

# THE DEMAND ECONOMY:

THE CHANGING WORLD OF RETAIL & THE  
IMPACT ON SUPPLY CHAIN STRATEGY &  
INDUSTRIAL REQUIREMENTS

SEPTEMBER 24, 2013

# OUR APPROACH IN A COMPLEX WORLD

Knowledge of Trends Support Portfolio Planning

## TOP 12 SUPPLY CHAIN TRENDS: THE “DIRTY DOZEN”

Transportation  
& Oil Price Rising

Near-Shoring

Larger Space

Interest in  
Sustainability

Increasing Labor  
Challenges

Rising E-commerce

More Containerized  
Imports

Trade with  
South America

Increases in  
Inventory Levels

More Intermodal

Expansion of the  
Panama Canal

Increasing  
3PL Adoption

# RETAIL AT A CROSSROADS

INTERMODAL  
FREIGHT  
CONFERENCE



# FIVE RETAIL TRENDS AFFECTING INDUSTRIAL

1. Urbanization
2. Globalization
3. Omnichannel retailing
4. Mass customization
5. Enhanced customer service

# URBANIZATION

# URBANIZATION

## Key Issues - Retail

### RETAIL

1. People are moving back to the cities
2. Living spaces are smaller
3. Retailers are seeking new markets and customers

### RESULT

Retailers are adjusting their footprints



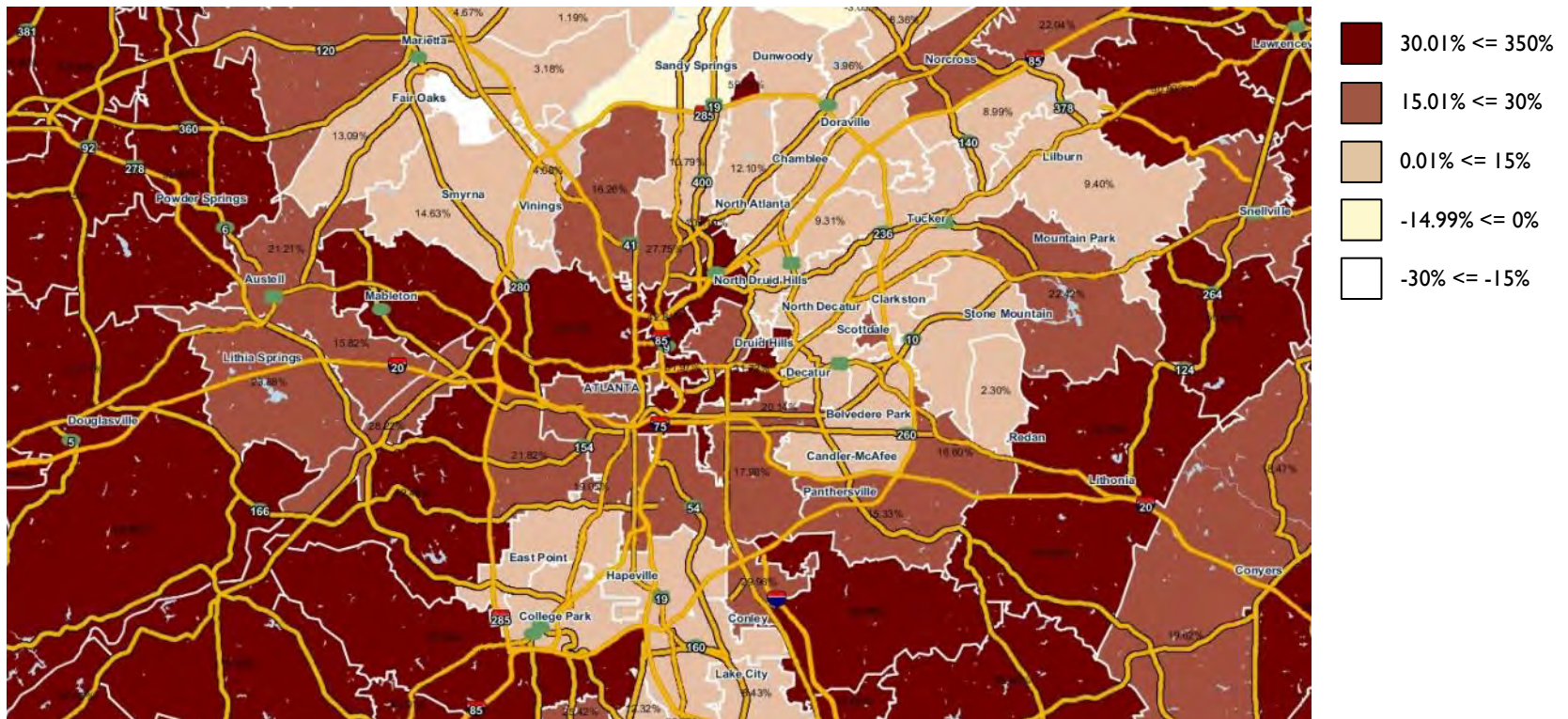


# URBANIZATION

## The Reverse Donut

### RETURN OF THE POPULATION TO THE URBAN CORE WILL AFFECT STORE FORMATS

ATLANTA, GA—PERCENTAGE POPULATION GROWTH 2000-2010



Source: Nielsen PrimeLocation Web

# URBANIZATION

## New Brick & Mortar Store Formats

RETAILERS ARE CREATING NEW FORMAT STORES  
AND CHASING NEW CUSTOMER SEGMENTS





# URBANIZATION

## Key Issues - Industrial

### INDUSTRIAL

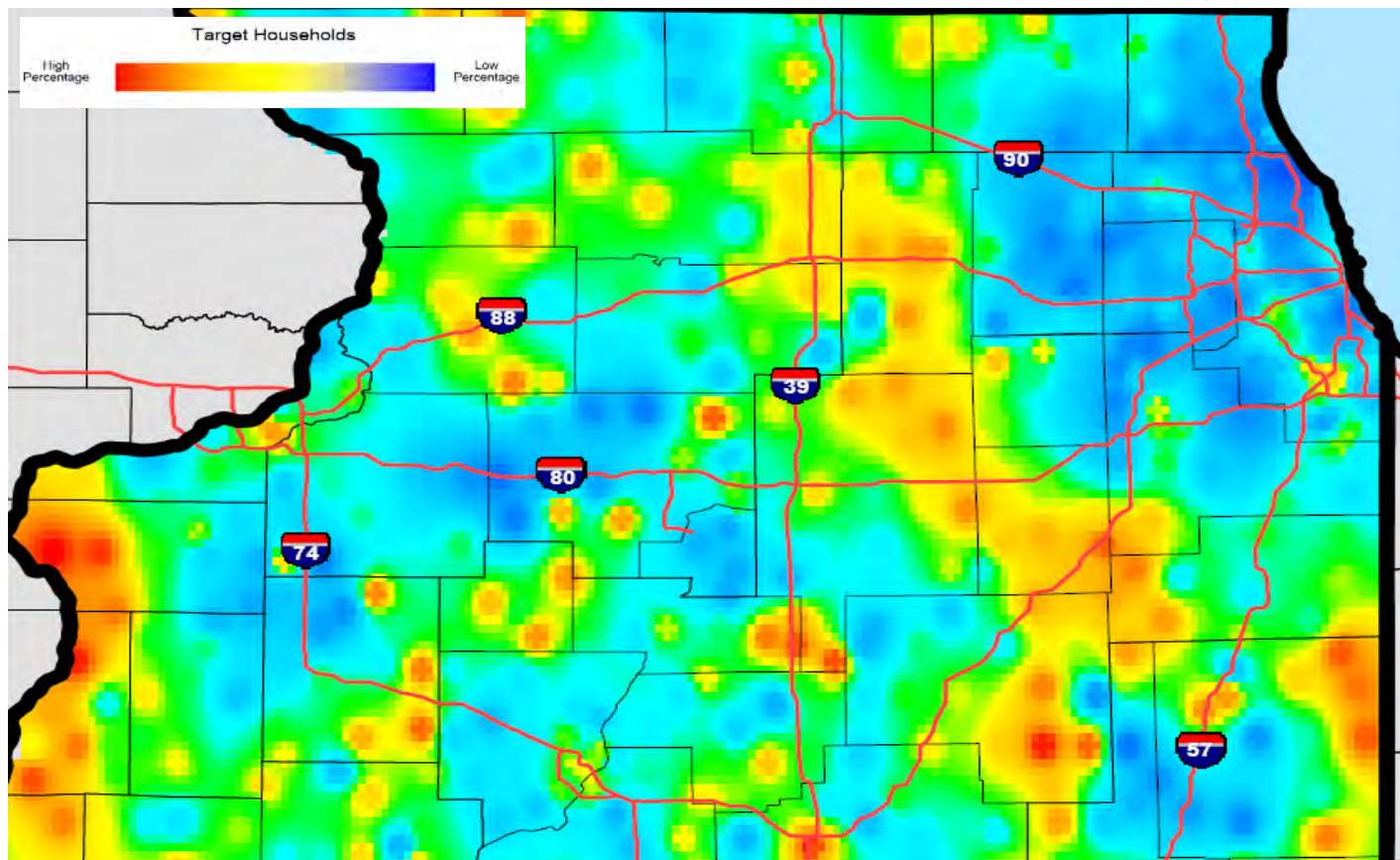
1. DCs may be in the “wrong” place today, i.e. too far out, on average
2. Transportation route miles, congestion, equipment, timing challenges all driving up delivery costs, logistics costs per piece
3. Urban labor challenges, fit AND costs



