

Wayfair and Dermody build new E-commerce facility in Kentucky

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Electronic Commerce is reshaping relationships among consumers, suppliers, retailers and logistics service providers. Warehousing and trucking enterprises are reconfiguring as shopping purchases shift from stores to websites. Wayfair, the largest web-based furniture and home décor e-tailer, and Dermody Properties, an industrial developer of distribution centers, teamed-up to construct a new e-commerce fulfillment center at Cincinnati-Northern Kentucky International Airport (CVG) in Erlanger, Kentucky.

Changing consumer shopping patterns are showing at the department store chains where sales are lower due to e-commerce or the “Amazon effect” as redefining retail and logistics. In 2015, online shopping and mail order sales were $432.7 billion along with warehouse clubs and superstores of $440.1 billion and rising steadily since 1995 whereas department stores’ sales are flat and declining to $167.1 billion in 2015, according to a recent *Wall Street Journal* article. Amazon, the online platform for all consumer goods, became the nation’s second biggest apparel retailer with 6.7% market share behind Wal-Mart of 7.5% market share

The fourth annual version of the Logistics Trend Radar, published by Deutsche Post DHL Group, shows Omni-channel Logistics as one of the important social and business trends within the next five years. The report reviews fourteen social and business trends and twelve technology trends among which are: Internet of Things, Big Data, and Robotics and Automation. Consumers are shopping anytime of the day and week not just on computers, but from mobile devices of smartphones and tablets. “Anytime, anywhere delivery models will be required to meet the promises made by retailers to their customers,” according to the report of 2016. Omni-channel Logistics is expected to have a high impact and present new business opportunities in warehousing, fulfillment and transportation services.

**Wayfair E-commerce Fulfillment Center**

Wayfair, based in Boston, is capitalizing on this consumer retail trend and on May 25, 2016 opened a new 898,560 square foot e-commerce fulfillment center, LogistiCenter @275 for nearby Interstate 275, in Erlanger, Kentucky near their 525,000 square foot facility in Hebron, Kentucky that opened in March, 2014. “Cincinnati/Northern Kentucky International Airport (CVG) entered into a long term lease with Dermody Properties in 2015 to construct a distribution facility on a 52 acre parcel (larger than 15 football fields) on the CVG campus. Dermody secured Wayfair as a tenant,” said Ms. Candace S. McGraw, CEO of CVG in a recent interview with the *AJOT*.

LogistiCenter @ 275 is a built-to-suit for Wayfair by Dermody to be e-commerce and LEED compliant. There are more operations and personnel in this e-commerce fulfillment center than a standard warehouse of twenty years ago, such as a photography studio for the Web display of furniture. There are also 36 feet clear height, clear story windows for natural light, T5 lighting at 30 foot candles with motion detectors and Haiku “Big Ass Fans” which moves air slowly around the facility without the need for costly air conditioning. “At Dermody, we have chosen to build all our speculative projects as e-commerce and LEED compliant as well, it’s the future,” said Greg Arnold, Partner, Dermody Properties.

**Drop Ship Model**

Wayfair uses the drop ship business model. The company has 7,000 supplier partners and 7 million catalogue items and does not touch most of the products. The customer orders furniture and home décor items from the Wayfair website, then the Wayfair proprietary software platform notifies the supplier to ship the item and during delivery the system notifies the customer. The Kentucky and Utah facilities are for thousands of items that sold well in the past and justify inventory. The Wayfair e-commerce facilities select the fastest parcel delivery carrier to meet customer required delivery dates.

Building distribution centers in the past were typically case load because it was business to business (B2B) where now e-commerce is typically business to consumer (B2C) or individual case pick. As such, there are changes to the build of the facility. “Dock doors were every 10,000+ square feet of warehouse space, however, now more doors are needed for more flexibility, better serving truck and van traffic focused on single customer delivery,” said Arnold.

Online customers are taking note of Wayfair and their prowess to display products on their website and on time deliveries to their homes as sales continue to rise from $915.8 million in 2013 to $2.25 billion by the end of last year. The National Retail Federation (NRF) showed their annual list of “Favorite 50 Online Retail Stores of 2015.” Wayfair ranked 49th among which included well known and established retailers. NRF asked 6,431 online adult consumers: What website do you shop most often for non-apparel items? Merchants names were not listed or suggested and the list compiled only by ranking those mentioned in the survey by the consumer, according a recent e-mail from NRF to this author.

Wayfair and Dermody are very optimistic on the future growth of e-commerce. Arnold sees demand for e-commerce industrial facilities to be steadily increasing relative to the increase in e-commerce sales growth. In 2015, Cushman & Wakefield reported that 30% of the demand in warehouse leasing was e-commerce. This year CBRE reports e-commerce is 40% of the distribution facility demand.

Schneider makes room for furniture logistics

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Schneider National, Inc. based in Green Bay, Wisconsin, recently acquired less-than-truckload (LTL), Watkins & Shepard Trucking, Inc. and final mile furniture delivery specialist Lodeso Logistics, Inc. This blockbuster deal underscores the need for specialized first to final mile transportation services of high value over dimensional goods for the e-commerce markets. The combination of these furniture logistics companies was years in the making.
Lodeso, based in Zeeland, Michigan, is a non-asset based organization with hundreds of agents in the United States and spot agents for remote areas in order to service customers in the catalogue, home and Internet shopping industries. A few years ago, Lodeso and Watkins & Shepard integrated their proprietary information systems and aligned by two separate companies. This proprietary software called Simplex is designed by Lodeso to manage home delivery of furniture throughout the U.S.A. with visibility to all stakeholders. “With Schneider, we have the I.T. muscle, the transportation muscle and the financial muscle and this will have a huge impact on the industry,” said Ron Borgman, President of Lodeso in a recent interview with the *AJOT*.

Watkins & Shepard is based in Montana and began in 1974 and now has 20 terminals in 15 states for furniture deliveries in 48 states and western Canada. The business specializes in LTL, or trucks containing orders from many customers into a single truck, as opposed to full-truck-load (FTL), which moves full containers or trucks of one product from one customer. Case goods or furniture made from hard materials are difficult to manage and bulky to require specialized services. One measurement of success is that Watkins & Shepard does not use forklifts - all movements are done by hand for a record of less than one percent damage.

Lodeso’s white glove and threshold furniture delivery services will complement Schneider’s “Final Mile” offering to the fast growing and underserved furniture e-commerce customers such as Wayfair. “E-traders place orders to Lodeso and to the manufacturer. We create the shipping paperwork and send to the vendor with the shipping instructions. The manufacturer ships product to the local delivery terminal of Lodeso and we contact the customer to make the home delivery with a local vehicle and two person team,” said Borgman. White glove premium service does inspections and corrective actions prior to delivery and full set up in the home. A two tiered threshold service delivers either through the door of the residence or to a room of choice.

US furniture retail sales were $105.4 billion in 2015 and of that e-commerce deliveries grew 8 percent to $6.8 billion, excluding private fleet deliveries, according to the *Wall Street Journal.* Many parcel networks cannot handle these oversized and bulky boxes. As such, this niche market will be served by the combination of these three specialized furniture logistics transportation providers. “We have 250 facilities and our goal is to be within 25-50 miles of the end customer for a 1-2 day final delivery,” said Borgman.