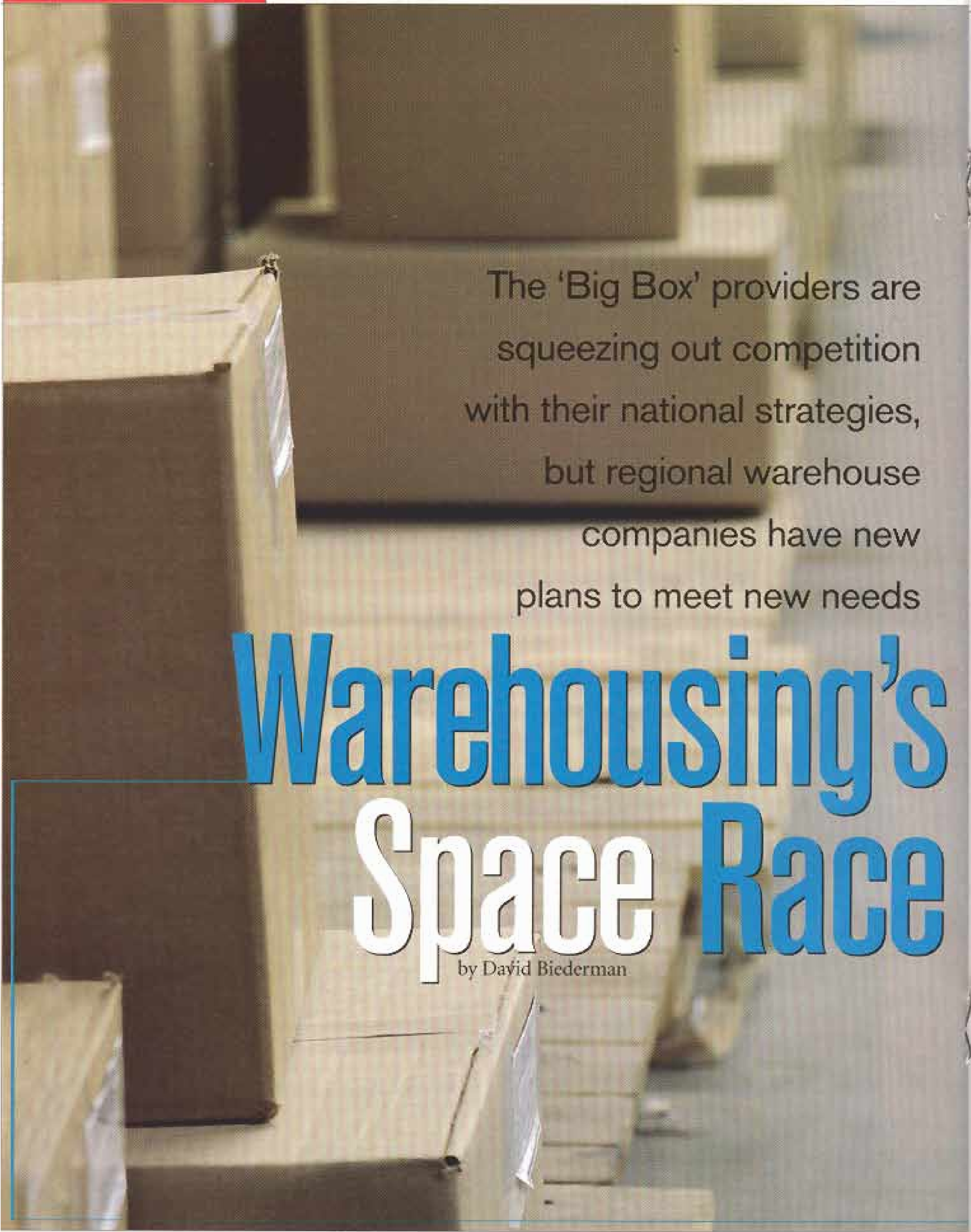


The 'Big Box' providers are squeezing out competition with their national strategies, but regional warehouse companies have new plans to meet new needs

Warehousing's Space Race

by David Biederman

"At the end of the supply chain you have national players who want national solutions from our vendors."