# URBANIZATION

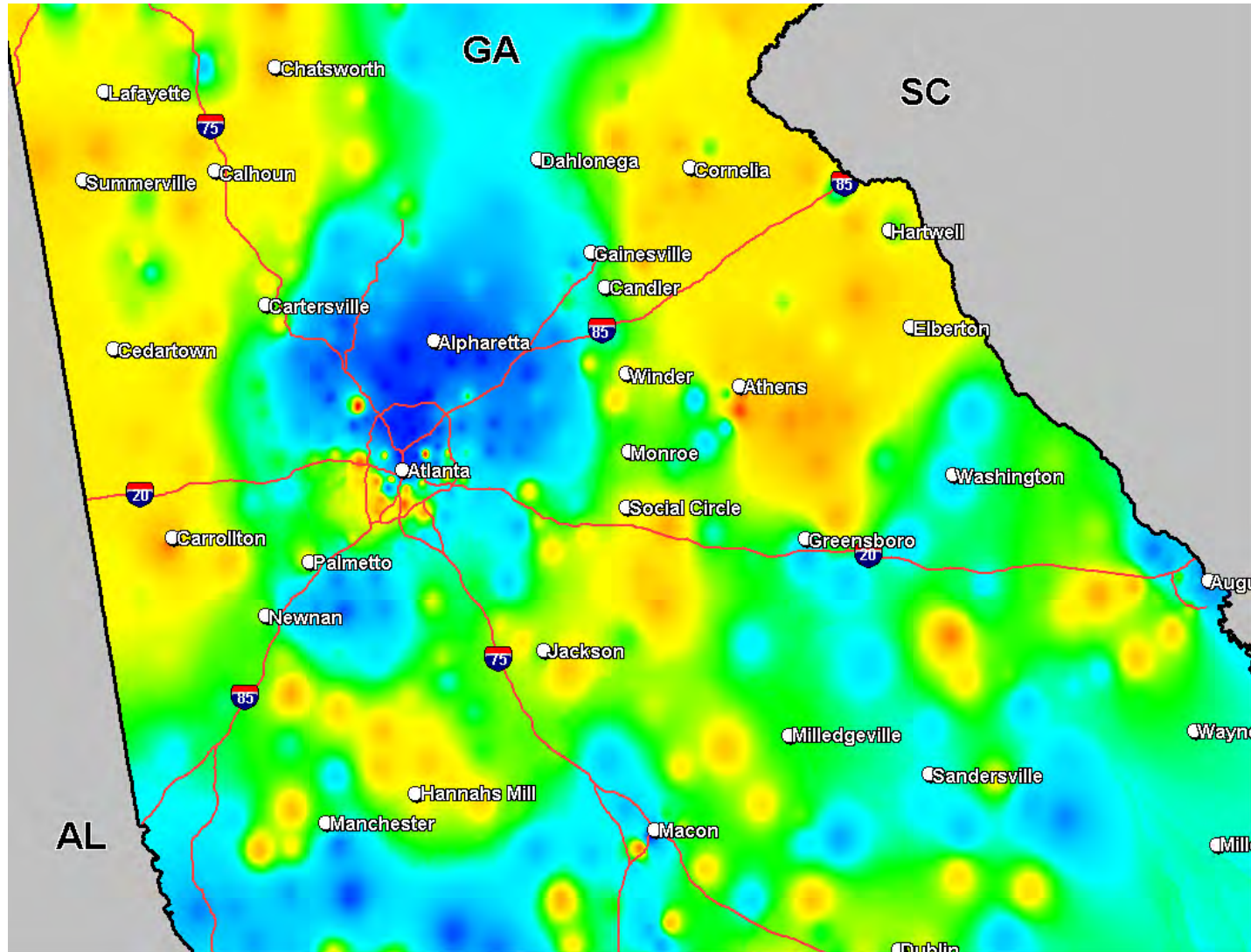
## Preferred Industrial Labor Locations

Preferred Industrial Labor Is Generally Concentrated Further From Urban Demand

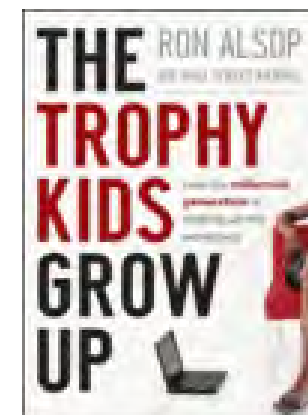
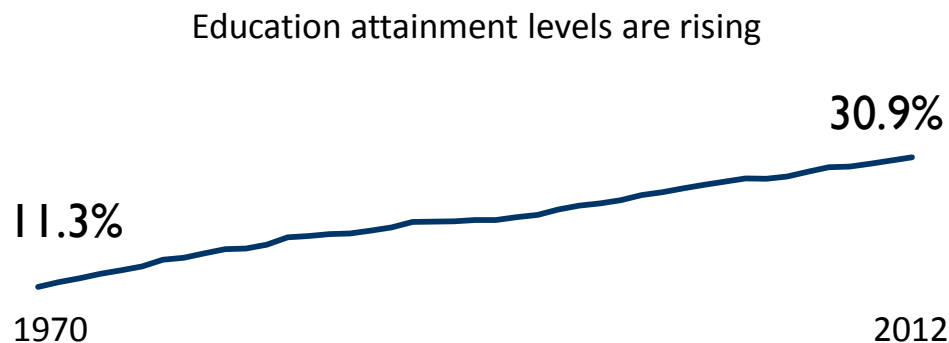


# URBANIZATION

## Greater Atlanta Area



# MANAGING THE LABOR FORCE....NOT EASY



Percent of persons 25+ attaining a HS diploma and a 4 year undergraduate degree

The wage premium for those with college degrees has leapt 40 percent since 1983.

