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ACWI ADVANCE

David Sparkman, Editor | Volume 9, Issue 14 | July 15, 2021

3PL Warehouse Future Bright

The future of warehousing and third-party logistics includes a healthy rate of growth and a more central role in supply chain management.

That was one of the conclusions of the 32nd annual State of Logistics report published by the Council of Supply Chain Management Professionals, sponsored by Penske Logistics with research conducted by a team from Kearney consultants.

Shippers had to be nimble in 2020 when Covid 19 wreaked havoc on the supply chain. They had to be ready to change on a moment's notice when product ceased to flow, carrier rates soared and demand dried up in some cases and burgeoned in others.

The same ability to embrace sudden change and maintain a nimble and flexible management approach holds true this year, according to the report's researchers and a panel of industry executives who took part in an online discussion.

"When you look at what worked and what didn't work in the past year, it's been all about which customers were the most nimble, who were willing to try something a little bit new and different, outside of the box or that they weren't used to, even if it cost a little bit more," said Matthew Hill, head of the North American import market for Maersk.

In 2020 transportation costs rose by 0.8%. This was far less than the 4.7% growth in 2019, or 10.4% in 2018, but certainly a contrast to an economy that shrank overall. The increase was driven by a 24.3% increase in the parcel and last-mile segment, as ecommerce and home delivery exploded.

Warehousing growth remained strong in 2020, the researchers noted. Many industry fundamentals were up from a record-setting 2019. Net absorption increased 11%, to 268 million square feet. Asking rents grew at a faster rate than the previous year, to $6.76 per square foot. While the vacancy rate was higher than last year, it was still remarkably low.

In short, ecommerce spurred continued high demand for warehousing space. Providers, especially of urban last-mile facilities, hurried to keep pace. The pandemic shifted many consumers to online shopping, which boosted needs for warehouse space. This effect outlasted the spring 2020 restrictions placed on physical retail stores.

Fourth quarter 2020 warehouse leasing volumes were 26.9% higher than 2019. Vaccine distribution added further pressures in early 2021, especially for cold storage. But even as vaccine pressure fades, other demands will keep capacity tight, the researchers believe.

"Ecommerce fulfillment centers are a special category of warehouse, ideally featuring high

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ceilings and multiple mezzanine floors," the report contends. "There's demand for very large facilities (3 million plus square feet) and for downtown urban facilities." Also demanded by customers are marked advancements in technology and sustainability.

With rising ecommerce and a new appreciation of the dangers of supply disruptions, businesses are expected to increase safety stock drastically, which will require a greater warehouse footprint, the researchers explained. "Greater inventory requires both more space and more management oversight."

The continuing disruption experienced by the economy also creates more opportunities for 3PLs. In turbulent times, the deep knowledge and wide network of a 3PL become more valuable.

"Yet turbulent times place increasing pressure on the 3PL to have developed the right strategies in the past and to implement the right insights in the present," the researchers stress. "In 2020 -- and moving forward through 2021 – 3PLs that prioritized resilience will become the dominant leaders in the segment."

Andy Moses, president of Penske Logistics, argues key to success in this area is the emergence of control tower technology, which helps manage the various silos in the supply chain that are organized around data and around visibility. "This is an area of development that I think offers broad promise."

A supply chain control tower is a connected, personalized dashboard of data, key business metrics and events across the supply chain.

"For most shippers, the biggest barriers to building and offering control tower capabilities are in building an expansive network," the report says. "Because 3PLs have already overcome those barriers, they are best positioned to implement successful control towers. As the world moves toward data-driven decisions, this will become a key strategy for 3PLs."

One issue is that inventory ratios are now virtually one-to-one, and they've never been that low before, observed Kevin Smith, report panel chair and president of Sustainable Supply Chain Consulting.

That means that companies have about one-month of inventory. "Years ago, that would have been a problem because of lack of visibility to manage them properly. This is going to be a big challenge, but it is a challenge that the supply chain is up to," he argued.

"I don't think we should stay at one-to-one over the long term because it would hurt our ability to service customers and hurt the ability to give consumers what they want," Smith says. "Right now, we seem to be doing good, but one-to-one is a scary number."

Another challenge: The warehousing labor market has been tight for years, and Covid 19 made it worse. The report recommends that, beyond offering competitive compensation, warehouses could attract workers by emphasizing safety and flexibility brought to the fore by the pandemic.

"Warehouses vary in supplying PPE materials, enforcing enhanced protective measures, and offering flexible scheduling," they said. "Enhanced training programs and standard retention strategies (tracking key performance indicators for retention, conducting robust exit surveys, and so on) can also help improve conditions for workers."

Of course, the labor shortage also is accelerating the adoption of automation in warehouse and distribution operations. The warehouse automation market is seen growing at a CAGR of 14% to reach $30 billion by 2026.

