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WAREHOUSING

The public warehousing and storage industry is handled by about **4,500 companies** in the US, with combined annual revenue of **\$20 billion**. Large companies include Iron Mountain (records storage); Public Storage (self-storage); and units of USF Logistics and Menlo Worldwide. The industry is highly **fragmented**: the 20 largest companies control less than 30 percent of the market. Typically, warehousing companies operate a single facility of 200,000 square feet and have annual revenue of about \$1 million.

Competitive Landscape

The **flow of goods** through the domestic economy drives demand in the warehousing business. The profitability of individual companies depends on good **marketing**, as operations are fairly simple. Although there are economies of scale in operating larger warehouses, there are few economies in owning multiple warehouses. Small companies can compete effectively with larger ones in local markets. The industry is **highly labor-intensive**: average annual revenue per employee is under \$30,000.

Products, Operations & Technology

Services include **general warehousing**, refrigerated warehousing, records storage, farm products storage, and self-storage. Passive real estate owners, such as AMB Property, lease warehouse space to others, but aren't active operators. General warehousing accounts for about **55 percent** of industry revenue; refrigerated warehousing for 15 percent. Companies with national warehousing needs usually operate their own facilities. So-called "**public**" warehousing serves mainly local and regional companies without sufficient volume to justify operating their own warehousing facilities.

The **operations** of all warehousing and storage operations are essentially similar: operators provide a protected space where customers can leave items for varying periods. The space is usually protected against fire and theft, and may be climate-controlled or refrigerated for special items like documents, clothing, and food. In addition to basic storage service, operators may provide **services** such as pickup and delivery, materials handling, computerized inventory control, order processing, report generation and shipping. Operators must hire and train guards and other personnel, operate security systems, and carry sufficient **insurance**. While the norm is for operators to handle warehousing needs for many customers, some also handle "**contract**" warehousing operations: running an entire warehouse operation for a single large customer. Prices vary widely and depend on market location and services. Annual leasing costs for large warehouses average around \$5 per square foot.

The **records storage segment** of the industry has special characteristics. Virtually all large companies use offsite storage for records that are either vital to current operations (such as backups of computerized data bases) or that are inactive, but must be kept for legal reasons. Consolidation has been strong in this market segment because large customers prefer to contract with a single storage provider that can service locations around the country. Most records that companies store are paper, but a growing share consists of backup computer tapes and other electronic media.

The **self-storage segment** provides consumers and small businesses with personal storage space leased monthly. Public Storage and Storage USA (owned by GE), the

largest companies in this segment, own and operate hundreds of local facilities. Unlike public warehouses, such companies usually offer no ancillary services, except the sale of insurance. They're often organized as REITs. An average facility has 700 units, sometimes called lockers, and covers 70,000 square feet. Average annual rent per square foot is typically around \$10, while direct operating expenses are close to \$2 per square foot. Occupancy rates for mature sites may be 80 to 90 percent.

Warehouse operators use a variety of **technologies** to handle inventory and respond to customer requests to move contents. Operators may use pick-and-pack systems to help fill customers' requests for retrieving and shipping stored inventory. To correctly track items, some operators are assessing the effectiveness of **radio frequency identification (RFID)** tags that automatically communicate with a local computer. The cost of such devices has fallen rapidly, encouraging their use. With such tags, operators and customers can know the exact location of stored goods.