DRIVER	ISSUE
Aging	Large scale retirement of Baby Boomers and not enough GenXers, Gen Y to replace experience
Employee Market	People are more selective of their field and employer, and there is an employee shortage in many industries
Turnover	Tenure rates are crashing. In 1954, the average tenure of an employee with their employer was 19 years. Projected at 18 months in 2015
Generational Change	Where to attract new workers and how to manage culture is changing
Urbanization	Popularity of urban living, movement away from industrial occupations
Flat World	People are THE biggest strategic differentiator between competitors



# URBANIZATION

One Answer: Automation



Mini-load



Carousel

Automation Orders Up 34% In 2012



KIVA



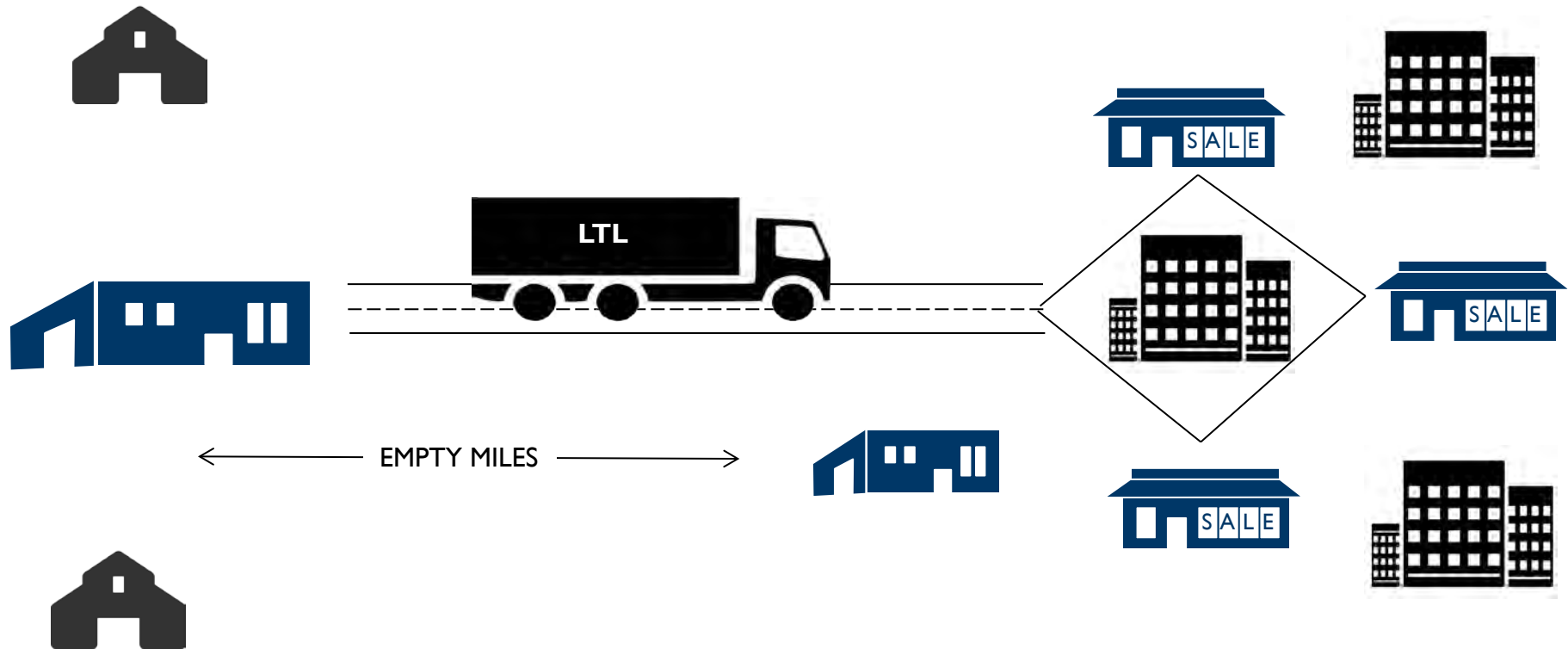
Vertical Lift Module



# URBANIZATION

## Stem Miles Matter

Too Far From Demand? Less Freight Scale Elevates The Penalty



# URBANIZATION

How Much Skinnier Can Transportation Get?

