

SITE SELECTION & E-COMMERCE



TAPPING REGIONAL EXCELLENCE

When choosing new sites to locate fulfillment facilities, retailers opt in for e-commerce excellence and proximity to large population centers.

When UK-based upscale casual clothing retailer JP Boden was ready to establish an online fulfillment center in the United States, it focused its search on the East Coast. After a short, but fruitful, three-week site selection process, the company established its first U.S. call center and fulfillment facility in Wilkes-Barre, Pa.

“At the time, we were supporting our U.S. business from the United Kingdom, so we had a blank canvas for the location of our first U.S. facility,” recalls Ben Dreyer, who, as operations and IT director for JP Boden, directed the site search. “We focused on the East Coast because that’s where most of our U.S. customers are located.”

When he began the search, Dreyer spent one week in the United States touring sites in Connecticut, New York, New Jersey, Delaware, West Virginia, and the Carolinas. He returned to the UK and spent another week conducting research. After a second round of site visits in the United States, he zeroed in on northeast Pennsylvania.

“A warehouse supporting e-commerce is labor-intensive, because merchandise

has to be packed into thousands of parcels to ship out to customers,” Dreyer explains. “We also have a call center, so we wanted an area that could provide a qualified labor pool.”

Dreyer was attracted by the readily available warehousing space in the northeast Pennsylvania region, and the easily accessible interstate routes. Quick access to the Port of New York and New Jersey, which is a two-hour drive away and the entry point for many of JP Boden’s goods, was another key factor in his selection. But the tipping point was the region’s labor force.

“A good labor force was the driver for us,” Dreyer says. “Of all the regions we considered, northeast Pennsylvania offered the best-qualified, least-transient labor force.

Other regions we considered had high turnover rates. We like to invest in staff and training, and we don’t want workers leaving every six months.”

JP Boden opted to lease a new building, and was able to influence some of the design. A few years later, the company expanded that facility, more than doubling its size to 136,400 square feet. The facility employs about 120 workers; that number rises to 150 during peak seasons.

Looking back, Dreyer is pleased with his site selection choice. “The facility works well,” he says. “We’ve been able to expand it, we are happy with our workforce, and we can offer excellent customer service.”

JP Boden’s choice of northeastern Pennsylvania illustrates the current top driver of site selection for fulfillment centers: proximity to large population areas. Pennsylvania is one of several such locations almost universally cited by commercial real estate companies. Other “hot” regions include Columbus, Ohio; Dallas/Fort Worth; Chicago; Atlanta; and southern California.



CenterPoint developed Walmart’s two facilities in the Joliet/Elwood CenterPoint Intermodal Center. Serving e-commerce customers played a role in the retailer’s site selection decision.

Duke Realty, an Indianapolis-based builder of distribution facilities across the United States, is involved in dozens of e-commerce-related projects. Business is strong and signs are it will keep improving.

“We have been following the e-commerce trend for a long time. It is growing and will continue to grow,” says Mark Hosfeld, vice president of leasing and development for Duke Realty. “The pie keeps getting bigger. Companies that don’t develop a strong e-commerce plan will get left behind.”

Duke’s strategy is to buy land across the country and try to be at the right place at the right time, Hosfeld says. In addition, Duke often builds to a client’s specifications, then leases to the client that operates the facility. Other times, Duke builds on spec in hopes that the right tenant will come along who can’t wait for a building to be constructed.

“We try to design with flexibility in mind, and we have to be strategic, but most of the time we provide a build-to-suit product,” Hosfeld says.

Big retailers have evolved their thinking



over the past several years when it comes to site selection, according to John Nicholson, senior managing director for DTZ, a global property services firm that recently merged with Cassidy Turley. Today, the driving force is proximity to population centers to ensure rapid delivery to most customers. Population centers also provide access to large labor pools, another necessity for labor-intensive fulfillment centers.

“We’ve watched as mega retailers such as Amazon create same-day and next-day delivery models,” Nicholson says. “Historically, fulfillment centers have been large and located in central areas. That has evolved to smaller facilities in metropolitan areas. Amazon is the leader, and its competitors have followed.”

Fulfillment centers require many more employees than traditional distribution centers, Nicholson notes. So these new facilities need a different type of infrastructure that includes more parking spaces, more restrooms, and heavy power equipment. Companies also consider the tax environment, the availability of local and state incentives, and proximity to parcel distribution hubs, when making their site selection decisions.

