A focus on serving the logistics sector is in part responsible for the business expansions and additions that have brought record job growth to Kentucky in recent years, a state transportation official told attendees at the CSG National Conference in December.

“In Kentucky, we’ve been focused for a long time on how the transportation system in general comes together to support our economy,” said Paul Looney, deputy secretary of the Kentucky Transportation Cabinet. “Whether it’s just-in-time delivery for some of our auto manufacturers like Toyota or Ford, dependable travel time for our commodities or getting our Christmas packages on time for Christmas, we have really recognized the role that we can play in helping to support that.”

Looney, who served as the 2018 vice chair of the CSG Transportation and Infrastructure Public Policy Committee, said a critical component of Kentucky’s success on the logistics front has been partnerships, including one that began in 2015 with the crowd-sourced navigation app Waze.

“We were the first state entity to partner with Waze across the nation,” said Looney. “It has continued to have positive cascading effects for us and our citizens and businesses. This partnership has allowed us to much better understand technology’s impact on our transportation user and our network. We’re better able to understand how technology companies view our issues.”

Through the partnership, the cabinet has been able to access data that has helped them respond to traffic situations more quickly and manage congestion more efficiently, which has provided benefits to both the average Kentucky commuter and the average global logistics firm.

“We’re really going to see a revolution in transportation in the next 10 years,” Looney said. “And I don’t know that any of us know exactly what that looks like and that’s kind of scary and exciting too. But there is exciting potential for how we can reduce congestion in particular.”

One place where Kentucky’s logistics success can be seen most clearly is at the Cincinnati/Northern Kentucky International Airport (CVG) in Hebron, Kentucky, which had experienced declines in passenger traffic over the last decade following the merger of Delta Air Lines and Northwest and the shuttering of Delta-owned regional carrier Comair.

“In the late 90s, early 2000s … Comair was flying all over the place in little 50-seat regional jets,” recalled Adam Kressler, who worked for the company and now serves as vice president of customer experience for CVG and the Kenton County Airport Board. “We had about 20 million passengers a year. Delta and Northwest merged. The winner out of that merger was … Detroit. They got a lot of the connections moved up north and we saw our schedule slowly, slowly, slowly decline over the years to the point where a few years ago we were down in the 4.5 million passenger range. … The world changed for the airport.”

The airport rebounded in recent years, serving 8.7 million passengers in 2018, Kressler said. That rebound was made possible by the diversification of options available to local travelers.
“For a long time, we had no low-cost carriers in Cincinnati,” he said. “Southwest operated out of Dayton and we had all legacy carriers (at CVG) and with that came the highest airfares in the country year after year. ... And that resulted in something called leakage. Folks that lived here in the region chose other airports because the airfares were so much lower. As of first quarter of (2018), ... we’re now the 83rd most expensive airport in the top 100.”

But the boom and bust and rebound on the passenger side also coincided with a period of substantial growth in the airport’s cargo business, prompting global logistics firms to come calling.

“As we were losing (passenger) service, (German logistics company) DHL was building their operation up here,” Kressler said. “(CVG is now) the Americas hub for DHL. Approximately 93 percent of everything that’s on a DHL plane that’s in North and South America comes through our facilities. Most airports that go through such a massive reduction in (passenger) service have trouble making the customer side work because the revenue is just not there.”

Since opening operations at the airport in 2009, DHL has invested over $330 million and brought 4,600 jobs to the region, including 400 new jobs in 2018 alone. Amazon Air, which also has operations at CVG, has plans to build a $1.49 billion Prime Air Shipping Hub at the airport that will bring 2,700 new jobs.

Kressler said the growth in cargo and logistics can be traced to significant changes in the economy over the last decade.

“(Between) 2012 and 2016, our cargo grew about 9 percent a year,” he said. “That’s great growth. 2016 to 2017, we were at about 18 percent (growth) and then this past year we’re pushing 25 percent growth year on year on our cargo side. That’s driven by growth at DHL, growth at FedEx and growth at Amazon. A lot of that is because we’re shopping differently than we ever have in the past. ... You used to go to a store to purchase your goods. Now folks are going to Amazon. They’re going to any number of (online) companies. ... You’re not going to a store to buy that stuff. That’s changing the model as well and that’s honestly part of the growth at (CVG).”

With that growth has come some challenges, Kressler said, including workforce development.

“The pilots need more training now than they did in the past,” he said. “That’s really putting a pinch on the cockpit crew and the ability to staff these aircraft that move the cargo and people.”

Logistics employers must also find ways to get their employees to large distribution warehouses in sometimes transit-inaccessible areas of town for their shifts, which could begin at odd hours of the day or night. Gone are the days of everyone arriving at 8am to begin their workday. Kressler said some of the companies have looked at how Uber and Lyft can be tapped to assist in transporting workers.

Another major player in logistics in Kentucky—UPS—hosted the meeting of the Transportation and Infrastructure Public Policy Committee during the CSG National Conference at which Looney and Kressler spoke. The UPS Global Logistics and Distribution Campus near CVG in Hebron employs during peak periods anywhere from 500 to 700 employees. The facility the committee visited and toured manages the supply chain for other companies including Kawasaki Power Sports (jet skis, side-b-sides) and Kawasaki Motors (makers of lawn equipment). For UPS, which operates an airline headquartered in Louisville, supply chain management is a part of their logistics business that is only about 20-25 years old.

“When we look at supply chain for UPS, health care is one sector, finished goods is another, we
have kind of an automotive/industrial (sector), we have high tech and we have pharmaceuticals,” said James Hummeldorf, director of retail operations at the UPS campus. “A lot of the pharmaceuticals for UPS are located in Louisville because of our end-of-runway opportunities (at the Louisville airport) to do that fulfillment. ... Kawasaki would be kind of the industrial model but we also in this building have Janome (high-end) sewing machines. ... We just launched a new account last week—Saga Music, which was based out of San Francisco and they were trying to serve their clients in the U.S. from San Francisco. ... And another small account called MPOWERD, which is LED lighting.”

Hummeldorf further explained the role the UPS facility plays in supply chain management for their clients.

“We’ll receive (products) in from ocean containers from China, the Far East, Vietnam, Germany,” he said. “They’ll come up through the ports on the East and West Coasts and multimode into here and then we’ll break down containers, unload them, put them up in the racks and then orders drop to us and we fulfill those every day.”

Overall, UPS has 26,000 employees in Kentucky, making it the second largest employer behind Walmart, according to Nick D’Andrea, UPS’ vice president for global public affairs, who also addressed meeting attendees. UPS has an annual Kentucky payroll of $2.5 billion and provides an estimated $300 million in tax benefits to the state, D’Andrea said.

When it comes to explaining UPS’ recent success in attracting customers to their logistics and distribution facilities in the state like the one in Hebron and why UPS officials are bullish about the future, D’Andrea said some credit should go to the Kentucky legislature.

“If it wasn’t for the General Assembly, we wouldn’t be able to have this business-friendly environment where we are,” he said. “Specifically, (in 2017) Kentucky passed a tax reform bill that will make it easier for us to recruit customers to locate to Kentucky because the tax structure in terms of corporate income tax was lowered if you have property and payroll in the state so that’s a really big win for us and our customers. Before the debate there were lots of pharmaceutical companies looking to move here if (the legislature) did what they did, so we’re looking to see that into fruition.”

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