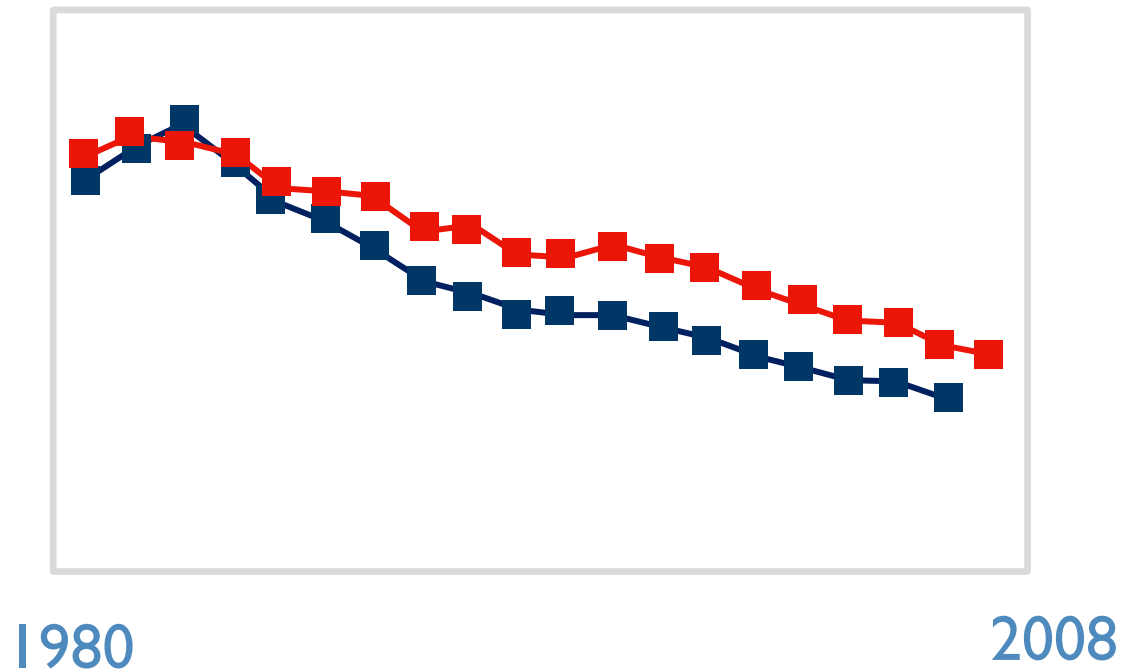
Transportation is already LEAN



Linehaul Revenue  
Per Mile



Rail Revenue  
Per Ton/mile



# GLOBALIZATION

# GLOBALIZATION

## Cross Continental Retailer Expansion



# GLOBALIZATION

## Key Issues - Industrial

### INDUSTRIAL

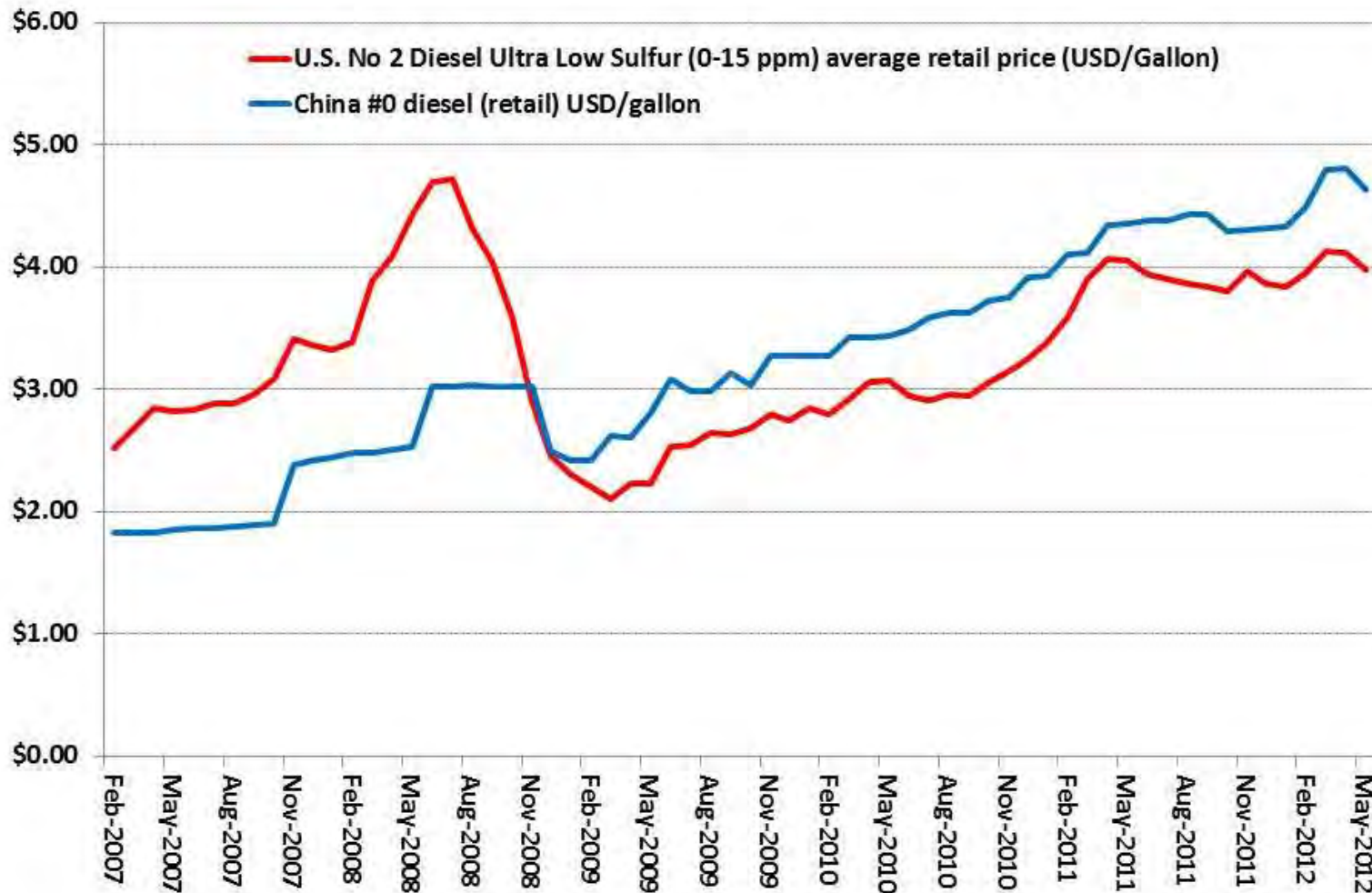
1. Transportation costs across long distances
2. Regional sourcing & manufacturing biases
3. Lack of investments in logistics infrastructure in new markets





# GLOBALIZATION

## FUEL COSTS: Not just a domestic issue



# GLOBALIZATION

Limited Infrastructure Exists Now



# OMNICHANNEL RETAILING

# OMNICHANNEL RETAILING

## Virtual Shopping: Key Issues

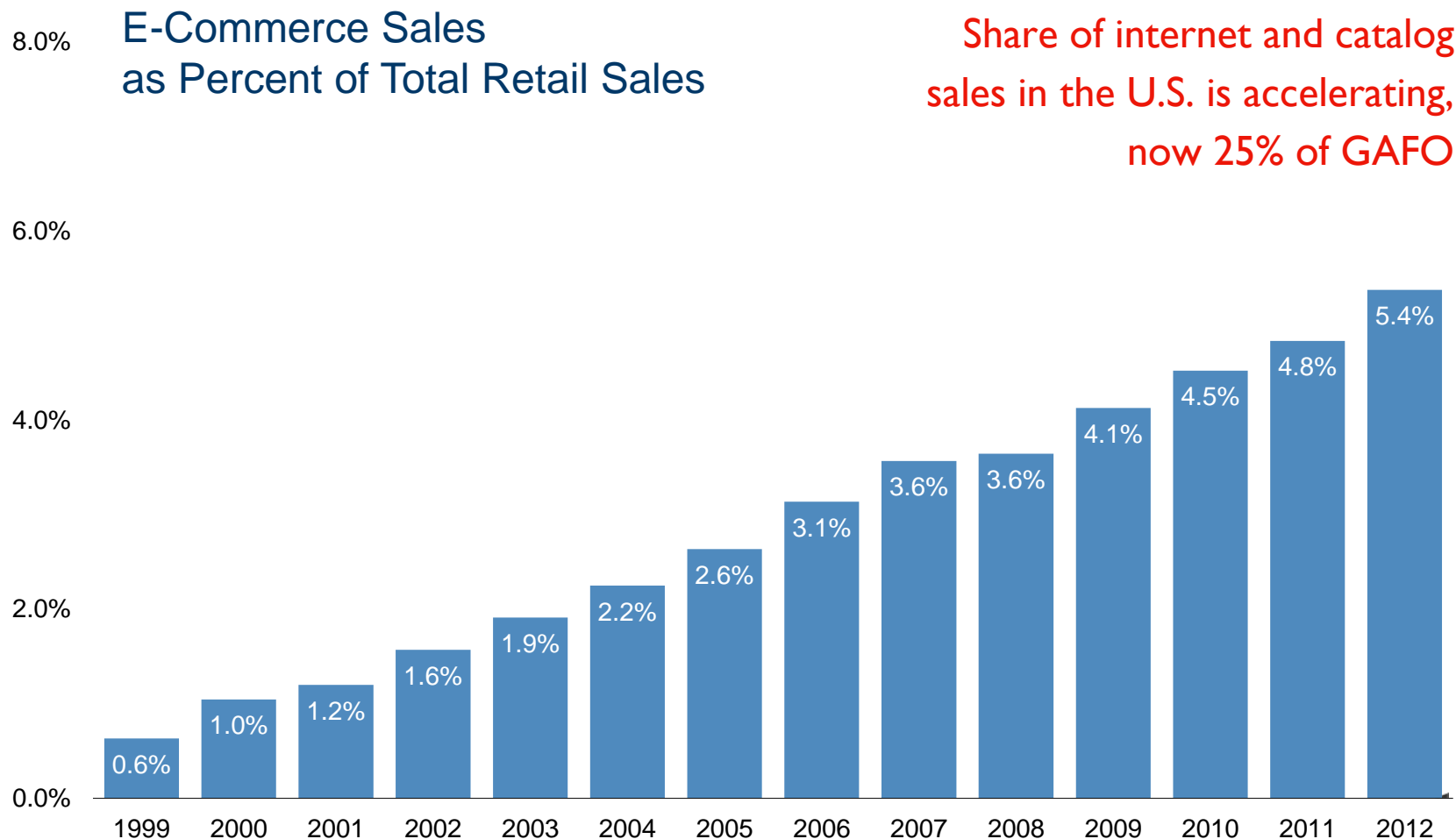
### RETAIL

1. TECHNOLOGY is becoming a bigger part of our lives as consumers
2. SOCIAL MEDIA is creating a new approach to retail stores
3. LOCAL MERCHANTS are adapting with custom offerings and higher customer service levels