Love at First Site

“E-commerce companies consider a number of factors when they begin the site selection process,” Nicholson says. “First, because they are implementing automated systems, they have to look at floor loads, heavy power, clear height, ESFR (early suppression, fast response sprinklers), and column spacing. Second, an e-commerce facility requires additional employee parking, breakrooms, restrooms, administrative office space, warehouse management systems, and access to fiber optics and HVAC.

“To support same-day or next-day delivery service, they might consider other amenities such as trailer drops, access to major thoroughfares, parcel hubs, availability of seasonal labor, and speed of delivery,” he adds.

The United States is early in the process of e-commerce infrastructure development, especially compared to Europe, notes Nicholson. U.S. industry is still trying to

HERE, THERE, EVERYWHERE

Here’s a look at a few recent e-commerce fulfillment center announcements from around the country:

- **ReallyGoodStuff.com**, an online retailer of teaching supplies, selected a site in CenterPoint Intermodal Center, Kansas City. The site was chosen for its location in the U.S. heartland, from which the company will distribute nationwide and into Canada.
- **Macy’s** is moving its West Sacramento, Calif., fulfillment center to a nearby location in Sacramento County. The company plans to begin operations in summer 2015 in a 385,000-square-foot facility, about four times the size of its current building. Its workforce will grow from 72 to more than 175 after the move. Macy’s says it chose Sacramento County for its workforce and community support.
- **Target Corp.** announced plans in early February 2015 for a \$52-million, 250-job fulfillment center in York County, Pa., which will be managed by third-party logistics provider GENCO. That follows a December 2014 announcement of a 900,000-square-foot center in the Memphis region, which will create more than 400 jobs.
- Charlotte, N.C.-based retailer **Belk** continues to expand its center in Union County, S.C. The facility is now approximately 865,000 square feet. Belk anticipates employing more than 300 workers by the end of 2015.

find the right processes, efficiencies, and best use of capital.

Fulfillment centers tend to be labor-intensive, because they distribute small packages and small orders. Besides the extra labor needed, this also demands more automation to move, handle, and sort product and shipments, says Andy Mace, managing director of global business consulting and supply chain solutions for commercial real estate services firm Cushman & Wakefield.

Labor Pains

Access to labor is paramount when making e-commerce site selection decisions. Larger centers employ 1,000 or more workers year-round, and double that number during peak seasons. That drives e-commerce companies to place facilities near population centers, even though real estate and labor may cost more. Turnover rates are often high, so they have to ensure a steady pool of employees.

“E-commerce companies have to be mindful of their labor supply,” Mace says. “In fact, labor is often more important than transportation considerations. Most companies say they want to deliver products faster—either same-day or next-day. To do that, they locate fulfillment centers close

to large population centers. It’s symbiotic with the need to have a larger workforce.”

E-commerce fulfillment has proliferated in northeastern Pennsylvania over the past few years. It has been a growing business for Wilkes-Barre-based Mericle, a commercial real estate specialist, which developed the facility JP Boden occupies in the CenterPoint Commerce & Trade Park. Fulfillment centers also have found homes in Scranton, Pittston, and Hazleton, Pa. Mericle has 13 such tenants in buildings ranging from 200,000 square feet to more than one million square feet.

Delivery speed is important to e-commerce companies that are looking for either a shovel-ready site or a ready-to-go building. Eastern Pennsylvania offers a prime platform from which to serve a region stretching from Maine to Virginia, west to Ohio and east to the ocean.

“We have seen an uptick in both inquiries and projects completed in recent years,” says Jim Cummings, Mericle’s vice president of marketing. “E-commerce companies are in a hurry, and need to quickly occupy an existing building or a prepared site. They want to be in the heart of things. There are 51 million people within 200 miles of northeast Pennsylvania; e-commerce companies are trying to find a way to reach them affordably.

“Growth in this region has everything to do with the logistics models companies use to compare operating costs, real estate taxes, utilities and labor costs, and being two hours from New York City versus 30 minutes,” Cummings adds. “Site selection is a complicated science.”

Northeast Pennsylvania also benefits from having a large supply of available industrial buildings and fully prepared sites. Mericle is involved with about 90 such sites in 11 business parks. Retailers operating fulfillment centers in the region include Discount Dance Supply, Neiman Marcus, babyage.com, and Men’s Wearhouse.

