DC DREAMING

SEVERAL YEARS AGO, I visited with an executive who wanted his company to become a major player in the logistics park business. He had filled a ceiling-to-floor, wall-to-wall whiteboard with an analysis seeking to deconstruct the BNSF-CenterPoint deal at Joliet, Ill. I was reminded of the scene in the movie “A Beautiful Mind,” in which John Nash converts an abandoned shed into an office where he conducts hallucinatory analysis.

Similar misgivings come to mind when one hears of the development of logistics parks, or inland ports. While the premise is simple — co-locating intended distribution centers with envisioned transportation terminals — the execution of the task is daunting. Success depends on the proper alignment of transportation, distribution and economic factors.

As the intermodal industry grows ever larger, there is a never-ending search for large greenfield sites. These undeveloped areas are suitable for development and large enough to allow for a properly designed intermodal terminal. For years, intermodal used “hand-me-down” terminals originally designed for some other purpose. Not only were these facilities often ill-suited for efficient intermodal transfers, but they also lacked any adjacent space to accommodate expansion.

Complicating site selection for intermodal terminals is the need for mainline rail and highway access. The former enables trains to be placed — constructed — with a logistics park, the railroad gains access to land and a sophisticated partner, which can overcome local objections to terminal construction. The developer can sell the proximity of an intermodal terminal to potential customers as a drayage cost savings and linehaul service improvement. This only works, of course, if the railroad actually has robust network connectivity to the intended location.

Distribution is also a key condition for success. The supply chain transforms raw materials into work in progress, and then finished goods. Although the first two are usually delivered to a production facility, finished goods are often delivered to a DC for assembly into store deliveries.

A DC network must be able to accommodate changes in store locations and merchandise strategies (expansion into grocery sales, for example). The result may be a successful facility for the developer, but one that fails to generate volume for the railroad.

The third success condition, economics, is frequently forgotten. ProLogis’s Shanghai facility may provide a good example of a project that lacked prudent economic analysis. The developer built the facility, at great expense, in a “logistics city.” ProLogis was certain the facility would generate years of profit. Unfortunately, the company strayed from its core strengths into a transaction that valued intuition and common wisdom more than prudent economics. Less than two years after the facility opened, ProLogis, in an unsuccessful attempt to prevent bankruptcy, quietly unloaded its Asia properties.

Although few transportation companies have real estate skills, and vice versa, I am amazed at the number of experts who claim to understand their partners’ business. Successful projects are winners for each partner on their own terms. A railroad must have enough volume to adequately utilize a new terminal, without counting on “new business,” just as the real estate developer must be able to attract customers independently.

Developed carefully, such ventures can be win-win. Otherwise, they are complicated delusions seeking to address a simple business need.

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