# OMNICHANNEL RETAILING

## Internet Sales Growth



NOTE: Q4 SALES

SOURCE: U.S. CENSUS BUREAU, CUSHMAN & WAKEFIELD RESEARCH

UNIVERSITY OF MEMPHIS

CUSHMAN & WAKEFIELD

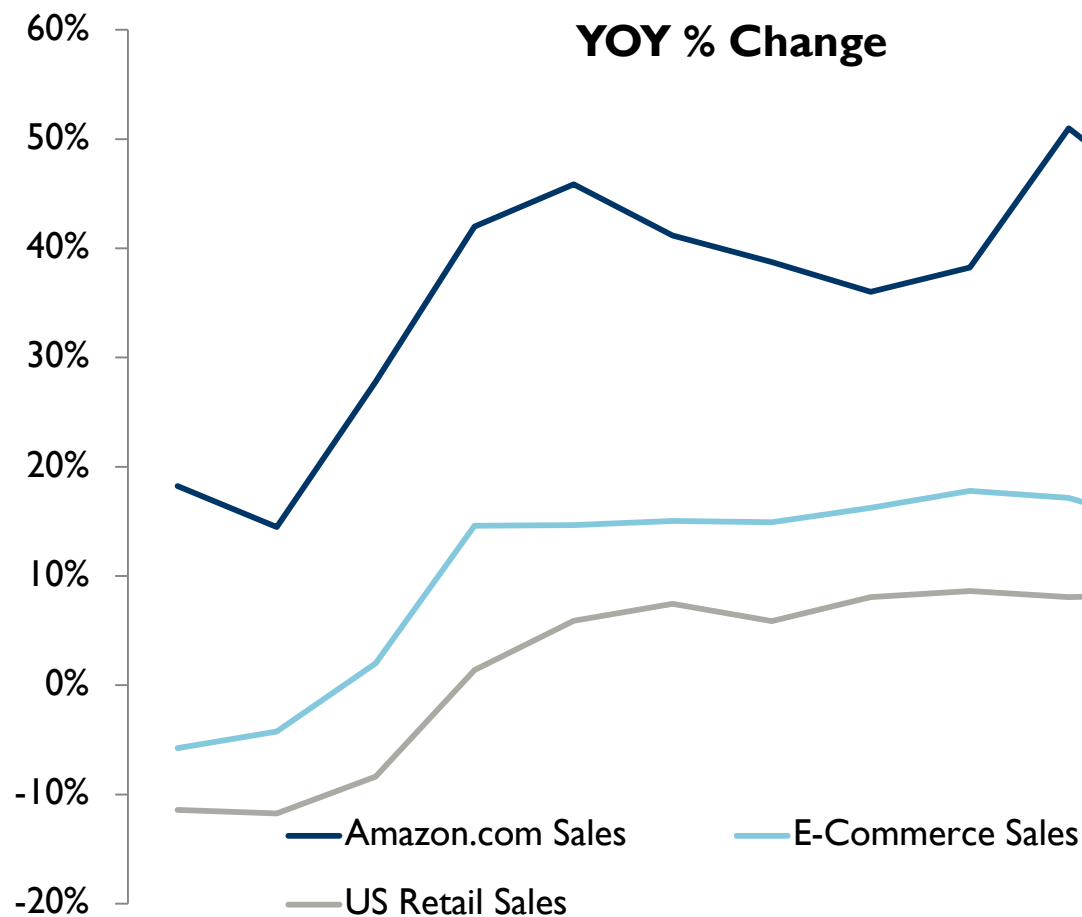
22





# HOW WE BUY

## Sales Performance By Channel, 2008 through 2012



Source: Cushman & Wakefield Research

# OMNICHANNEL RETAILING

## Convergence Of Clicks & Bricks



BRICK & MORTAR



MOBILE

QR CODE-DRIVEN VIRTUAL  
SUPERMARKETS  
(South Korea Subway Stations)



Evolving multi-channel  
dynamics increase the  
importance of a  
cohesive omni-channel  
strategy



BRICK &  
MORTAR



INTERNET

AMAZON.COM STORE



BRICK &  
MORTAR



SOCIAL MEDIA

POP-UP STORE



# OMNICHANNEL RETAILING

## Key Issues For Industrial

### INDUSTRIAL

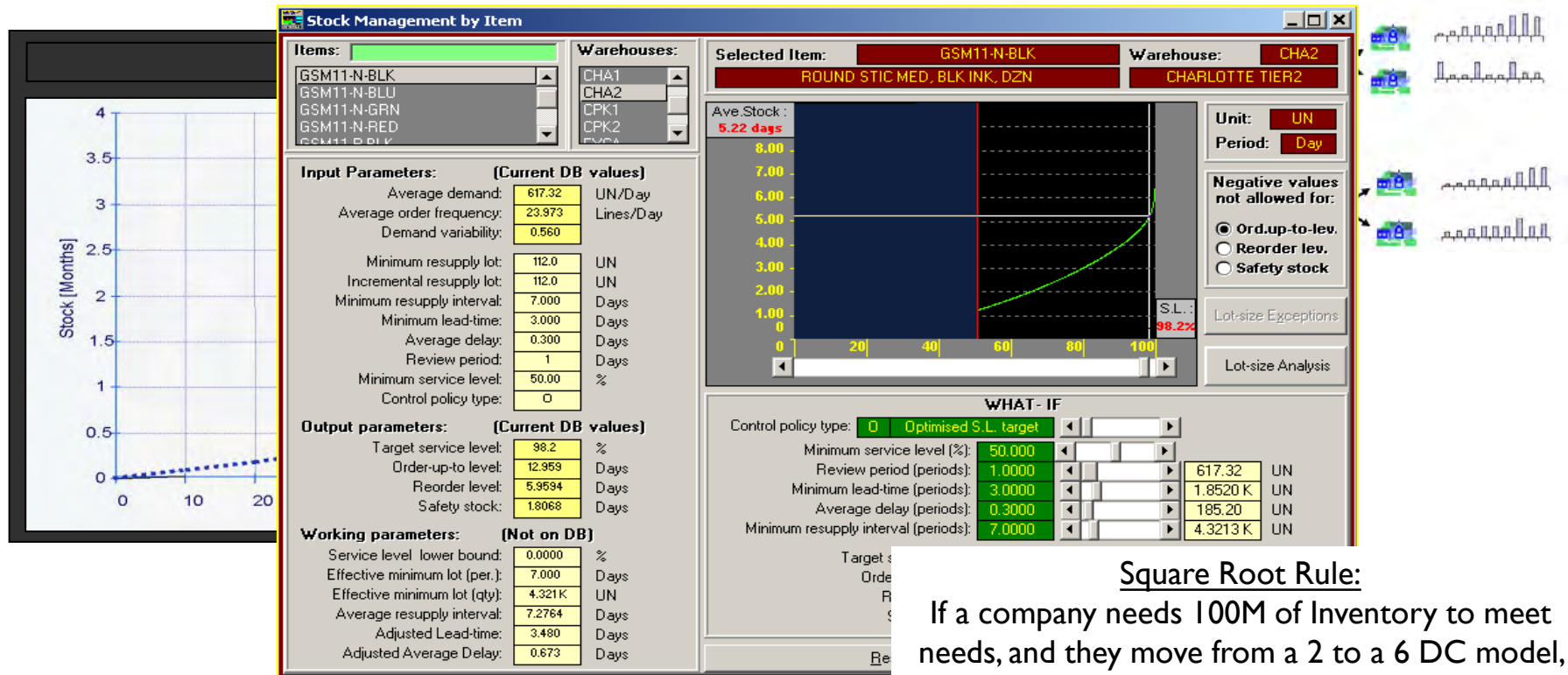
1. Eaches level fulfillment, higher handling costs per piece, vs. store replenishment
2. Inventory availability and visibility across multiple channels (systems and working capital)
3. Parcel share rising, loss of freight scale, drives up costs, transportation costs per piece



