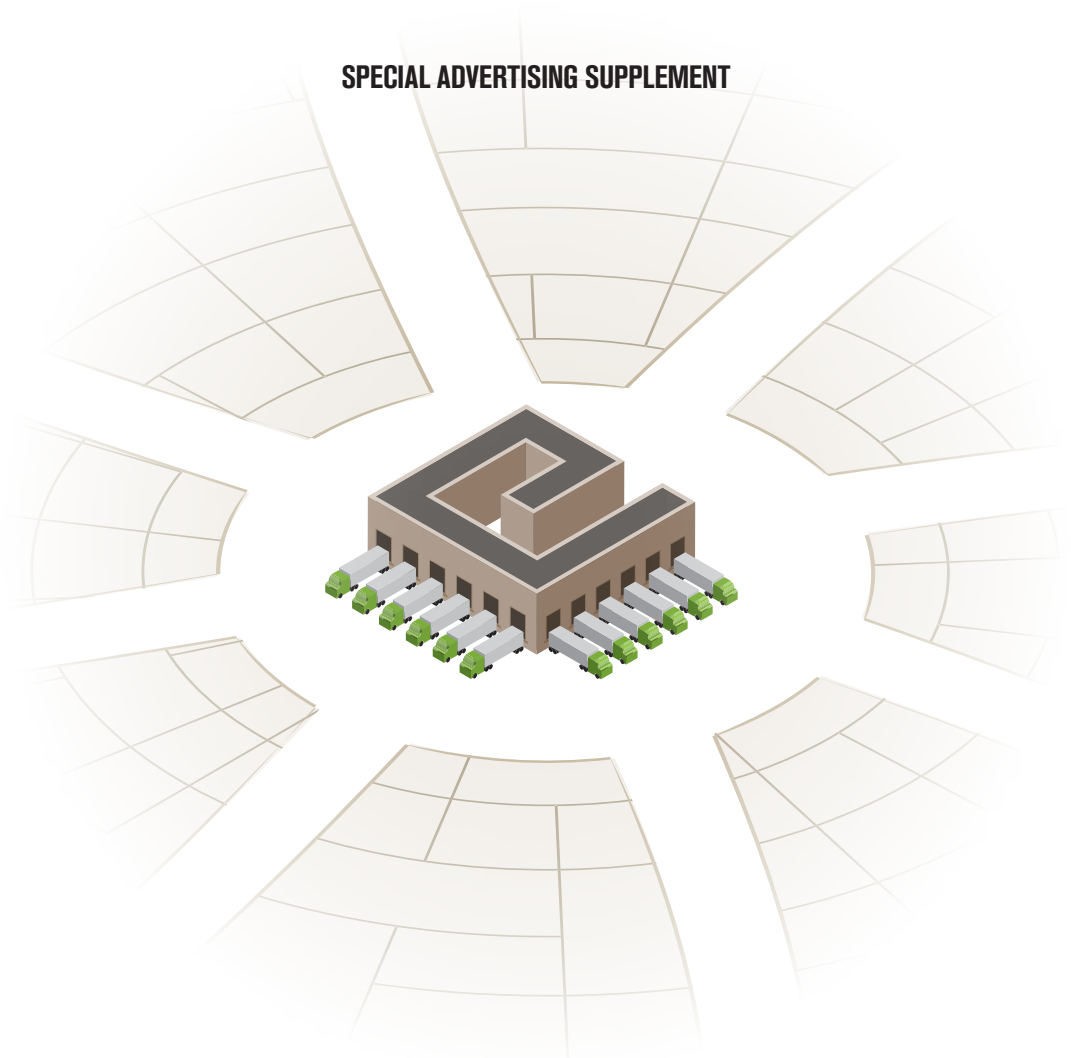


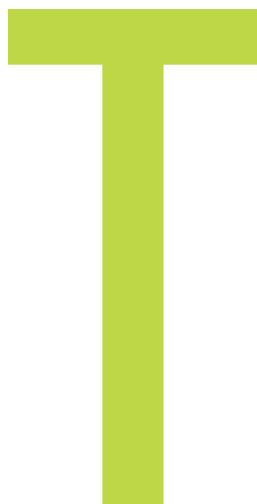
SPECIAL ADVERTISING SUPPLEMENT



e-commerce

finding the sweet spot

Online retailers seeking new DC and warehouse sites need transportation infrastructure and other resources to support a constant, rapid-fire flow of shipments.