Discovering Columbus

Columbus, Ohio, has also become a popular spot for new fulfillment facilities and expanding firms. One such firm is Cheryl’s, which sells cookies, cakes, and other desserts. As part of the 1-800-Flowers.com family of companies, Cheryl’s is growing fast, and currently occupies a 175,000-square-foot distribution center in nearby Obetz.

Cheryl’s didn’t move to the Columbus region; it had the good fortune to be a homegrown company in a prime logistics nexus. “A UPS ground hub is located a few minutes from our facility, so orders



Geographically positioned to reduce transportation costs, Home Depot’s three new fulfillment centers will deliver 90 percent of orders within two days using ground service.

we receive by 7 p.m. can make the last truck,” says Bob Happel, vice president and general manager of Cheryl’s. “In addition, UPS’s main hub is just 25 minutes away. We have many customers in Ohio and in surrounding states, so we can offer one-day shipping.”

When a holiday spike happens, another bonus is the facility’s proximity to UPS’s Worldport air hub in Louisville, just three hours away.

“E-commerce is our growth engine,” Happel says. “We’ve grown from a bakery to selling through catalogs, then transitioning to e-commerce, which is fueling our success. We have the potential to double our business in the next few years, and most of that growth will come from e-commerce.”

Many other e-commerce retailers have settled in the Columbus area during the past few years. These include:

■ **Gwynnie Bee**, a subscription-based apparel retailer, which plans to create more than 400 jobs in Columbus by 2017.

THE JOPLIN ADVANTAGE

When it comes to locations for distribution centers, Joplin, Mo., has a lot going for it. The city of 50,000 in Missouri’s southwest corner is near the borders of both Kansas and Texas, and sits at the crossroads of Interstates 49 and 44. The Joplin area has attracted a significant number of traditional distribution operations, and is now hoping to lure investment in online retail fulfillment centers.

“For sheer market reach, we are in a central location to reach a good part of the U.S. market,” says Rob O’Brian, president of the Joplin Area Chamber of Commerce. “I-44 connects the Midwest to the growing Southwest market.”

O’Brian says Joplin’s distribution center sector is a mix of regional centers serving a four-hour reach by truck and larger centers with a much broader service area. The sector includes Heartland Pet Foods, which operates a distribution center along with its manufacturing operation.

Joplin’s Crossroads and Distribution Park, located near the intersection of the two interstate highways, has available space suitable for distribution operations.

■ **lululemon athletica**, a Vancouver, British Columbia-based firm specializing in yoga apparel, which chose an existing 300,000-square-foot building and is creating 170 jobs.

■ **Homage**, which consolidated its operations into a headquarters and distribution location near Port Columbus International Airport.

■ **Pier 1 Imports**, which established a

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fulfillment center in Grove City and created more than 150 jobs.

■ **Zulilly**, which opened a fulfillment center in Obetz in 2012, with plans to create several hundred jobs.

Employment in the logistics and transportation sector is projected to grow 20 percent by 2020, according to Patricia Huddle, vice president of existing business

DEVELOPING A NEW BLUEPRINT

Retailers are still establishing their formulas for choosing the best site for e-commerce facilities, says Brian McKiernan, senior vice president, development for CenterPoint Properties, an Oak Brook, Ill.-based developer of industrial property. Structural requirements are also changing.

"We are looking at buildings differently now," McKiernan says. "Companies are asking for more mezzanines and more parking spaces. Those requirements eliminate a lot of existing buildings."

McKiernan believes the industry is still trying to sort things out when it comes to real estate. Increasing infill development around larger cities, such as Los Angeles and San Francisco, targets delivery within the city.

"For many years, distribution centers were located outside of populated areas; now they have to be closer to the population," he adds.

services for Columbus 2020, the region's economic development agency.

The region could also benefit from related industries, including data analytics. In 2012, IBM opened its Advanced Analytics Center in Columbus, which could spur further growth. "Retailers are being driven more and more by data, so

we see data analytics and e-commerce as synergistic," Huddle says. "We expect this area to grow."

David Widdifield, senior lecturer and director of the Masters in Business Engineering Program at The Ohio State University's Fisher College of Business, came to the academic world after working as a logistics systems manager at shoe retailer DSW and other e-tailers in the Columbus region. He attributes Columbus' explosive growth to several factors.