"The pandemic may serve as a tipping point for warehouse automation. Fast-moving inventory requires more touches and using robots helps minimize employee interaction that spreads the virus," the researchers point out.

Amid increased operational complexity, robots reduce losses related to employee turnover, they note. At large warehouses, shuttle systems and massive data analysis can improve productivity and the ability to flex labor.

At smaller warehouses, the researchers say improved technology is reducing the payback period for automated guided vehicles (AGVs) and autonomous mobile robots (AMRs).

"The pandemic accelerated a lot of trends that were already there. There will be more positioning of inventory closer to the ultimate consumer," said Alan Shaw, executive vice president and chief marketing officer of Norfolk Southern. "There will be greater risk-aversion inventory stock outs than there was before and a greater focus on capacity."

Shippers Wary Of CN-KCS

Rail shipper groups and unions have raised concerns about the merger of Canadian National and Kansas City Southern railroads.

They made it clear to the Surface Transportation Board that they opposed the creation of a voting trust in which KCS shareholders would receive cash and shares from CN, but KCS would be placed in an independent trust and CN would not be allowed to exert management control over it.

The National Industrial Transportation League, Amtrak and a major rail labor union filed objections to approval of the voting trust by the board.

NITL told the STB that it was generally opposed to further consolidation in the rail industry due to concerns about service and competition.

The American Chemistry Council and the Fertilizer Institute told the board the voting trust should not be approved, but both have not taken a position pro or con regarding the eventual merger.

The SMART union said it fears that if the CN voting trust and proposed merger are approved, it will result significant job losses on CN and KCS because the transaction would require either a sale or abandonment of duplicative rail lines.

Line abandonment also is a concern for Amtrak. In particular, it took note of CN's plans to sell the KCS line linking Baton Rouge and New Orleans, which closely parallels a route operated by CN, which has been targeted by Amtrak for expansion of its passenger service.

Amtrak asked the STB to order CN to sell the KCS Baton Rouge line to the government or a government-owned entity. It would then rely on an independent operator to provide freight service while permitting Amtrak's proposed operations over the route.

And, of course, Canadian Pacific, which had sought to acquire KCS before CN intervened with a higher bid totaling $33.6 billion in stock and cash, filed a 67-page objection to the voting trust proposal.

NRF Confronts Port Congestion

The National Retail Federation has asked to meet with President Biden and other top administration officials regarding the challenges retailers face from continued supply chain disruptions arising from congestion at U.S. ports.

The letter from NRF President Matthew Shay stated, "The supply chain disruption issues, especially the congestion affecting our key maritime ports, are causing significant challenges for America's retailers."

He added, "The congestion issues have not only added days and weeks to our supply chains but have led to inventory shortages impacting our ability to serve our customers. In addition, these delays have added significant transportation and warehousing costs for retailers."

As the nation's largest private-sector employer, retailers depend on U.S. ports and other transportation infrastructure to help them deliver billions of dollars' worth of goods and products to consumers every day.

In June, NRF revised its annual retail sales forecast to grow between 10.5% and 13.5% to more than $4.44 trillion in 2021 because the economic recovery is accelerating (AA, 7-1-21, P. 5).

Although consumer demand continues to grow, evidenced by imports during the busiest April on record at the largest U.S. retail container ports, the supply chain challenges remain significant. In a recent survey of NRF member companies about congestion, over 97% of retailers surveyed say they have been hurt by port and shipping delays.

"In many instances retailers will absorb these costs and not pass them along to consumers Shay said. "However, many smaller retailers may have no choice but to pass along these costs, especially as they face other challenges with reopening."

Handling Covid 'Long Haulers'

Even as vaccines appear to be defeating Covid 19 and more people return to work, employers are finding that they have to deal with the ongoing reality of an illness that in some cases simply refuses to go away.

"Long haulers" is the new term for these people. The syndrome also is called Long-Term or Long Covid.

The most common lasting symptoms are extreme fatigue, shortness of breath, cough, joint pain and chest pain. Others include cognitive problems, brain fog, insomnia, depression, muscle pain, headache, rapid heartbeat and intermittent fever.

No one yet knows when these symptoms will end, or even if they will end. The virus no longer lives in these people, so their test results will be negative. In employment situations, there is no danger that Long Haulers will be able to infect others.

There also is no evidence that the underlying health conditions that make people more susceptible to the Coronavirus – such as obesity, high blood pressure, smoking and diabetes – have anything to do with the persistence of symptoms.

Employees suffering from this syndrome may meet the definition of having a "disability" under the Americans With Disabilities Act. Under the law, a disability is defined as a physical or mental impairment that substantially limits one or more major life activities.