The role e-commerce plays in the U.S. retail market continues to grow. In 2012, the nation's online retailers recorded \$186.2 billion in sales — 15 percent more than in 2011 — according to comScore Inc., a Reston, Va.-based firm that analyzes Web, mobile, and TV consumer behavior. Fourth-quarter online sales in 2012 reached approximately \$56.8 billion, compared with \$49.7 billion in 2011, \$43.4 billion in 2010, and \$39 billion in 2009.

Mounting sales translate into greater demand for logistics facilities tailored to the needs of e-commerce. Many online merchants rely on third-

party fulfillment services to house their merchandise and ship it to customers. A brick-and-mortar merchant that also sells on the Web might handle traditional distribution to stores and direct-to-customer fulfillment from different portions of the same facility.

Dedicated to e-Commerce

Several large retailers opened dedicated e-commerce distribution centers in recent years. For example, in March 2012, department store chain Belk announced plans for a new Jonesville, S.C., e-commerce distribution facility. Menomonee Falls, Wisc.-based retailer Kohl's operates e-commerce DCs in Texas, Maryland, California, and Ohio. Upscale department store chain Saks Fifth Avenue opened a new DC in Tennessee in 2012 to fill orders from its saks.com Web site. And Amazon ships to U.S. customers from fulfillment centers in 10 states.

Some smaller e-commerce merchants opened facilities as well. Among them is Berrett Brothers, owner of the LinenTablecloth brand, which in 2012 added a facility in Memphis to its original fulfillment center in Wilsonville, Ore. (*see sidebar, page 118*).

For some e-commerce companies and traditional merchants with e-commerce channels, business has taken off so fast that real estate markets have a hard time meeting their need for ready-to-occupy space. "If more space were available, it would quickly fill up," says Curtis Spencer, president of Webster, Texas-based consulting firm IMS Worldwide.

In some respects, companies seeking locations for traditional

DCs and e-commerce facilities have similar requirements. The same kind of building will suit both purposes, says Curt Barry, president of F. Curtis Barry & Company, a consulting firm in Richmond, Va. "The internal layout makes a difference, not the construction of the building."

Layout matters because some of the activity inside an e-commerce fulfillment center is very different from the work in a traditional retail DC. Generally, workers in a DC serving retail stores pick large orders and prepare them for shipment via truckload (TL) or less-than-truckload (LTL) carriers or, in a crossdocking operation, receive orders and ship them right out again.

Workers in an e-commerce DC, on the other hand, pick small orders and box them for shipment to individual customers via parcel carrier. That sort of pick-and-pack operation is labor- and technology-intensive.

"E-commerce operations build two- or three-story-high mezzanines," says Charles Canale, senior vice president at Seattle-based commercial real estate firm Colliers International. "They set up many rows of small items, and use picking software programs to tell workers which items to pick and pack."

An e-commerce DC is likely to feature a forward picking area, stocked with a few of every item the company carries. "This approach allows workers to access every item in the distribution center within a small, concentrated area," says Ian Hobkirk, managing director at Commonwealth Supply Chain Advisors, a Boston consulting firm. "It reduces the amount of travel."

One way the building that serves an online operation differs from a traditional DC is in the number of dock doors. While both facilities need multiple doors for inbound receiving, the e-commerce DC needs to accommodate a limited number of parcel vans — not vast numbers of outbound TL and LTL trucks.

"A big e-commerce facility might have 10 doors," notes Hobkirk. "A typical one has two to four."

The Right Reach

Although e-commerce DCs might look much like traditional retail DCs from the outside, companies siting e-commerce facilities often have some very particular requirements. For example, e-commerce

merchants might look for a different kind of spot on the map. Shipments from traditional DCs must reach dozens or hundreds of stores, but shipments from e-commerce DCs must reach thousands, or tens of thousands, of end customers.



Along with transportation services, e-commerce facilities need a robust power and telecommunications infrastructure.

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"E-commerce DCs are typically located in an area that has good interstate proximity, and access to a large population base within a one-day drive," says Canale, whose company has represented property owners and tenants in deals for several such facilities. One property Colliers represents that could accommodate an e-commerce distribution operation is the I-57 Logistics Center in Marion, Ill., owned by Dalfen America Corp.

