Red light?

Rising energy costs could hit e-commerce consumers in the wallet

By: Martin Daks
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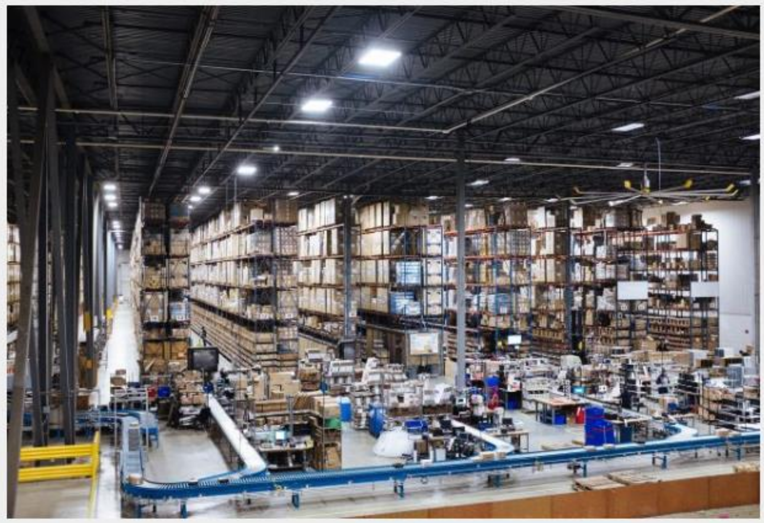

Dotcom Distribution Warehouse – DOTCOM DISTRIBUTION

The relentless rise of e-commerce — spurred in part by widespread COVID-19 lockdowns — has been a bonanza for New Jersey, thanks to demand for warehousing space and so-called last-mile delivery services. But at the same time, energy prices have hit a gusher — gas prices alone are up nearly one-third since last year, according to the American Automobile Association — leading to concerns about a stall in the demand for New Jersey's warehousing and distribution services. Industry professionals don't see a slack in the action, but some warn that consumers should be prepared to dig deeper into their pockets to cover higher delivery costs.

"Over the past year, COVID-19 had a profound impact on New Jersey's industrial market," according to the NJ Q1 2021 New Jersey Industrial Market Report released in April by the real estate services and investment management firm Colliers.

Social distancing mandates have "accelerated the shift toward online shopping, a trend that will likely stick and be a permanent part of consumer buying habits. This has increased demand for both distribution and cold storage space as online grocery shopping persists. As such, industrial demand has been boosted by the e-commerce and logistics industry, increasing the shortage of an already limited supply of big box warehouses."

Statewide, the industrial market "continued to benefit from a shift in consumer buying habits that resulted in a remarkable start to 2021," the report added. "Leasing activity totaled a nearly record breaking 15.7 million square feet, an impressive feat considering just 4.1% of the inventory is available and [that's] without a significant lease transaction from Amazon."

While they're enjoying the stepped-up activity, some warehousing-distribution companies are also taking steps to control their energy costs. Glenway Distribution, for example, has a 47,000-square-foot warehouse in the Turnpike Exit 8A business corridor providing logistics, warehousing and distribution services. In addition to rooftop solar panels that "showed an immediate reduction in our carbon footprint," according to the company, "our facility's natural gas heat is regulated by programmed thermostats," while a "pressurized structure keeps the cold air out and the warm air in during the winter months, thus reducing our energy consumption."

The warehouse is also equipped with "motion detecting, energy-efficient lighting which activates only when our staff is working in a specific aisle location," and "all of our restroom facilities are equipped with low-flow fixtures to reduce our water usage." To further cut energy costs, the facility's electric forklifts all have recharging stations governed by timers that are capable of recharging during off-peak hours.

