

**LOGISTICS 101 RECAP**

Over the past few months, the Tejon Ranch team has attended numerous industrial real estate and logistics conferences throughout the United States. In this issue, we will provide a comprehensive look at supply-chain trends affecting the industry. As we assessed the information, several fundamental issues were raised regarding port capacity and infrastructure, the modernization of warehouses and the change in supply-chain models.

Listed below are these items in further detail:

**INFRASTRUCTURE AT SOUTHERN CALIFORNIA PORTS**

Marine terminal operators at the Los Angeles and Long Beach ports created PierPASS in response to community and industry requests to address congestion and air-quality issues in and around the ports. By providing a financial incentive for cargo operations on nights and weekends, OffPeak aims to reduce daytime truck trips and improve air quality.

- **July 23, 2005** – All international container terminals at the Ports of Long Beach and Los Angeles started their OffPeak shifts for nights and weekends.
- **July 29, 2005** – PierPass implemented a Traffic Mitigation fee on all containers hauled from terminals during the hours of 3:00AM to 6:00PM, with certain exceptions.

*“The goal of the PierPass OffPeak program is to divert 15-20% of the daytime container moves volume to the nightside operations in the first year.”*

– **Bruce Wargo**  
PierPass, Chief Executive Officer

**CAPACITY ISSUES**

In the last two years, bigger ships and increased port volumes have lead port authorities to implement demurrage fees.

- **Demurrage fees** – fees assessed for container storage at the Ports of LA/Long Beach
- **Fees will be \$42/day for 5 days after free time, \$83/day thereafter**
- **Free time** – 4 days, beginning the midnight after product hits the ground

The fees will challenge developers to rethink the design of industrial buildings. As containers become increasingly expensive to sit at the docks, companies will be forced to move product within their existing warehouses. This problem has companies looking at large distribution centers with available land and lower coverage ratios to accommodate the excess trailer storage.



**THE CASH-TO-CASH CYCLE**

In an effort to maximize throughput, companies are now using the cash-to-cash cycle to create a competitive advantage.

**Cash-to-Cash Cycle Time** –the time a company pays for goods until payment is received from the wholesaler, distributor or customer.

- To enhance savings within the supply-chain, companies such as Wal-Mart are reducing the amount of time they actually own the product.
- Suppliers may now find themselves responsible for their goods until they arrive at the warehouses. Previously, retailers would take control of their product in Asia.

Port congestion is a major issue that has forced many retailers to re-evaluate their logistics models. The congestion, combined with a narrow delivery window at the warehouse, will force many suppliers to locate at a strategic point to meet the retailer’s deadline.

**A WEAK LINK IN THE SUPPLY CHAIN**

**Previously:** The large supply of professional drivers forced many carriers to operate under slim profit margins. The question raised from the customer to the carrier was, **“What is my dray rate?”**

**Today:** The OffPeak Program at the Ports of LA/Long Beach is predicted to cause a driver shortage within the trucking industry. For the first time, local container drayage companies, LTL carriers, and TL carriers have an upper-hand in negotiations.

- In the last five years, the Southern California drayage industry has lost 30% of harbor drivers.
- During the same time, import volumes have increased an average of 12 – 15% per year.
- Many companies are now less sensitive to price and focused on delivery time. Simply put, **“Can you guarantee my delivery?”**

Based upon tight capacity at the ports and small delivery windows at the warehouses, trucking companies are in high demand to maintain their customers’ delivery expectations. These factors are forcing 3PL’s to move distribution centers inland due to the lack of proper container storage space.

**NOT YOUR FATHER’S WAREHOUSE ANYMORE**

Why is labor quality and work ethic more important than ever today?

- Warehouses or customization centers have implemented technology to move product faster, with better quality-control. This has lead to a significant investment in the training and hiring of additional warehouse personnel.

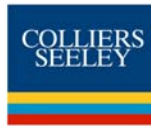
To reduce order cycle time, companies will need to have more products within 24 to 48 hours of the retail shelf. This trend supports larger facilities with direct access to the domestic fulfillment centers of retailers such as Target, Sears and Wal-Mart.

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