To help e-commerce vendors choose DC locations, F. Curtis Barry & Company analyzes past shipments to determine how much volume the company ships into various markets. Generally, 70 percent of customers are in the northeastern or southeastern United States. "A DC somewhere between Memphis and western Virginia can reach about 70 percent of the population with two-day ground service," says Barry. To reach the 20 percent or so of customers on the West Coast, companies that want to avoid California's tax requirements often look to Nevada and Utah.

Because companies ship most direct-to-customer orders via parcel carrier, quick access to UPS, FedEx, and/or U.S. Postal Service hubs is crucial for e-commerce DCs. "You must be close enough that you can access that system at the latest-possible cutoff time, so you can meet your promise of overnight or next-day delivery," Spencer notes.

Companies can work with consultants and parcel carriers to identify good locations, but Hobkirk advises against relying on carriers to design your network. "If you work with just one carrier, you run the risk of getting a network that's very friendly to their hubs, but not to their competitors' hubs," he explains. "You'll be better off

setting up a network that allows flexibility."

A better course is to collaborate with a consultant to design a preliminary transportation strategy that works well with all your carriers. "Then you work with the individual parcel carriers to talk about specific incentives they're willing to offer, and how late a pickup you can get in different areas," Hobkirk says.

Shippers and carriers might also set up zone-skipping arrangements, which provide discounts for shipping full truckloads of parcels across zones before breaking them into individual shipments.

Network Needs

Along with access to transportation services, e-commerce facilities also need a robust power and telecommunications infrastructure.

As part of a successful effort to attract data center operations to the state, the Nebraska Department of Economic Development has helped three communities—Aurora, Kearney, and South Sioux City—establish dedicated data parks with facilities tailored to high-tech operations, including e-commerce distribution facilities.

Each of these communities boasts strong power and telecommunications services, with plenty of redundancy. "Additionally, many other communities in Nebraska have the necessary infrastructure and are starting to focus on this developing sector," says Rick Nelsen, economic development manager at Nebraska Public Power District, the state's largest generating electrical utility.

Power and telecommunications facilities are essential to e-commerce operations. "If the DC loses connectivity, its doors are shut," notes Nelsen.

Disasters Happen! How you handle them is what matters.

On May 22nd, an EF-5 tornado devastated nearly 1/3 of Joplin, Missouri
7,000 homes were destroyed

More than 500 businesses were leveled and 5,000 jobs were lost

107 miles of city streets were filled with 3 million cubic yards of debris

(That's enough debris to fill a football field end zone to end zone nearly as high as the Empire State Building)

Eleven public school facilities, including the high school, and one private school were lost

Before dawn on May 23rd, all streets were opened one lane for emergency services

Before midnight on May 24th all lanes were cleared

On May 26th the Business Recovery Center opened to help impacted businesses

More than 400 businesses have reopened their doors with more reopening every day

3,500 of the employees who "lost" their job remain on the payroll

All 3 million cubic yards of debris was removed by August 7th as scheduled

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"Companies in this area have access to a large amount of capacity and an array of service providers — including last-mile providers," says Rob O'Brian, president of the Joplin Area Chamber of Commerce.

Telecommunications companies traditionally have built large fiber optic lines along highway, railroad, and energy rights of way. "Major highways, railroads, and interstate oil and gas pipelines come through Joplin, so the fiber optic backbones are here," O'Brian says.

Access to an appropriate workforce also makes a location a good site for e-commerce DCs. These operations need workers who can handle large volumes with high accuracy. "Quality control is critical," says O'Brian.

Workers in the Joplin region have impressed many employers with their work ethic and attention to detail and quality. In fact, Jasper County — which includes the cities of Joplin and Carthage — was just designated an ACT Career Ready Community (CRC); it is the first county in the nation to receive this distinction.

Although no e-commerce DCs currently operate in Joplin, the area provides temporary employees to an Amazon DC in nearby Coffeyville, Kansas, when that facility ramps up for the holiday



Carriers in the Joplin, Mo., region speed product to e-commerce consumers along the area's major highways, which offer quick connections to larger markets.

season. As a result, the Joplin labor pool already includes workers with e-commerce operations experience.

"Typically, e-commerce facilities are looking for areas with a large, high-quality workforce," says Canale. Those workers must be able to handle complex picking operations. It helps if other DCs in the area are not competing for the best employees.