"One is that Columbus tends to be a retail hub," Widdifield says. "A number of companies, such as Big Lots, Abercrombie & Fitch, and L Brands were already established in the city. Skill sets were in place, and Columbus 2020 and the Columbus Chamber of Commerce put a lot of effort into making people aware of not just the area's skilled labor pool, but also its access to infrastructure. Columbus offers the ability to reach nearly the entire country within an eight- to 10-hour drive."

Another factor is plentiful distribution space. The Rickenbacker Inland Port, for example, includes a global logistics park and an international airport that targets cargo.

One air carrier serving Rickenbacker International Airport is Cathay Pacific Cargo. The Hong Kong-based airline began flights to Rickenbacker in 2014, and now offers three flights per week. The flights are primarily based on fashion-related shipments to L Brands, Abercrombie & Fitch, and other retailers, says James Woodrow, director of cargo for Cathay Pacific. The carrier hopes to expand its customer base in the Columbus area in the coming months, and outbound flights may include some e-commerce-related shipments.

Southern California Shines

The massive ports in Long Beach and Los Angeles that receive goods from Asia drive e-commerce in densely populated Southern California.

"E-commerce growth is tied to population," says Kevin Turner, executive vice president of Voit Real Estate Services. "With a population of more than 20 million, it makes sense that Southern California is growing in fulfillment."

Land is becoming a rare commodity in the region, with just a few remaining parcels in the Inland Empire that can accommodate distribution, Turner notes. As a result, rents are on the rise. Currently, 21 facilities in the Inland Empire are one million square feet or larger.

No Place Like Home

E-commerce has also become increasingly important to the big home improvement retailers. Home Depot, for example, opened two fulfillment centers in 2014, and will debut another in 2015. The three centers comprise more than three million square feet and will employ about 1,000 workers. The first fulfillment center opened in the Atlanta suburb of Locust Grove, followed a few months later by one in Perris, a small city south of Riverside in Southern California. The third will open in 2015 in Troy, Ohio, just north of Dayton.

"Our three new direct fulfillment centers are strategically positioned to deliver 90 percent of our customers' parcel orders within two days, using economical ground service," says Scott Spata, vice president of supply chain for Home Depot. "For example, a customer who places an order by 5 p.m. Monday receives it on Wednesday."

Spata says the three new facilities will reduce Home Depot's transportation costs and allow the company to deliver online orders to consumers, contractors, and U.S. stores quickly and uniformly. Home Depot chose each site for its geographic reach and ability to leverage the company's existing distribution center infrastructure.

Developing an understanding of the e-commerce sector requires looking at its history, according to Chris Caton, vice president of research at ProLogis, a real estate company with corporate headquarters in San Francisco. The massive size of e-commerce—estimated at \$300 billion in the United States, and approaching \$1 trillion globally—is the result of more than one decade of growth. The industry is growing at a clip of 15 to 20 percent annually, but only in the last few years have companies focused in a big way on logistics and leasing of space.

"Many companies did the best they

could with their existing supply chains coming out of the recession, or they reached a critical mass,” Caton says. “They determined they needed to invest in both pure play and multiple channel retail.”

ProLogis has seen its e-commerce business double from three years ago; it now accounts for 10 percent of its leasing. The fourth quarter of 2014 was the company’s most active quarter ever for e-commerce leasing, says Caton.

Sizing Up Decentralized Distribution

“There is a lot of diversity among companies in the \$300-billion e-commerce industry,” Caton says. “Many are major national and international brands with sizeable supply chains. A large component of that industry is midsize online retailers with between \$.5 billion and \$2 billion in annual sales. Their model is centralized, with one or two centers in the middle of the United States to serve the full U.S. market.



To better reach customers and stores, retailer Neiman Marcus relocated its East Coast fulfillment and distribution center to Jenkins Township, Pa.

“As those companies grow over the next few years, that scale will allow them to carry enough inventory to have four or five centers closer to their markets,” he adds.

“Amazon, Staples, and Home Depot for example, have decentralized distribution,” Caton continues. “They can carry the inventory consumers want. Mid-sized

retailers can grow much larger.” And, larger retailers often opt for big buildings with mezzanine flooring and ceilings as high as 40 feet, he notes.

Caton says the e-commerce fulfillment center growth spike is nowhere near reaching a plateau: “I see a lot of growth from here on out.”

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

Schools started on time in temporary facilities that are the model for schools of tomorrow



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