

A focus on working conditions boosts the value of logistics real estate

Mega distribution centers for e-commerce seem to be popping up everywhere. Despite rising levels of mechanization, such distribution centers still often employ hundreds of people. The sheer size of these facilities can lead to labor shortages on the local job market. Therefore, in the battle for the right people, one weapon is becoming ever-more important: the physical working conditions. Over the coming years more focus on and investment in working conditions will increasingly give logistics real estate a competitive edge, according to Groenewout.

Process mechanization has been a trend for some time in the logistics sector, but it has now achieved a definite breakthrough. First and foremost, this is due to the technological developments related to mechanization. Secondly, the huge advancements in robotics are also affecting logistics. Think of tray storage systems, for example, which have already become considerably faster thanks to the use of small, flexible shuttles. The fact that the mechanization costs – or rather robotization costs – are declining is also prompting companies to implement more and more technological solutions in their distribution centers. One significant cause of the declining costs is improved system control; there is an ongoing shift towards 'plug and play'. Furthermore, the improved system control options are now putting previously unimaginable automation solutions within our reach.

Increasing number of tasks

E-commerce is playing a key role in the breakthrough of mechanization. In essence, e-commerce has created a huge increase in the number of tasks performed within distribution centers. Whereas consumers themselves used to 'pick' the items they required off the shelves in physical stores, that is now done by order pickers in the distribution centers. Moreover, the products now have to be sorted and packed. These are all labor-intensive processes that perfectly lend themselves for mechanization.



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Page: 2/4
Our ref.: 9024D498/IS/ June 2017

Notably, when investing in mechanization, companies are increasingly choosing to mechanize sub-processes – not only because of the growing variety of mechanization solutions on offer, but also because of the mushrooming product ranges carried by webshops. Besides that, more and more retailers are combining their e-commerce activities with their regular activities such as store replenishment. Shipping parcels calls for different processes – and hence different solutions – than transporting roll cages. As a result, we are seeing fewer distribution centers with wide aisles, pallet locations and reach trucks only – but we’re also seeing fewer distribution centers comprising fully automated high-bay warehouses alone. The end result is a combination of several different solutions.

Labor-intensive

Despite the breakthrough of mechanization, e-commerce operations remain labor-intensive. As a rule of thumb, a large-scale e-commerce operation is more likely to require a thousand employees than a hundred. This too is linked to the labor-intensive nature of e-commerce operations. Certain processes – such as the internal transport and sorting of orders – can indeed be mechanized, but other activities – such as order picking and often also order packing – continue to be done by hand for now. Even if it would be possible to completely mechanize these processes, it often wouldn’t make financial sense due to the operation being highly characterized by peaks and troughs. Companies would end up investing in solutions that they would only utilize to the full at certain times of the day and/or year. And even if the e-commerce fulfillment center were fully automated, it would still provide employment for several hundred logistics specialists.

Working conditions

This labor-intensive situation in combination with the scale of today’s e-commerce operations is placing immense pressure on local labor markets. Fulfillment centers compete among themselves as well as with other local employers over an ever-shrinking pool of labor. One weapon is gaining in importance in this battle: the conditions under which logistics employees work inside the distribution centers. Today’s distribution centers often leave a lot to be desired. Space is frequently created for e-commerce operations in warehouses by installing mezzanine floors that are poorly lit and poorly ventilated. On hot days, it is not unusual for the temperature on the upper level – often directly beneath the flat roof – to reach tropical levels.

Page: 3/4
 Our ref.: 9024D498/IS/ June 2017



The increased attention for physical working conditions is already having a visible impact on the design of new distribution centers. Many companies are actively focusing on this aspect when setting up new facilities. A pleasant and appealing work environment not only attracts the right people to the company, but also helps to retain them.

Light and climate

Two factors that are particularly important in creating a pleasant work environment are lighting and climate. When it comes to light, the magic word is daylight. More and more distribution centers are being designed to maximize the amount of natural light inside. For example, this means that the areas for inbound and outbound goods – where height is less of an issue – are purposefully being built with low ceilings. This frees up several meters in height which can be used to allow more daylight into the facility. In addition, the lighting in new distribution centers is often based on a spectrum that approaches that of natural light. Research has shown that this type of lighting increases employee alertness, productivity and satisfaction. In terms of climate, modern distribution centers are increasingly selecting more comfortable alternatives to traditional heaters, such as floor heating or radiator panels which distribute the heat more evenly throughout a space. Meanwhile, cooling is important throughout the building and especially on mezzanine floors.

Competitive edge

Over the coming years, many more large-scale e-commerce distribution centers will be constructed, creating hundreds or thousands of jobs. In parallel with this, good physical working conditions will play an increasingly important role – not only in the design of new facilities but also in the search for existing buildings.

Page: 4/4

Our ref.: 9024D498/IS/ June 2017

Nowadays, almost every new distribution center is BREEAM-certified. Besides sustainability, the BREEAM certificate also says something about the value and leasability of the building. Aspects like accessibility and public transport links score extra points on a BREEAM certificate, yet so far little attention is paid to the physical working conditions. In the future, in addition to a BREEAM certificate, increased focus on the physical working conditions will become another way to create a competitive edge for logistics real estate.

In other words, if you are planning to invest in a new building, you should also consider aspects such as lighting, climate control and air quality in the work environment – not only because the first tenant will want to set themselves apart in the labor market, but also to ensure that the facility remains interesting for future tenants and maintains its logistics real-estate market value.

If you would like more information about this subject, please [contact Groenewout](#) or call tel. +31 (0)76 533 04 40.