them move across the street for a 50-cent-an-hour raise.

Jon DeCesare, president of West Coast Logistics, a Long Beach consulting firm, said worker turnover has become a problem for distribution centers clustered in California's Inland Empire area in San Bernardino and Riverside counties east of Los Angeles.

Areas such as central New Jersey or Kern County north of Los Angeles are growing rapidly in distribution services, based partly on their availability of labor. DeCesare said warehouse operators are partial to the Central Valley of California because the labor force has a "Midwest attitude" that's reflected in high productivity and low turnover. "They came off the farms. They grew up working hard," he said.

Employee loyalty is also important because many distribution centers now do more than just transload merchandise from marine containers to domestic trailers. Employees perform value-added services such as attaching store-specific price tags to merchandise, sorting product by color and size, labeling and kitting. The distribution warehouses have become mini-manufacturing centers.

Despite the significant cost advantages of Asian labor, such value-added logistics activity is commonly handled in the U.S. because it permits retailers to hold out as long as possible in the supply chain before committing a final product to a destination. An importer of stereo systems can wait until the products reach their warehouses to customize them with various accessories to capture the latest market trends. If the importer made this commitment in Asia, fickle consumers would have an additional 30 days or more to change their buying preferences before the product reaches store shelves.

Customizing merchandise at a distribution center also can reduce the cost of ocean transportation, said Mike Stark, president of Weber Distribution. Weber customizes plasma television sets with remote controls and speakers, which allows the sets to move in smaller cartons from Asia to Los Angeles-Long Beach. If the customization was done in Asia, the crates would have to be much larger with more packaging material. "Moving wood and air does not give you the most value for your logistics dollar," Stark said.

Community opposition to warehousing is another consideration. Mira Loma in Southern California's Inland Empire, for example, placed a moratorium on further construction of warehouses. Some of the warehouses in the Inland Empire are already working round-the-clock, compounding traffic congestion during peak commuter periods and generating noise at night.

Operators of distribution centers say locating a facility in a remote area 100 miles from a port instead of 50 miles away does not significantly increase trucking costs. Most of those costs involve picking up the container at the congested port and moving it on congested roadways through the metropolitan area. Once the truck hits the open road, per-mile costs are comparatively minor.

However, as distribution facilities move farther from the port, they tax the ability of the harbor trucking industry to serve them. When most of the warehouses were located within 20 miles of the Los Angeles-Long Beach port complex, a driver could get three or four trips per day. When they began to cluster in the Inland Empire, drivers could handle at most two round trips. As they move farther out, drivers get only one trip per day.

"The further the distribution center is from the harbor, the lower the yield per truck," said Patty Senecal, vice president of sales at Transport Express in Rancho Dominguez, Calif. Federal law limits drivers to 10 hours of work a day, and that time is eaten up by a four-hour drive in each direction, plus two hours getting the container out of the marine terminal.

The problem is compounded by a driver shortage. Owner-operators, frustrated by congested marine terminals and freeways, continue to leave the industry. Harbor truck drivers are paid a flat fee per trip rather than on an hourly basis.

Trucking companies also find it difficult to price their services. Rates are often set by shipping lines that offer importers an all-inclusive rate for the ocean carriage from Asia and the truck move from the harbor to the distribution warehouse. To satisfy the distribution center's need to have the containers available by 8 a.m., trucking companies often pick up the boxes the night before. The trucker may have to store the containers at its own facility, a cost that is not factored into the through rate that the shipping line pays to the trucker.

Even with these trade-offs, more companies are selecting distribution center sites away from ports. Weber's Stark said that as cargo volume continues to grow and community operation to truck traffic grows, a future development may be the use of rail shuttles to move large volumes of containers from the harbor to inland distribution centers. ◆

PROS AND CONS

Some of the considerations that importers and retailers face when deciding whether to move distribution centers from port areas to inland locations

Pros
- Cheaper warehouse labor.
- Less turnover in work force.
- Lower real-estate costs.
- Lower taxes.
- Tax incentives from communities seeking jobs.
- Less community opposition to truck traffic and noise.
- Ability to build larger warehouses where value-added services can be performed.
- Possibly a shorter truck haul from the distribution center to the retail outlets.

Cons
- Longer truck haul in most cases.
- Higher freight charges.
- Difficulty in persuading truckers to make an all-day round trip to and from the harbor.
- Shipping lines' all-inclusive rates don't cover truckers' extra costs of pre-staging containers for early morning delivery.