# OMNICHANNEL RETAILING

Higher Service Levels, In More Locations

Will explode inventory requirements. Higher service levels use more inventory.  
Number of DCs drives inventory as well.....Inventory is needed in every SKU/location combo



## Square Root Rule:

If a company needs 100M of Inventory to meet needs, and they move from a 2 to a 6 DC model, inventory requirements go up 73%

# MASS CUSTOMIZATION

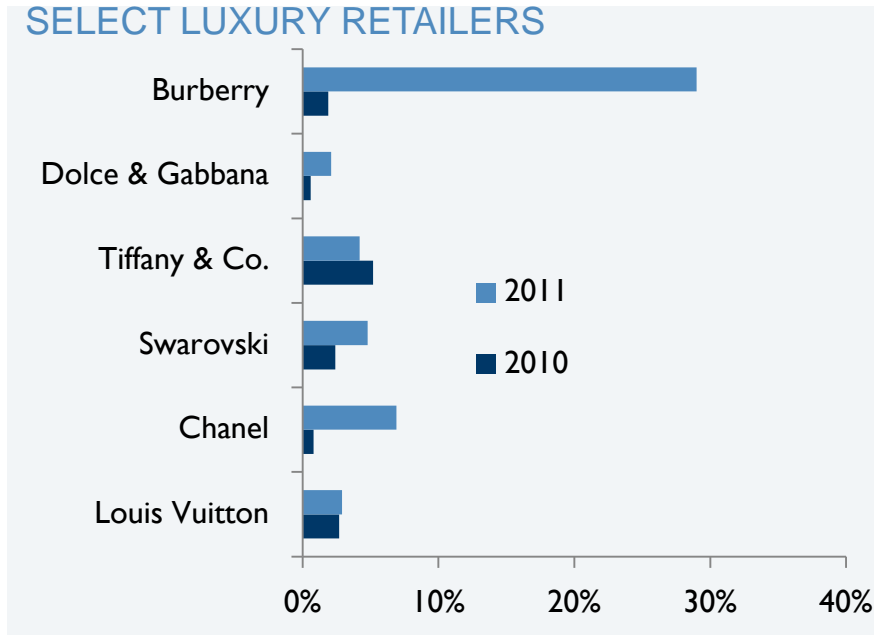


# MASS CUSTOMIZATION

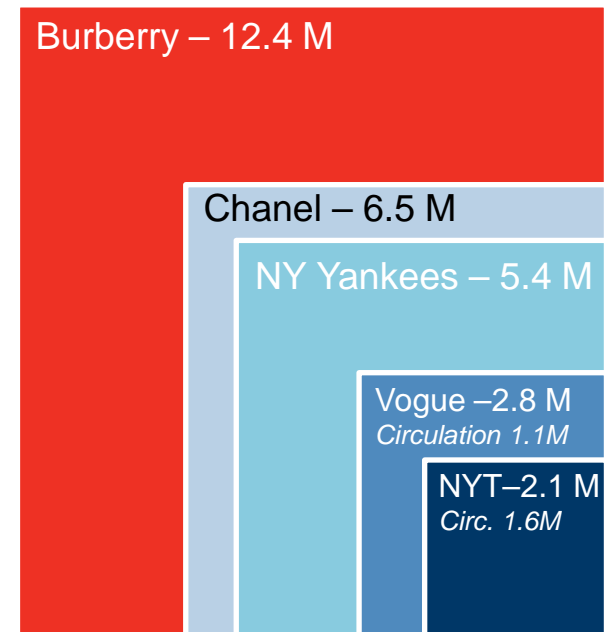
## Social Media & M-commerce

Social media is becoming fully integrated with in-store marketing

PERCENTAGE WEBSITE TRAFFIC FROM  
FACEBOOK  
SELECT LUXURY RETAILERS



RELATIVE SIZE OF AUDIENCE  
– FACEBOOK “LIKES”



Source: Cushman & Wakefield Research, ComScore, Social Essentials UK, L2Thinktank, Burberryplc.com

# MASS CUSTOMIZATION

## Key Issues

### INDUSTRIAL

1. More investments in Value Added Services (VAS), people and technologies, leading to more VAS space, more VAS labor
2. For high VAS SKUs, some postponement strategies



# CUSTOMER SERVICE

# CUSTOMER SERVICE

Salespeople are the New Luxury



## SAME DAY

Omni-Channel Strategies and Higher Services Levels, TOGETHER

The competition between retailers to offer the **most convenience for customers with an anytime, anywhere shopping mentality** has led to **extended hours, seamless cross-channel experiences and more shipping options** such as buying online and picking up in a store.

***But the gamble some retailers are taking with same-day delivery may not pan out, say several retail supply chain experts.***