Regional warehouse operators are feeling the pinch of consolidation and responding with new business models based on technology and ollaboration. Whether new models can succeed in what is a mature industry, however, remains an open question.

Surrounded by the distribution industry's version of the "big box" retailers, the regionals are under intense pressure from industry giants.

"A lot of guys are frightened now," said Ken Ackerman, founder of K.B. Ackerman Company in Columbus, Ohio. "They feel the little guy doesn't have a chance in today's market."

Their fear is based on a simple fact: in the U.S. warehousing market, which according to consultants Armstrong & Associates was worth more than $52.7 billion in 2003, the big keep getting bigger.

Exel, UPS Supply Chain Services, UTi Worldwide and Kuehne & Nagle all made major acquisitions in recent years that include strong growth in management of distribution centers and warehouses. The frenzy is such that United Kingdom-based Exel — the largest operator of commercial warehouses in the United States with 73 million square feet — this year was rumored to be a takeover target of UPS, the second-largest U.S. operator of warehouses with 28.6 million square feet. Neither company will comment on the rumors.

"Within warehousing there has been a feeding frenzy of acquisitions," said Ackerman. "I think there are more mergers and acquisitions going on now than in the roaring '90s."

The economies of scale in administration and technology the giants bring to the table, along with global reach and expanding menus of value-added services, make it tough for regional operators to bid on national contracts.

"The emphasis is on the entire supply chain, which can go beyond the ability of regional operators to address," says Bob Shaunnessey, executive director of the Warehouse Education and Research Council.

But regional operators are trying to address the challenges.

To compete on scale and reach, 32 regional warehouse providers recently banded together under the umbrella of eFill America, while "virtual," non-asset based companies such as CaseStack have entered the market with business models based on strong proprietary technology.

CaseStack Chief Executive Officer Dan Sanker, who co-founded the company in Los Angeles in 1999, said private equity groups see his "technology-enabled logistics outsourcing firm" as offering a new business model in a mature industry.

CaseStack "has built a highly scalable business that brings a new level of efficiency and cost savings to a traditional manual and inefficient industry" said Alain Rothstein, principal of Kline Hawkes & Company, a Los Angeles venture capital firm and CaseStack investor. "The bottom line is that CaseStack enables its customers to better compete with their larger competitors."

By consolidating orders, CaseStack provides truckload benefits to small and midsize consumer packaged goods companies that otherwise supply LTL quantities to retailers. Sanker estimates truckload shipments cost on average 40 percent less than LTL shipments.

Underpinning the company's success — since 2003 it has grown from 35 to 89 employees and revenue has jumped from $5 million to $30 million — is a Web-based technology that allows clients to simply type in order quantities and destinations, and CaseStack fulfills the orders.

SANKER

Integrating with client servers, the system provides real-time tracking; processes all shipment-related data; stores historical shipment and inventory records by SKU and region, and offers demand-planning and customized reporting.

For LTL shipments, around 30 percent of CaseStack's total, an optimization feature locates the best option. Customers pay a monthly access fee to use the system.

The technology enables vendors to maintain minimal inventories at facilities operated by CaseStack's warehousing partners in Los Angeles, Portland, Ore., Dallas, Chicago, Atlanta and New Jersey. Vendors save back-end costs by not having to deal directly with transportation providers, and retailers benefit through increased ordering efficiency, less out-of-stocks and reduced dock congestion.

For CaseStack, the model grew out of the experiences of shippers.

Prior to co-founding CaseStack, Sanker managed a logistics division at Nabisco, a brand of Kraft Foods, where he was struck by two trends that drove the development of the CaseStack model: the growing use of the Web as a tool to link trading partners rather than the use of costly enterprise systems; and the emergence of national retailers such Wal-Mart and Home Depot, which in Sanker's view put an end to the purely regional warehousing model.

"At the end of the supply chain you have national players who want national solutions from our vendors," he said.

