



Whoever Has Access to Capacity – WINS!!!

By Adam Roth and Dan Leahy, Central Region

West Coast ports are continuing to be at or near capacity and trucking operations continue to raise rates quarterly while holding firm on accessorial line item charges. These are particularly a concern due to timing. Historically, these issues were a 3rd quarter hurdle with our country's logistic infrastructure and seasonal buying pattern. However, a "perfect storm" is continuing to develop and the funnel cloud will touch down in full force at a DC near you in September of this year. Access to capacity and supplying your customer base will determine your success.

Several factors are fueling the concern and have shifted the negotiating power from the shippers to the carriers over the last two years. Fuel cost and mergers reduced the shipper's options while it has altered the carrier's focus. Reductions in driver productivity due to federal regulation coupled with a declining driver labor pool have also had a tremendous impact. In the not-too-distant past, carriers were cannibalizing and outbidding each other. They would at times accept large corporate business even though accounts would operate at a loss. In the summer months, operations would lose money, only to make it up when capacity would again become tight in the third quarter and make or break their year.

Now carriers are more focused on fleet management and placement. If you have a lane that does not fit into their network, a trucking operation may be willing to assist at an extreme mark-up of \$2 - \$4 per mile. "We've experienced spot market truckload pricing from Northern California to the Pacific Northwest for approximately \$3-\$3.5 per mile. In addition, we regularly run out of route in order to secure capacity. As a result, we are paying for empty miles" states Rick Anderson, Global Logistics Director, Robert Mondavi. The asset providers have the ability to pick and choose what's best for their network versus their customer. If you have not yet discussed guaranteed capacity from your carrier, I suggest you make it a priority even though it may cost a premium. Your product can't be sold if it's not on the shelves.

Other factors adding to capacity concerns are changes to Foreign Trade Zones (FTZ), larger container ships, the textile apparel quota, and the Asian Empire. An amendment to FTZ's was added in the year 2000 that greatly reduced the processing fees for heavy importers and intern provided an advantage and incentive to increased importing. In addition, new record breaking ship sizes are now going into production to service the ever increasing Asian production. On January 1, 2005, the textile and apparel quota/visa system expired and will lead to increased importing of this market sector. These factors are adding to the West Coast port capacity issues and have sparked increased consideration of alternative port sites ranging from Alaska to Mexico to the East Coast. However, larger ships require deeper waters and the Panama Canal is not currently deep enough to service all of the requirements.

It must be noted that these concerns are not temporary. With the investment and focus on Asia, volumes will only increase. Our ports and our country as a whole have capacity and transportation limits. What are your plans to get your product to market? The accepted practices for site selection must be re-evaluated. Site selection

methodology typically places a heavy emphasis on historic transportation costs. However, in my experience with site selection tools, they do not take the issues mentioned above and below into consideration when looking forward.

Having viable and multiple transportation alternatives has become a requirement instead of a luxury. Rail spur access and proximity to the rail ramp are tactical and measurable advantages. A box car is equivalent to 3-5 truckloads of material. A DC located in the BNSF Logistics Park Chicago (LPC) would pay \$35-\$45 per dray versus \$80 - \$150 to other areas in Chicago. In addition, the LPC is an international hub that receives containers directly from Long Beach, CA. Land alternatives for build to suits as well as continuing speculative development create alternatives for DC size requirements and timing needs. Access to the majority of the US population and substantial carrier strength are also benefits of Chicagoland.

Consider these "Midwest Empire" advantages and compare them to the "Inland Empire". The inland empire has remained critical to many companies supply chain due to it's proximity to both the ports and their West Coast customer base. However, limited land availability and building vacancy has escalated real estate values beyond any other US region. DC's located in this area are now vying for capacity and bidding against each other in a declining transportation pool. In addition, today's cost for the 60-70 mile drayage from the port of Long Beach, CA to the inland empire ranges from \$250-\$300 per container. Inland Empire meet Midwest Empire.

As pressure continues on the West Coast, in order to supply demand, containers will gradually be forced to bypass the traditional West Coast ports. Alternate locations in the Midwest, South and East Coast will be more attractive to some carriers as they look for shippers that have lanes assisting them in re-positioning their equipment.

"The New York Metro Area administered by the Port Authority of New York and New Jersey has also seen a large scale increase for inbound containers but not nearly to the extent of the West Coast." stated Ken Lundberg, Senior Vice President, NAI James E. Hanson, Inc. "ExpressRail, The Port Authorities on-site intermodal system recorded a 22% full year over year increase between 2003 and 2004 in the total number of containers it handled, with most of the increase due to Asian imports. The Port Authority has been active in trying to stay in front of anticipated demand and had completed a large ExpressRail transfer station in Newark in 2003 and phase one of a second station in Elizabeth in 2004. In addition, the Port is in the middle of a long term multibillion dollar capital improvement plan which will include additional deep water dredging, upgrading of terminal facilities, incentive programs to promote development of additional distribution facilities in the region, and an upgrade to the rail and intermodal capacities at the Port."

As always, the ideal site will be a culmination of your supply chain / customer base, however whoever takes the future of transportation into consideration and therefore positions themselves to have access to capacity - WINS!