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Logistics Distributors push into high-tech world

DB Schenker's fast forward

DB Schenker's Kip Sandercock used an algorithm to choose the location of a new Queensland distribution hub. PHOTO: GLENN HUNT

Larry Schlesinger

This month, global logistics giant DB Schenker moved into a new distribution centre at Goodman Group's 62-hectare $350 million Redbank Motorway Estate in Ipswich.

Every day, B-double trucks deliver shipments from Samsung, Dell, Fujitsu, Xerox, Office Works and others to the 30,000-square metre facility – a tall, grey box the size of about four rugby fields – in Brisbane's outer southwest.

Goods are unpacked, sorted, stored and later picked to order to be delivered to retailers such as Harvey Norman, malls, hospitals, government offices, police departments and homes.

"We deliver right down to the one-fridge home delivery in the suburbs," said **Kip Sandercock**, head of Queensland operations for DB Schenker.

The new distribution hub is part of a huge wave of bespoke, hi-tech logistics facilities being developed in Australia and around the world to service a global revolution being driven by rapid urbanisation, the growth of organised retail (shopping centres), the exponential growth of e-commerce and insatiable consumer appetite for imported products delivered to their doorstep.

Figures compiled by CBRE show that almost three-quarters of 1.9 million square metres of leasing deals in Australia for 2013-14 were for third-party logistics groups – less than a quarter were manufacturing.

"Over the next decade, we expect transport and logistics to continue absorbing manufacturing space nationwide, resulting in this becoming the largest sector of the market from a space occupancy perspective," said CBRE research manager **Mark Lafferty**. According to CBRE, over the past 10 years, transport and logistics GDP has jumped by 39 per cent, while manufacturing has fallen by 2 per cent. CBRE forecasts that over the next 10 years, transport and logistics will absorb an additional 10.4 million square metres of space, while manufacturing will shrink by 638,000 square metres in the same period.

Servicing this are third-party logistics operators, such as DB Schenker, that need precision-built distribution centres close to transport infrastructure to collect, sort, store and deliver products in the most cost-efficient manner possible.

How DB Schenker chose Goodman's Redbank Motorway Estate as the location for its new distribution hub illustrates this point: Mr Sandercock used a complex mathematical algorithm.

Into this algorithm he fed data on every inbound container delivery and every out-bound shipment made to customers over the past 12 months.

Every bit of data was then weighted to reflect its cost impact on customers to help determine the "centre of gravity".

"We were looking for the most cost-effective solution for our customers," Mr Sandercock explained.

The new facility is less than a kilometre from the Brisbane motorway network, where a new bridge was built over the railway line last year to take the weight and size of the B-double delivery trucks that bring in daily shipments.

"Our largest customer is Samsung," said Mr Sandercock. "We line haul seven semi trailers a day from Sydney. Having our new facility at the cusp of the Brisbane metropolitan area cuts transit time by about 1½ hours. That's a large saving."

Apart from location, design innovations in logistics facilities are about the optimal use of space and reducing costs wherever possible.

"Most facilities can only hold up to six pallets high. We've gone up to seven," Mr Sandercock said.

The new Brisbane facility also includes higher levels of security to reduce insurance premiums and motion-activated lighting connected to a building management system to cut energy costs by about 20 per cent a year.

Requirements for new distribution centres are specific – down to the millimetre, according to **Andrew Noble**, director of Vaughan Constructions, a Melbourne-based builder that has built new logistics facilities for Bunnings, Woolworths, Kraft, Linfox and Australia Post.

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> Byron Patching, XAct Solutions

"Companies have relocated away from traditional warehousing and into highly technical, purpose-built facilities including semi-automated operations," Mr Noble said. "Older-style facilities have to be heavily discounted to get any attention from occupiers as companies are looking for long-term purpose-built solutions," he says.

Byron Patching, head of industrial property consultants XAct Solutions, expects further consolidation in the industrial sector driven by the automation of facilities; what he calls "the internal Lego".

"Often these are tall robots that can go very high to retrieve goods," he said. "Businesses need to get in ahead of the curve. They can't do automation with existing warehouses."

A recent global JLL paper highlighted some of other key features of new retail logistics facilities. These include the ability for merchandise to be stocked and picked at an item level, the inclusion of specialised parcel sorting centres and local urban logistics depots for fast delivery turnaround.

Land close to existing road infrastructure has become premium value. A problem for businesses wanting to own their facilities is that much of this land is held by listed property trusts like Goodman, DEXUS and Charter Hall.

Recently, Linfox, one of Australia's biggest trucking and logistic groups which owns and manages 8 million square metres of warehouse, advertised that it was seeking between 20 and 30 hectares of freehold industrial land in Greater Western Sydney near Eastern Creek for new logistics facilities. The preferred area is criss-crossed by two major Sydney motorways – the M7 toll road and M4 Western Motorway.

Although the price of land bottomed out about two years ago, businesses such as Linfox are still trying to find cheaper land and low interest rates. But they find it hard to work with aggressive A-REITs which have land-banked much prime industrial stock.

To give a sense of the scale of the changes, one need only look at Goodman Group, Australia's biggest industrial property developer and owner, and DB Schenker's landlord. Goodman has a $2.7 billion pipeline of new projects. Of these, 90 per cent by value, are new logistics facilities in Australia, Europe, the UK and the US.