- Hayley Malcolm, “Retailers Gamble on Same Day Delivery”, USA TODAY

# CUSTOMER SERVICE

## Key Issues



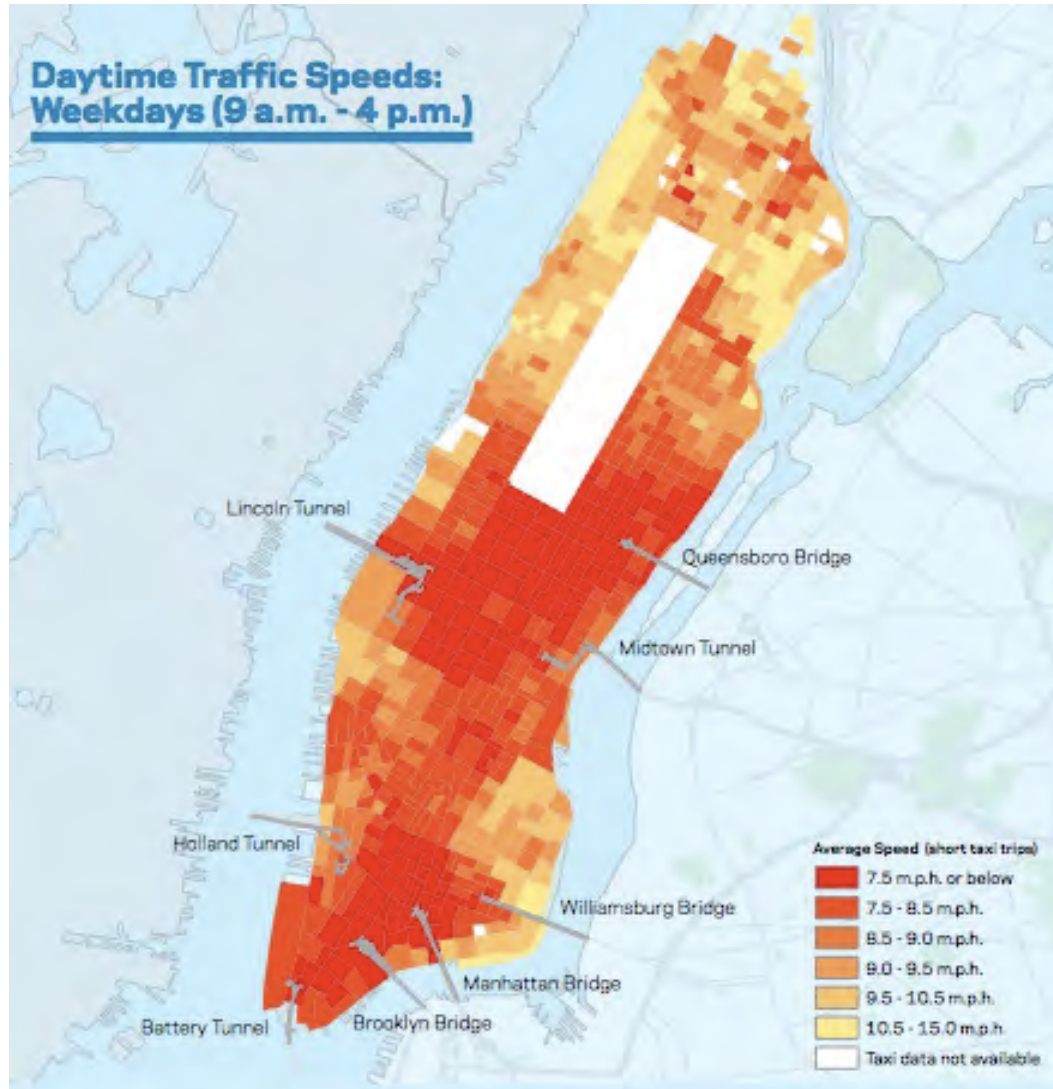
## INDUSTRIAL

1. Transportation route miles, congestion, equipment, timing challenges driving up delivery costs, costs per piece
2. Urban labor challenges
3. Delivery truck model requires scale and density of orders to manage costs
4. Daily replenishment of higher velocity SKU



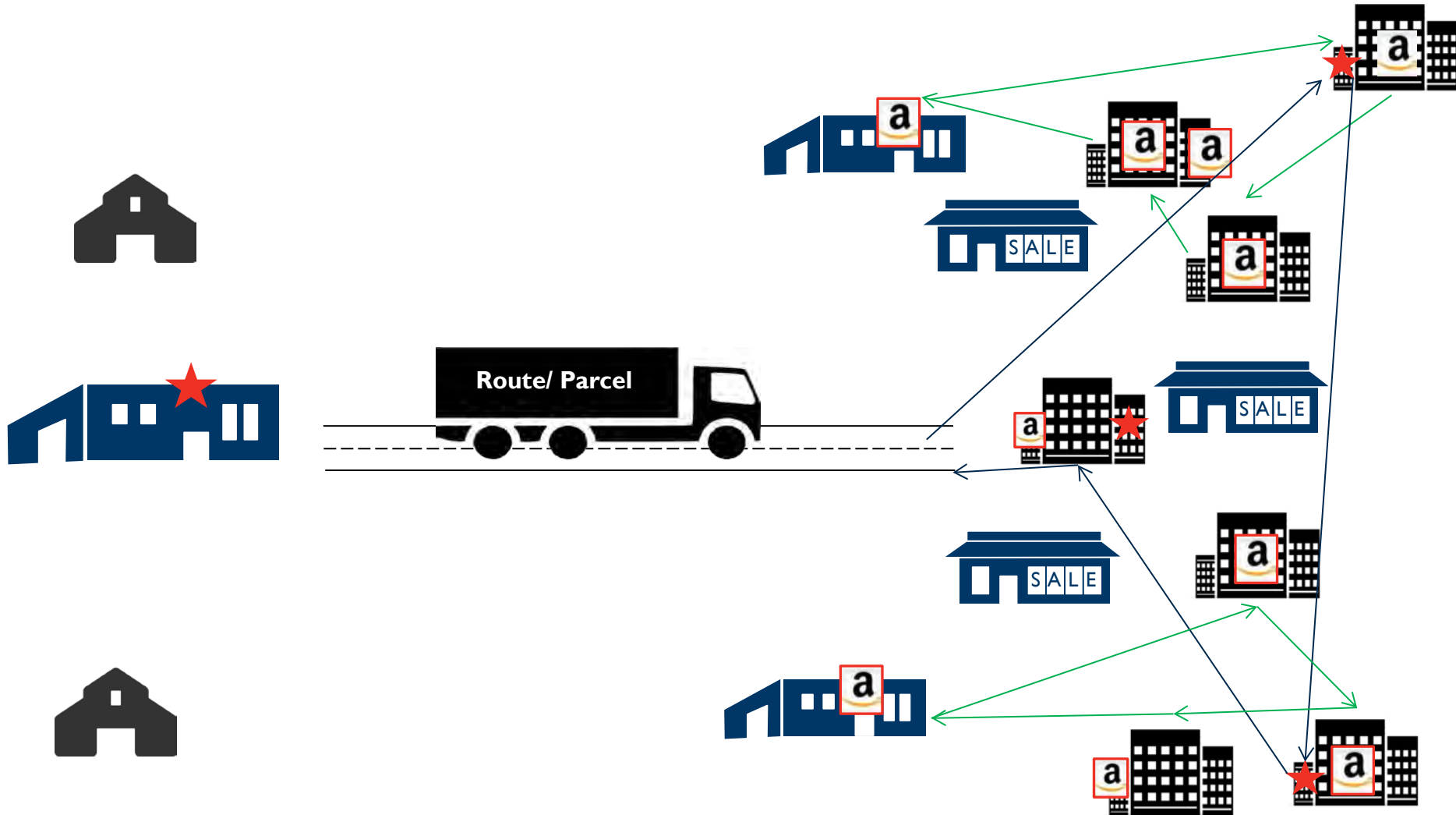
# CITY ROUTE DELIVERY CHALLENGES

At Night?