For the past two years, CaseStack has been part of a Wal-Mart program in which the retail giant creates master, multi-vendor purchase orders from up to 10 vendors, which CaseStack consolidates into truckload shipments.

Sanker said CaseStack's per-pallet cost to Wal-Mart is around $35, about half the industry average. The company moves around 2.5 million pounds of goods into Wal-Mart facilities each month, a number Sanker expects to grow as the company expands beyond groceries into general merchandise.

Doug Shannon, vice president of sales and marketing for Marie Callender International Commissary, a restaurant chain and grocery supplier, said his company tried to sell baked goods to

Top 30 Bulk Warehouse/Distribution Markets

Ranking of U.S. markets by square footage (In thousands of square feet)

		Inventory	Overall Vacancy Rates		Deliveries		Net Absorption	
		04-04	04-04	04-03	2004	2003	2004	2003
1	LA Basin	1,080,965	3.9%	4.8%	21,305	12,476	30,454	28,778
2	Chicago	489,544	12.4%	13.7%	15,898	10,838	20,084	9,816
3	Atlanta	384,179	14.4%	14.9%	6,071	2,688	7,087	786
4	New Jersey	374,709	8.1%	7.5%	4,143	1,712	1,762	6,770
5	Dallas	293,044	13.8%	13.0%	6,166	3,485	3,020	1,615
6	Houston	198,720	12.5%	13.3%	2,099	1,944	3,410	-1,235
7	South Florida	182,280	7.4%	9.1%	1,514	3,085	4,446	2,648
8	Columbus, Ohio	168,766	12.8%	11.0%	2,190	1,651	-1,223	3,000
9	Phoenix	133,094	8.1%	9.1%	794	1,119	2,053	3,510
10	SF Bay Area	122,541	10.5%	10.9%	0	152	530	502
11	Indianapolis	121,321	10.6%	10.4%	5,308	2,756	4,454	3,821
12	Portland, Ore.	114,012	9.2%	9.7%	526	1,140	1,045	468
13	Memphis, Tenn.	108,360	11.6%	14.3%	2,115	1,566	4,728	-1,693
14	Denver	107,472	9.4%	9.0%	1,576	1,740	1,004	854
15	Washington, D.C.	85,283	7.7%	9.2%	1,132	960	2,304	1,409
16	Seattle/Tacoma	80,875	6.9%	10.0%	2,216	528	4,535	435
17	St. Louis	76,955	12.1%	16.1%	163	355	3,215	451
18	Cincinnati	72,495	10.4%	11.0%	928	380	1,253	-89
19	Nashville, Tenn.	67,528	15.6%	18.8%	1,647	2,477	3,498	1,408
20	Orlando, Fla.	66,979	8.3%	11.1%	2,177	933	3,811	1,404
21	Eastern Pa.	60,585	12.7%	9.0%	2,707	2,945	185	3,616
22	Baltimore	59,729	21.0%	18.2%	1,090	2,024	-770	1,378
23	Reno, Nev.	58,127	8.7%	10.5%	1,636	886	2,482	270
24	Las Vegas	57,506	7.5%	11.4%	2,005	2,751	3,988	1,509
25	Tampa, Fla.	50,945	7.2%	8.5%	305	493	941	1,103
26	El Paso, Texas	35,535	17.5%	17.7%	388	751	390	-238
27	Louisville, Ky.	35,138	11.1%	11.2%	669	517	629	1,749
28	Charlotte, N.C.	25,786	13.7%	19.2%	283	68	1,647	-479
29	Austin	20,497	17.0%	17.0%	193	0	160	406
30	San Antonio	14,235	14.7%	14.6%	210	268	181	-162
	Total 30 Markets	4,747,005	9.6%	10.3%	87,472	62,688	111,304	73,809

Source: ProLogis

Photo courtesy Saddle Creek

Searching for Success

Globalization may be the mega-trend in trade and industrial sourcing, but distribution consultant Ken Ackerman says it may not be what everyone is looking for in a warehouse.