Other companies are taking action as they feel the heat, according to Bill Messenger, president of Campbell's Express, a Pitman-based third-party logistics company that provides trucking and warehousing services out of a 185,000 square-foot facility. Messenger is also president of the New Jersey Motor Truck Association, a statewide trucking advocacy organization.
"A number of years ago we replaced our legacy lighting with flourescents and that drove significant savings," he recalled. "Now we're in the process of replacing those with LED lighting, which should shave about 50% off our current lighting bills."

But thanks to the COVID pandemic and an aging population, Campbell's Express and other trucking companies are finding it harder to get drivers. They're shelling out more money to attract new ones and to retain experienced drivers, and the cost will be eventually passed on to customers, he cautioned.

"We recently gave a nearly 10% salary increase to our drivers, and we have to pass that cost on," said Messenger. "We're also paying from $7,000 to $10,000 for would-be drivers for CDL (commercial driver's license) training. Our drivers earn an average of $85,000 a year but it's hard work, and they have to be 21 or older to drive across state lines," which helps to limit the number of candidates.

Generally, "any costs in the supply chain will get passed down [to customers and, ultimately, consumers]," added NJMTA Executive Director Gail Toth. "Fuel prices and tolls have both been rising, and carriers can't just absorb them. Fortunately, truck engines are more efficient now, with some newer ones getting about nine miles per gallon, up from six-and-a-half, but they're still expensive to run."

Electric trucks offer some hope, but "the vehicles themselves and widespread charging infrastructure to support them just aren't there yet," she added. "In the meantime, demand for our services continues to grow as e-commerce volume is still rising."

Delivery haven

Despite the prospect of higher costs, some logistics professionals aren't too worried about a slowdown in activity. "In the short term, there are no signs of warehousing slowing down in New Jersey despite increasing costs across energy, labor, and space," according to Rob Coon, chief commercial officer at Dotcom Distribution. The Edison-based logistics company provides packaging, fulfillment, freight management and other services for the e-commerce arms of organizations that include DevaCurl and Babylist.

"From an e-commerce standpoint, unless the U.S. population shifts dramatically New Jersey remains an extremely strategic location for timely fulfillment of product, which is critical to consumers," he noted. "Over 30% of the US population is within one-day of transit time from the state and nearly 60% of the U.S. population is within a two-day transit time."

Coon added that New Jersey's position close to East Coast ports means there are "undisputable advantages to operating a warehouse here. Although it's hard to make long-term predictions about how the industry in New Jersey will fare — as brands are seeking a competitive edge to improve margins and traditional retail continues to transform — the fact that Amazon has over 12 New Jersey-based warehouses and continues to open more, is telling. Likewise, it suggests that warehousing remains in a premium position as one of the state's most important industries."

Coon isn't too worried about the prospect of higher fuel costs, either. "As a fulfillment provider, fuel is more of a pass-through cost for Dotcom Distribution that comes in the form of small carrier transportation," he observed. "One of the benefits of Dotcom's longstanding relationships with the major carriers is that we're able to negotiate fuel surcharges, which helps to offset the sting of these increasing costs. As direct-to-consumer demand continues to increase, one of the things we're paying attention to is the role that electric vehicles will play over time, especially in the final mile delivery segment."

A Campbell's Express vehicle. The company and other truckers are dealing with significantly higher prices and labor costs. – CAMPBELL'S EXPRESS

The company is also taking steps to manage its own energy use, he added. "Within Dotcom's warehouse, we've actively partnered with our landlord, Prologis, on migrating to solar-based power. While this will help to manage rising energy costs, the initiative has been in motion for some time as part of Dotcom's commitment to sustainable resources. In the last decade, Dotcom has also switched to more efficient warehouse lighting — twice, in fact — under the umbrella of those same sustainable initiatives."

Businesses that are aware and flexible are more likely to be able to stay ahead of energy costs and other challenges, according to Coon. "Operations is always about remaining agile and making small adjustments, over time, that add up big," he said. "While energy is in current focus, it's likely that operators such as Dotcom, and our peers across all areas of logistics, will adapt and improve to balance efficiency with cost and service level."