Issue: Factors like the decline of brick-and-mortar retail and rise of e-commerce in recent years have produced a transformation of the nation’s supply chain that is impacting multiple modes of transportation from trucking to rail to ports and airports. Those states that have been most successful in attracting elements of the new logistics economy have demonstrated the ability to tout key infrastructure assets, invest where necessary and enact programs to ensure they will have the workforce in place to serve this sector. As innovative companies like Amazon continue to expand their footprint in the years ahead, these efforts are likely to become even more important for those logistics leaders and the other states that hope to compete with them.

Logistics Leaders

Separated by a river, Indiana and Kentucky are two states at the forefront of a growing sector of the economy that is reliant on infrastructure and that in the years ahead will challenge policymakers on a number of different fronts: logistics and distribution.

For Kentucky, the sector is responsible for some 60,000 jobs at nearly 500 facilities.

“UPS and Amazon and DHL have all located (logistics facilities) in Kentucky because we’re within (a day’s drive of) 60 percent of the population of the U.S.,” said Kentucky state Sen. Ernie Harris. “Plus, we’ve got the great airports (in Louisville and Northern Kentucky) and the rail and the highways to support logistics.”

The UPS Worldport at Louisville International Airport processes 1.5 million packages a day. DHL’s global hub at the Cincinnati/Northern Kentucky International Airport (CVG) handles 90 percent of the DHL shipments that come into the United States. FedEx maintains operations in multiple Kentucky locations. In 2017, Amazon announced it would build a $1.49 billion Prime Air shipping hub that will create 2,700 new jobs and facilitate the company’s Kentucky operations, which include 11 fulfillment centers that employ more than 10,000 people.

“(Kentucky is) already home to the most Amazon employees anywhere outside the company’s home state of Washington,” said Terry Gill, secretary of the Kentucky Cabinet for Economic Development.

Overall, logistics companies accounted for $5.8 billion in investments in Kentucky through the first six months of 2017, according to the 2017 Manufacturing and Logistics Report Card compiled by Conexus Indiana for Ball State University [2]. In August 2017, CVG set an all-time record [3] in terms of most cargo tonnage handled in one month, which was an increase of 39 percent from the previous year.

Harris, who chairs the Senate Transportation Committee and serves on the Economic Development, Tourism and Labor Committee, said the growth in the sector can be traced in part to a sea change in consumer behavior.
“E-commerce has caused a tremendous change in our shopping habits,” he said. “It seems like every few months you hear of another brick and mortar retailer that is closing stores here and there and e-commerce has got to be the (cause) of that.”

But logistics in Kentucky is about much more than package delivery. The industry also works in close partnership with another important economic sector—automobile manufacturing.

“When you trace back the supply chain, you get an idea of how integrated and pivotal the two are for each other, as well as Kentucky’s manufacturing industry in general,” said Gill. “(Original equipment manufacturers) rely on suppliers, which rely on other suppliers, all the way back to primary metals producers, plastic, rubber and chemicals plants, fabrics, foam and glassmakers, as well as the tool-and-die industry, robotics and other machine, technology and factory-systems producers.”

Harris said the commonwealth has gone to great lengths to make sure that suppliers can get their materials to in-state manufacturers like Toyota, Ford and GM on well-maintained roads. That allows the manufacturers to minimize their inventories and have “just-in-time” delivery of parts that keeps assembly lines moving. Kentucky lawmakers also passed legislation in 2017 [4] that allows overweight trucks on Kentucky roads if they’re hauling aluminum, Harris noted.

Harris calls the city of Prospect home. It’s a community that straddles Jefferson and Oldham counties in the Louisville area, where one of two new Ohio River bridge crossings opened in 2016 that has improved the flow of logistics and created a new focal point for the industry.

“The East End Bridge has opened up 6,000 acres of southern Indiana for development and that is significant,” Harris said.

Much of that activity is centered around the River Ridge Commerce Center in Jeffersonville, Indiana, where Amazon and lesser-known companies like auto suppliers Autoneum and Tenneco have built large warehouses that employ more than 5,700 workers. In addition to partnering with Kentucky to build the new bridge, the state of Indiana invested more than $40 million in road improvements in the area. In 2016—before the bridge even opened to traffic—the site reported an economic impact of $1.7 billion.

