

February 25, 2008

## **When Looking at Distribution Center Sites, be sure to Factor in Drayage Costs, Especially for Inland Ports**

### ***Differences in Costs for Container Movement Can Often Overwhelm Differences in Land or Lease Prices; One Retailer Learns the Hard Way***

With the continued rise in imported goods, companies continue to look for distribution space near ocean or inland ports. Often, it appears that drayage costs – the costs for moving containers by short haul truck from ocean terminals or intermodal hubs to a DC - are not adequately factored into site selection decisions.

For example, one retailer recently built a distribution facility in Oklahoma, based in large part on an offer of basically free land from the state to construct the facility. The only problem – the extra drayage costs from the inland ports near Dallas made the Oklahoma decision a very poor economic choice versus something closer to the ports, despite the free land.

In some cases, it appears site selection consultants and brokers overlook drayage costs in their analysis of the economics of a particular site location.

There are always trade-offs. According to Jon Cross, Director of Corporate Marketing at The Allen Group, lease rates at DCs close to the port of LA/Long Beach can be as high as \$20-40 per square foot, versus \$10-15 per square foot at the Inland Empire areas of Riverside and San Bernardino counties. However, drayage costs will be considerably higher for those Inland locations. Trade-off analysis must be performed.

The Allen Group is a developer of so-called inland ports, such as the firm's 6000 acre Dallas Logistics

hub. That project is one of many inland ports being developed or considered across the US (see Are Inland Ports an Answer to Congestion – or a Waste of Public Money?).

Cross believes distribution centers built or leased within the direct property of these inland ports can offer substantial overall savings in many cases due to lower drayage costs, even if the lease rates are higher.

For example, The Allen Group has worked to develop a flat drayage cost of \$100 from Union Pacific's intermodal hub in the Dallas Logistics Hub to any warehouse facility also in the park – a rate that may soon fall to \$75.00.

While Cross obviously has a vested interest, he says he sees companies often being attracted to slightly lower lease prices per square foot outside the park, but not fully or adequately considering the impact of drayage costs on the total cost. Either they just aren't looked at in detail in the analysis, or companies make a decision based on current goods flow, which may have little offshore container traffic today, but which could surge for a company quickly if it expands its offshore or global sourcing programs.

SCDigest believes that last point is especially important. A low level of inbound ocean containers would mean drayage costs differences between site options have little impact on total site logistics costs. But if imports rise substantially, making containers a

significant part of the total inbound goods flow, what seemed like the best choice at the time might not seem so smart later.

Companies can often use estimate drayage costs to compare total effective lease prices for DCs. For example, consider facility A, which has a lease cost of \$3.85 cents per square foot for a 300,000 square foot DC, and brings in 5000 containers a year at a drayage cost of \$125 per container.

Obviously, this is a simplistic analysis, and there are other cost and non-cost factors to consider, but companies need to ensure current and future/potential drayage costs are fully considered in any economic analysis.

As shown in the table below, its effective cost considering both elements is \$5.91 per square foot. Another DC site with the same square footage and container flow, but with a lower lease cost of \$3.50 per square foot but drayage costs of \$150 per container is actually the more expensive choice (\$6.00 per square foot).

Have you seen drayage costs being poorly considered in site selection decisions? How have you balanced facility, drayage, speed and other factors in considering site locations? Let us know your thoughts at the Feedback button below.

Lease Cost/Square Foot	Total Drayage Costs	Drayage Cost/Per Square Foot	Total Effective Costs per Square Foot
\$3.83	5000 X \$125 = \$625,000	\$625,000/300,000 = \$2.08	\$3.83 + \$2.08 = <b>\$5.91</b>
\$3.50	5000 X \$150 = \$750,000	\$750,000/300,000 = \$2.50	\$3.50 + \$2.50 = <b>\$6.00</b>