Whether it is CaseStake, eFill or the many smaller regional operators that look to fill distribution needs, says Ackerman, many shippers want to be able to call the CEO of a regional on Sunday if they are in trouble.

"There is absolutely room in the industry for new business models and CaseStack, with a darn good track record, is proving that," he said. "eFill is more of a crapshoot, but time will tell if it is viable."

For regionals to succeed, they have to be among the very best in a given industry niche, said Adrian Gonzalez, director of the Logistics Executive Council at ARC Advisory Group.

"There is still a role for regionals, but they have to focus on operational excellence," he said. "They have to be the cream of the crop."

Cliff Lynch, president of CF Lynch & Associates, thinks most eFill members are in it for marketing opportunities. Lynch, who has worked as a consultant for eFill, said there would be more synergies if member firms were in similar industries, but it could still be a good fit between regional and national players.

"It is a fairly defined network of companies that offers something close to a single-source solution," he said.

Dick Armstrong, founder of Armstrong & Associates, described companies like CaseStack and eFill America as variants of the 3PL model with more web-based activities. It works for small companies, he said, but the long-term viability of such models remains unknown.

"I can't imagine any major companies using this as their warehousing solution," he said.

Wal-Mart but learned the retail giant would not welcome single pallet shipments of cornbread at its loading docks.

Wal-Mart indicated it liked the product, however, and recommended three consolidators, one of which was CaseStack.

Shannon asked the companies for a price quote on warehousing and transporting goods to customers including Albertson's and Kroger, two of the nation's largest grocery chains.

CaseStack came back with a price that was far less than Marie Callender was spending on its own. For example, it cost the company $300 to ship a single pallet of cornbread from its own warehouse in Los Angeles to an Albertson's facility in Vacaville, Calif. CaseStack's price was less than half that.

CaseStack got the cornbread into Wal-Mart and now handles around 90 percent of Marie Callender's national sales.

"We can now ship truckloads of our products to CaseStack warehouses instead of shipping single pallets to 20 different locations," said Shannon.

In other cases, regional warehouse operators themselves may see the value in a kind of consolidation.

Aiming for a niche between regional and national providers is eFill America, based in Alpharetta, Ga., which became operational last summer.

Chief Commercial Officer Gerald Huback said eFill's service providers — 32 independent regional warehouse operators — are also its shareholders, and they pay around $50,000 to join the network. The stakeholders include Memphis, Tenn.-based Patterson Warehouses; Saddle Creek, a 3PL based in Lakeland, Fla.; Aspen Distribution in Salt Lake City; Metro Park Warehouses, based in Kansas City, Mo.; and Barrett Distribution Centers, based in Franklin, Mass.

The company, which has 10 clients in a cross-section of industries, was founded by John Oren, founder of intermodal trucking company RoadLink USA, Luc Ringuette, a warehouse management software executive and developer, and Kendall Kelleway, founder of the Kelleway Group, a warehousing and logistics concern.

There are 150 distribution facilities in 90 cities in the eFill network, with more than 50 million square feet of warehouse space.

Kelleway and other regional providers had become frustrated at losing out on clients seeking national coverage, Huback said, and eFill was formed to enable them to offer the reach and IT of the mega-providers with the flexibility and customer service of regionals.

The company's Xpress/ONE technology connects the distribution centers and provides a web-based, single point of contact.

"We offer superb local service along with leading technology, speed, flexibility and capacity and a full array of value-added services," said Huback. "Our providers know their customers and live in the communities. It is a huge competitive advantage."

In addition to attracting new clients, eFill investors may see stock appreciation and the opportunity to share best practices with industry peers. Co-branding has been discussed, Huback said, and collaborative marketing material may be developed.

Buzz Fly, vice president of marketing for Patterson Warehouses, a regional 3PL based in Memphis, Tenn., liked the idea of working with a network of regional providers.

"Now we have the opportunity to quote on a piece of business that might be a four-city solution and would be under one operating system," he said. "It is great to be part of a larger bid."