Indiana also appears well-positioned to continue making infrastructure investments that could allow the logistics sector to continue to grow, according to David Holt, vice president of operations and business development for Conexus Indiana, the Indianapolis-based nonprofit that puts together the annual manufacturing and logistics report card.

“The General Assembly, recognizing how important logistics was to the state of Indiana, passed a long-term highway funding bill (in 2017) that produces $1.2 billion on average per year over the next 20 years in additional revenue,” he said.

The legislation increased the state’s gas tax by 10 cents, raised registration fees and enacted a fee on hybrid and electric vehicles.

Kentucky policymakers meanwhile say the commonwealth has the infrastructure assets that make it appealing to the logistics industry.

“In Kentucky, 20 interstate highways and controlled-access parkways provide effective and efficient roadway infrastructure,” said Gill. “Numerous projects are investing billions of dollars into these assets to ensure they meet the needs of both commercial and private users. In rail, Kentucky is a freight transportation center with 600 miles of track, including mainlines of CSX, Canadian National and Norfolk Southern, as well as for regional and local networks of shortline railroads and intermodal...
freight facilities. Kentucky’s ports and waterway system includes 2,000 miles of commercially navigable waterways and seven public river ports. Taken collectively, it’s a key aspect of our transportation infrastructure—providing multi-modal accessibility to interregional, national, international routes for bulk-quantity materials and oversize items.”

**The Logistics Workforce**

States like Indiana and Kentucky also want to make sure they have the kind of workforce the logistics industry needs now and will need for the future.

“We employ about 300,000 Hoosiers in logistics and about an additional 75,000 Hoosiers do logistics work at manufacturers,” said Holt. “So you’re looking at almost 400,000 people that are employed in this particular industry. ... It’s about 3.3 percent of Indiana’s GDP.”

Two of the top three most-needed jobs in Indiana right now are truck driver and maintenance technician in a warehouse logistics facility, Holt said. Those jobs are likely to become more high-tech as autonomous vehicles, robotics and other forms of automation become more prevalent in the years ahead.

**Conexus Indiana** [5] has partnered with the state to provide education and outreach programs to support the logistics and manufacturing sectors including a program that is helping students receive two-year degrees while still in high school and another that is matching up businesses with local schools to provide tours to students and guest lecturers from the industry.

Rollie Helmling, who is senior vice president for global industry and trade development at the Indiana Economic Development Corporation, said the Conexus programs are helping the state meet the workforce demands of a growing industry.

“What Conexus is doing ... is very, very important to us,” he said. “Because it’s getting the message out that people can make a good living in that industry.”

Kentucky too is working to ensure businesses will be able to hire the skilled workers they need, according to Gill.

“Multiple state-sponsored programs are deepening that labor pool by helping connect individuals, companies, community organizations and institutions of higher learning,” he said. “The $200 million Work Ready Skills Initiative, one of Kentucky’s signature programs, is reshaping workforce training in Kentucky. It uses focused funding to back local partnerships of employers, educational institutions and other community stakeholders.”

Awarded projects serve more than 30,000 Kentuckians annually across five core economic sectors including transportation/logistics.

“This year, the program allocated $100 million in funding for 40 selected projects statewide,” said Gill. “We anticipate another $100 million will be allocated in 2018 for selected projects.”

Through another program launched in 2017 called the Work Ready Kentucky Scholarship, the commonwealth is covering tuition for Kentucky students and adults enrolled in more than 4,000 certificate programs in the same five, high-demand economic sectors.

**The Future of Logistics**

Kentucky and Indiana are both bullish on what the future holds for the logistics sector of the economy
and particularly the role one company could play in that future.

“Amazon is a major player in the innovation economy and, for certain, a disrupter,” said Gill. “We know the Prime Air hub (at CVG) will attract additional corporate investments and job-creating projects—as the UPS hubs in Louisville have—from outside the logistics and distribution industry. That will bring more positive economic impact and broaden Kentucky’s business base.”