To help those employees and employers who find themselves struggling with this issue, the U.S. Department of Labor's Job Accommodations Network (JAN) recently added to its COVID-19 webpage answers to frequently asked questions on COVID-19 Long Haulers and the ADA.

DOL does not have enforcement authority for the ADA, which comes under the jurisdiction of the Equal Employment Opportunity Commission.

Firms Investing In Employees

Employers are investing in employee training and development, according to a recent study by the U.S. Chamber of Commerce Foundation and the Society for Human Resource Management.

"Even in a time of significant economic and labor market volatility, employers have maintained their investment in and commitment to their workers – with many eager to increase it," says Jason A. Tyszko, vice president of the Chamber Foundation Center for Education and Workforce.

Most employers will either maintain or increase investment in skills training and talent development. The survey found that 20% said they plan to increase their investment in skill-based training in 2021, reflecting a growing awareness among employers of the advantages gained by cross-training, upskilling and reskilling.

Most employers are open to innovation across all types of training investment, but they admitted that obstacles prevent action. Employers noted the major barriers to innovation are money and staff time, while others need guidance on what works best.

In addition, 40% of employers indicated that a lack of time and budget is preventing them from adopting innovative changes to their skill-based training offerings.

Many employers see government playing a role in providing financing assistance for talent investment. Eighty percent of employers told the researchers that government grants, loans or tax incentives would encourage them to further invest or innovate in their skill-based training and development.

Employers also see the need for greater public-private leadership in this space.

Seventy-two percent of human resources professionals say both the public and private sectors have a role to play in facilitating employer collaboration in areas such as: skill-based training and development, paid work-based learning (for example, internships and apprenticeships), and talent recruitment.

Warehousing Growth Explodes

Ecommerce is expected to grow to represent a total of 26% of all retail sales in the United States by 2025, creating the need for an additional 330 million sq. ft. of distribution space just to handle the flow of shipments, according to the industrial real estate services firm CBRE.

The anticipated, ecommerce-generated demand for another 330 million sq. ft. of distribution space represents 27% of the projected overall demand for industrial real estate in the U.S. through 2025, CBRE Econometric Advisors calculates. The broader category of industrial real estate includes warehouses for traditional retail distribution, manufacturing, R&D space and data centers.

CBRE figures the incremental demand based on its estimate that every additional $1 billion of ecommerce sales requires 1 million sq. ft. of new distribution space. According to CBRE's forecast – which is based on Euromonitor data for 2020 – U.S. ecommerce sales are expected to increase $330 billion from 2020 to 2025

The market research firm Statista is more optimistic in its forecasts, stating that while revenue from ecommerce amounted to $431.6 billion in 2020, its models estimate that by 2025, revenue will increase to $563.4 billion.

The U.S. Census Bureau has reported that U.S. retail ecommerce sales for the first quarter of 2021, totaled $215 billion on a seasonally adjusted basis, an increase of 7.7% from the fourth quarter of 2020. On a not adjusted basis, the estimate of U.S. retail ecommerce sales for the first quarter totaled $196.7 billion, which was a decrease of 16.7% from the fourth quarter of 2020.

According to different observers, ecommerce sales grew 39-44% last year. Others foresee a further decline from this year's first quarter as more brick-and-mortar retail establishments reopen from the post-pandemic lockdowns and restricted operations, and people seek ways of entertaining themselves by leaving their homes.

Globally, ecommerce sales are forecast by CBRE to rise by $1.5 trillion during the 2020-2025 time period, requiring an additional 1.5 billion sq. ft. of warehouse/distribution space to accommodate this growth. The U.S. and Mainland China are the biggest ecommerce markets, accounting for 57% of global Internet sales.

"Distribution and supply chain networks will continue to be under pressure to meet demand at a time when industrial vacancy is at record low levels," observes John Morris, executive managing director and leader of CBRE's Americas industrial & logistics and retail businesses. "As a result, a significant amount of new construction will be needed in the next few years just to keep pace with robust demand."

According to the CBRE report, South Korea is forecast to have the world's highest ecommerce penetration in 2025, reaching 43% of retail sales.

The U.S. will be one of the top 10 markets globally for ecommerce penetration in 2025. To forecast growth, CBRE says it looks at such drivers as each country's percentage of urban population, debit and credit card use, the population's digital skills and digital technology infrastructure.

"While there is a sizable construction pipeline in the U.S., much of that new space already is leased to meet the demand of the past few years," explains James Breeze, senior director and global head of industrial & logistics research for CBRE.

"Moving forward, the challenge in many U.S. and global markets will be to produce enough new facilities to meet this rapidly expanding market.," Breeze adds.

"It's important to bear in mind that ecommerce is only a portion of the overall demand for distribution facilities. Traditional retailers, third-party logistics companies and others also will be demand catalysts. If developers can't build facilities fast enough, we could see rental rates push well beyond their current record highs."