"If the distribution center across the street offers 50 cents an hour more, you tend to lose a lot of your workers," he says.

Because they don't need to be close to brick-and-mortar retail stores, e-commerce merchants are free to place DCs in more rural areas, which often offer a good labor pool. "Usually, these workforces are loyal, dedicated, and happy to have the jobs, especially in areas that don't have a lot of other employment," Canale explains.

A region with a strong concentration of four-year and community colleges is an especially good choice, because it offers a labor force that can ramp up or down as online merchant volumes rise and fall with the seasons. Nebraska's three communities with data parks also offer this advantage.

Spencer agrees that access to college students is a plus. "It's important that the location chosen offers an excess temporary or



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part-time labor pool," he says. "College towns are huge. Phoenix and Tucson, for example, have seven to eight million square feet of e-commerce space between them, while Columbus, Ohio, has eight to nine million square feet. Surge labor — temporary workers companies can tap during seasons of peak demand — are vital to staffing these operations."

Tax Factor

A state's sales tax requirements might be important to e-commerce merchants, as are tax incentives that state and local governments offer to businesses that create new jobs. Companies may also save money by locating e-commerce DCs in foreign trade zones (FTZs).

"For companies moving enough volume to need a half-million-square-foot location, with a significant volume of imported finished goods, foreign trade zones make sense," says Spencer. A retailer in

an FTZ can save money by using a provision called Weekly Entry, which allows it to file just one customs entry per week, rather than filing a separate entry for every shipment it receives. This reduces the cost of processing entries.

If e-commerce merchants find locations with industrial space in move-in condition, that's a big plus as well. When e-commerce businesses succeed, they often take off faster than anyone expects, and then they need DC space in a hurry.

"All of a sudden, the need for more room overwhelms them," Spencer says. "In major metro markets, very few spaces of more than 400,000 square feet are available to lease." To meet the need, some areas are building DC space on spec.

Assuming that online shoppers keep clicking "Proceed to Checkout" at ever-higher rates, demand for space to accommodate e-commerce fulfillment should continue to rise. Many communities stand ready to welcome them. ■

berrett brothers head for memphis

When Berrett Brothers in Wilsonville, Ore., decided it needed a second distribution center for its LinenTablecloth e-commerce business, access to customers was a prime concern.

"We were shipping 70 to 80 percent of orders across the country from our warehouse in Oregon," says Dave Nunez, the company's director of operations.

With most customers located in the southern United States and on the East Coast, those orders had a long way to travel.

"We were overspending on our distribution, and underperforming on our delivery time expectations," Nunez says.

Through its Web site LinenTablecloth.com, Berrett Brothers sells tablecloths, chair covers, wedding décor, and related products to brides, wedding and party planners, and event coordinators in the United States and Canada. To close the gap between purchase and delivery, while also keeping distribution costs to a minimum, the company decided it needed a second DC near its primary markets.

"We wanted to place that distribution center where we knew it would minimize our average zones with the small parcel carriers, based on the multi-warehouse split," says Nunez. "That would help us save on shipping costs."



Oregon-based Berrett Brothers opened a DC in Memphis to serve its LinenTablecloth.com e-commerce customers in the southern United States and on the East Coast.

In 2012, Berrett Brothers opened a new 82,500-square-foot facility in Memphis. Along with travel times and costs, Berrett Brothers considered sales tax requirements when choosing a location for the new DC. Currently, if an

e-commerce business has a physical presence in a state that charges sales tax, the company must charge tax when shipping to customers within that state. Berrett Brothers used to ship its products from a warehouse in

Tennessee. "But Tennessee is far down on the list of states we distribute to," Nunez says. Charging tax to a relatively few customers was an acceptable tradeoff, considering the advantages the company gains in the new location.

Another important concern for Berrett Brothers is the telecommunications infrastructure: its DCs need reliable Internet connections. "We rely on tools that have to communicate online," says Nunez. "If our Internet service is down, it often means we're not able to process shipments."

Some companies choose to distribute from Memphis because it places them near FedEx's global hub. That wasn't the case with Berrett Brothers, which ships mainly through UPS. Even so, operating near the main hub of a carrier as large as FedEx does provide some advantages. "For example, we benefit from many investments they make in the local infrastructure," Nunez notes.

Access to plenty of logistics connections means Berrett Brothers' tablecloth business is covered.



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