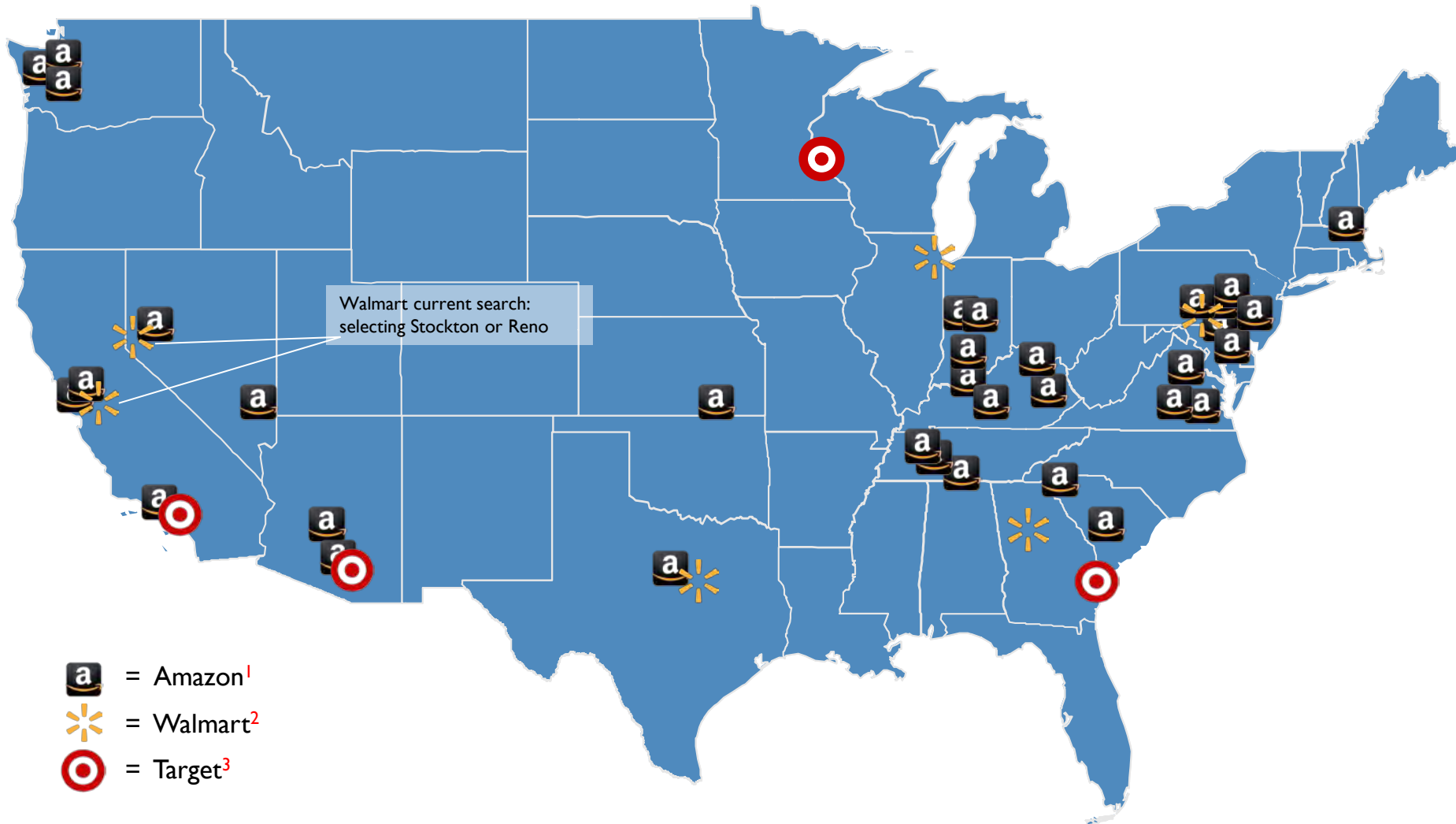


# STEM MILES AND ROUTE MILES MATTER

Order Scale is a Must-have in Delivery Operations



# e-com dedicated distribution centers



<sup>1</sup> Tracy, CA and Robbinsville, NJ are 2014 openings

<sup>2</sup> Currently in market for facilities in Stockton, CA (or Reno NV), Chicago, IL, Dallas, TX and Reno, NV. Signed LOI for facility in Bethlehem, PA, lease pending.

<sup>3</sup> Savannah, GA facility is partially dedicated to Target.com fulfillment

# RETAIL AT A CROSSROADS

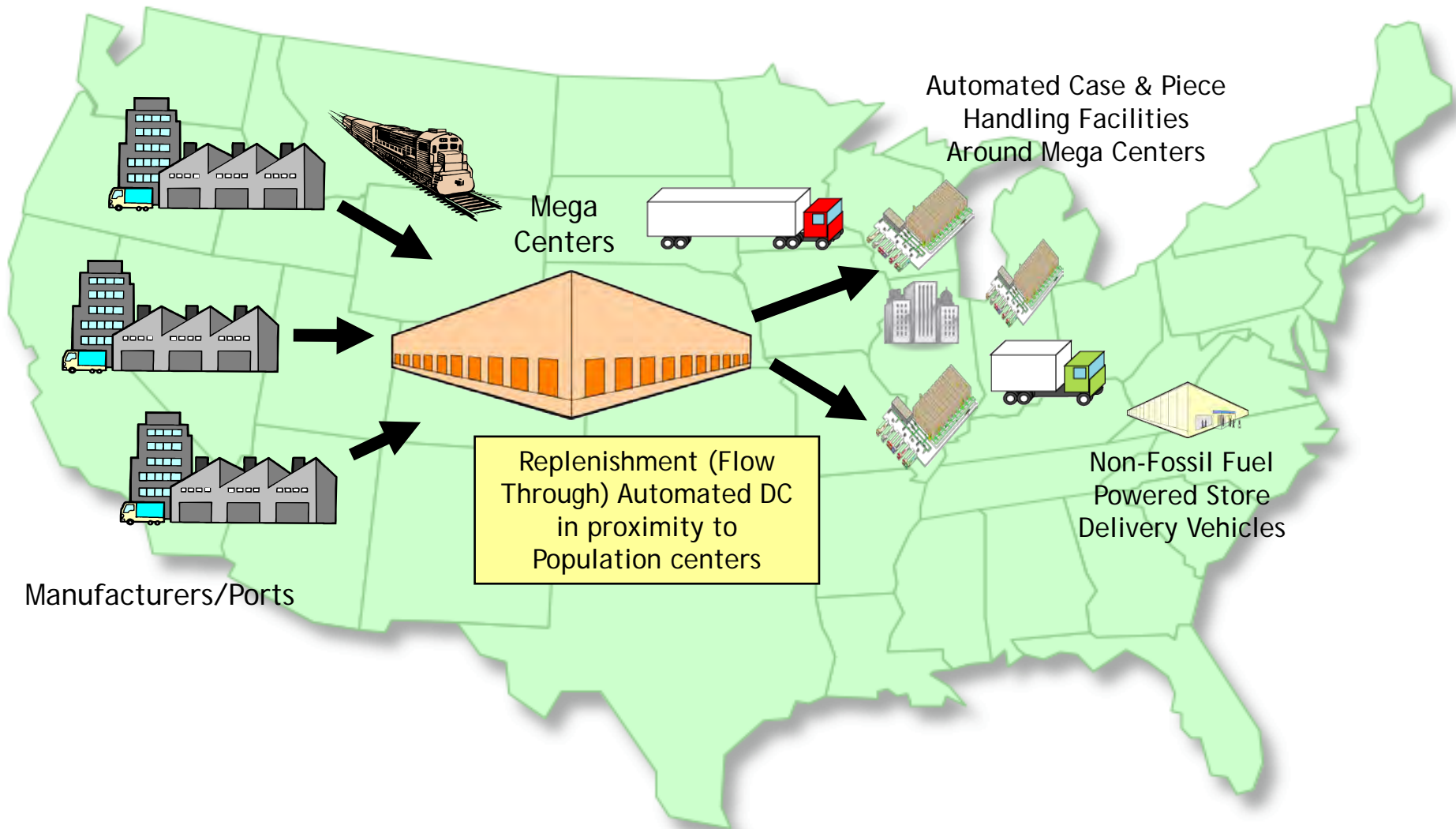
## Affect of Retail Trends on Retail & Industrial and on Values

### Possible Impacts on Industrial Valuations

- +Space in developing economies
- +Space w 3PL tenants
- +Smaller space near cities
- +Larger space with good fundamentals and high cube
- +Single loaded buildings
- +Multitenancy
  
- Facilities further from urban centers, esp. smaller ones
- Low ceiling, older space which impede automation
- Industrial markets w labor (real or reputed) challenges
- Space with limited cube and cubic flexibility

# WHAT DOES THE FUTURE LOOK LIKE?

One Idea....



[www.commadv.com](http://www.commadv.com)

KEMP CONRAD, SIOR  
Principal  
CUSHMAN & WAKEFIELD |  
COMMERCIAL ADVISORS, LLC  
5101 Wheelis Drive, Suite 300  
Memphis, TN 38117 USA  
Phone: 901-273-2359  
Fax: 901-366-4617  
[kconrad@commadv.com](mailto:kconrad@commadv.com)

PATRICK WALTON  
Vice President  
CUSHMAN & WAKEFIELD |  
COMMERCIAL ADVISORS, LLC  
5101 Wheelis Drive, Suite 300  
Memphis, TN 38117 USA  
Phone: 901-362-4311  
Fax: 901-366-4617  
[pw Walton@commadv.com](mailto:pw Walton@commadv.com)



Thank you!