Fly says eFill offers lower costs associated with shared facilities and local management teams. "I am convinced it can work," he said.

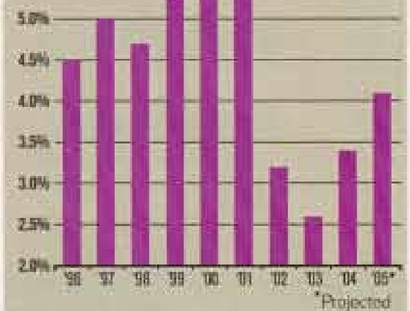
Saddle Creek is participating, but Bruce Abels, president of the Florida integrated logistics provider, said his company gets its share of blue-chip clients on its own.

Still, some companies won't come calling because they want a national provider.

"No doubt there are some things that Saddle Creek can't compete on," said Abels, who positions his company in the "disappearing middle" of warehouse providers.

Warehouses/Distribution Centers

Year-over-year percent growth of inventory-in-place at warehouses/distribution centers in 30 major U.S. markets



Source: ProLogis

Returning to Hubs

Relentless shipper demand for seemingly ever-increasing quantities of imported merchandise, combined with unprecedented technology-enabled supply chain visibility, may mean it's déjà vu all over again for U.S. distribution network strategies.

After years of shippers, warehouse and distributions and third-party logistics providers centralizing storage and delivery operations in colossal, one-site-serves-all facilities, industry players say they are seeing the beginning of a return to hub-and-spoke networks that dominated distribution until the early 1980s.

"I don't have any empirical evidence, but at the very least I see people I've been talking to have less hesitancy about opening more remote locations," said Marc Mitchell, transportation practice director for Enterprise Information Solutions in Downers Grove, Ill.

"Large retailers are diversifying their import strategies," said John Meyer, senior vice president, customer development, at AMB Property. Frustrated by last year's delivery bottlenecks at major U.S. ports, Meyer said, "big importers are trying to avoid what happened last year and most likely will happen again."

Hub-and-spoke networks, in which a central warehouse serves a group of smaller, geographically dispersed distribution centers, gave way to centralized systems in the 1980s as just-in-time manufacturing principles pushed shippers to streamline supply chains.

To some, hub-and-spoke was considered an invitation to slack inventory management. Or, as Mitchell put it, "Sixteen places to warehouse meant you had 16 places to lose your stuff."

But now, changing patterns of inbound logistics are reviving the approach. In the United States, shippers are starting to look to spread out inbound distribution centers beyond Los Angeles-Long Beach and New York-Northern New Jersey to avoid congestion. Wal-Mart alone has a million-plus square foot facilities under construction in Houston, Seattle, and Savannah, Ga.

Clothing retailing giant The Gap, which went from two huge East and West coast distribution centers a few years ago to more than 20 smaller dispersed facilities today, use the hub-and-spoke network's flexibility to change product mixes in stores in a fraction of the time centralized distribution required.

Technology is one reason some shippers are more comfortable with the concept.

With barcodes marking virtually all freight from the container to the SKU level, information can be integrated into warehouse management systems that give logistics managers detailed views of their supply chains. As RFID and geographic positioning system technologies merge and their data is incorporated in real time to WMS and enterprise resource planning and management software, the advantages of flexible hub-and-spoke distribution networks may outweigh the additional costs.

"Frankly without technology you would have a hard time keeping supply chains this complex together," said David Twist, AMB vice president of research.

But hub-and-spoke is not for every shipper. "You're only going to spend the capital if the cost savings make sense from a return on investment perspective," Mitchell said.

Smaller and medium-sized shippers should be able to find third-party logistics providers or even warehouse networks willing to support the strategy. Additional warehouse space is not an issue, analysts said; 3PLs and smaller warehouse operators could fill much demand with current excess capacity.

Mitchell said industry has also learned from past experience: "You might see more spokes than you did five years ago, but you'll never see as many as you did 15, 20 or 25 years ago."

BY WILLIAM HOFFMAN