According to Gill, Kentucky ranked second nationally for total air cargo weight in 2016, prior to the announcement of plans for the Amazon Prime Air hub. That was up from third place in 2015.

“With Prime Air’s buildout, Kentucky in all likelihood will take the national lead in air-cargo shipment,” he said. “A large presence by the world’s most prestigious logistics companies means products manufactured in Kentucky can get anywhere in the world virtually overnight.”

In January, Amazon announced they were adding 210 additional acres of land at CVG for the air cargo hub.

But some analysts look at Amazon and see a double-edged sword. On the one hand, the company has revolutionized e-commerce.

“Sometimes we have needs that we don’t know that have not been met until someone comes along and defines how we do this differently and suddenly they’ve redefined the whole element of expectation,” said Mary Holcomb, a professor of logistics at the University of Tennessee in Knoxville and the principal researcher on a longstanding annual study of logistics and transportation trends.

“I think what Amazon did as much as anything is they brought to the forefront this need to take time out of that whole process in our busy lives. ... And I think many (retailers) thought ‘well, how many people will want to order, for example, their bathroom tissue or facial tissue or diapers in this manner?’ Well it turns out as busy as they are, there are a lot of people who see value in that. And now a lot of (retailers) are playing catchup.”

One of those retailers has been Wal-Mart, which in 2016 purchased e-commerce startup Jet.com because they hadn’t been able to establish an e-commerce presence to compete with Amazon, Holcomb noted. Despite concerns that Wal-Mart may have overpaid for the company ($3.3 billion), Wal-Mart’s e-commerce sales soared 63 percent during the third quarter of 2017, according to Business Insider.

The Amazons of the world have clearly had a huge impact on brick-and-mortar retail around the country. The Bespoke Investment Group has an annual index for subscribers that tracks the retail companies most affected by the rise of Amazon called “Death By Amazon.” Still, analysts say some states would gladly trade those retail jobs for what Amazon has to offer.

“We have seven Amazon facilities in the state of Indiana,” said Conexus Indiana’s Holt. “There was an article in the Wall Street Journal recently that talked about how Amazon has driven some of the retailers out of business. But those jobs were very low-end jobs and some of them were part-time. ... They said almost 100 percent of the jobs lost have been replaced by higher tech, higher wage jobs at those Amazon facilities. So in the end it has actually produced a higher quality worker and a higher quality position that pays more money and is a much more lucrative type position than what was being offered in retail. ... That’s pretty amazing and those jobs are very sought out. I think it’s been a very, very positive impact not just here in Indiana but across the country.”

Holcomb, the University of Tennessee professor, said Amazon jobs have proven popular among students in the university’s supply chain program.
“(Amazon is) one of the most highly sought-after jobs and that’s at both the undergraduate and the graduate level,” she said. “They come in at the salaries they offer and the type of jobs that our students see and how they advance offers really great opportunity. ... They are noted for being the best in terms of what they do and they’re going into so many different areas.”

When Amazon announced in September 2017 that it would conduct a nationwide search for a second North American headquarters that would employ up to 50,000, it seemed to capture the economic development fantasies of states and communities around the country. That was certainly the case in Indiana, where Indianapolis and Jeffersonville were both promoted as possible landing spots for the facility. Louisville and the Cincinnati area, including CVG and Northern Kentucky, were hopeful they would get a close look as well.

Harris, the Kentucky state senator, made the case for the Louisville area.

“I think we offer a great standard of living,” he said. “We offer fairly low taxes compared to so many of the Northeastern states. I think we offer an ease of getting around the country. Now, whether (Amazon would) really want to come here or not ... It seems like some of their requirements we don’t have yet like ... direct flights (from Louisville) to Seattle or San Francisco. We really don’t have those right now. ... But if they could come here ... (it) would be tremendous for us.”

On January 18, 2018, Amazon announced a list of finalists for the second headquarters. Kentucky did not make the cut but 20 others did, including regional neighbors like Columbus, Nashville and, yes, Indianapolis.

CSG Resources

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