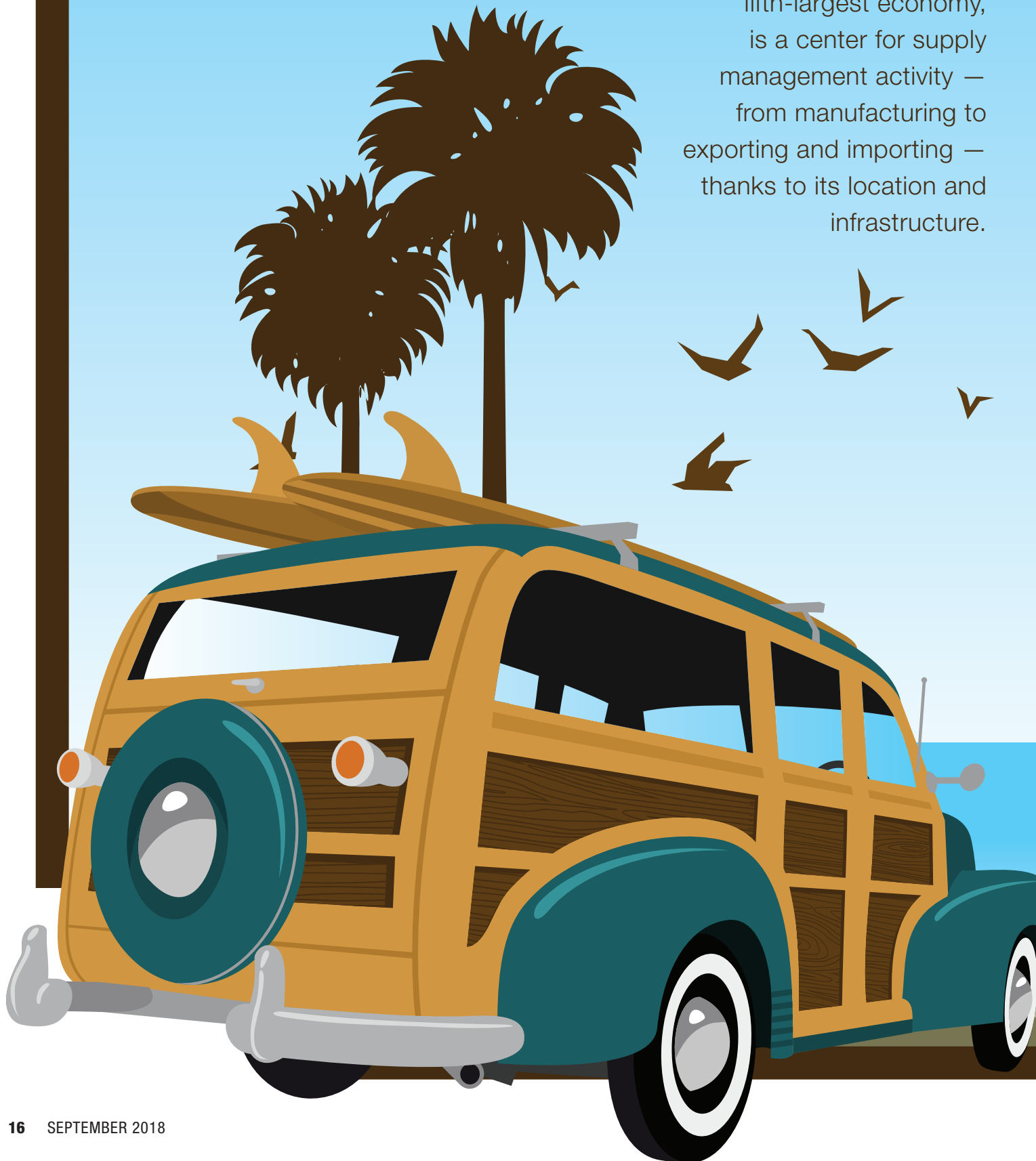


COVER STORY

The Golden State, which boasts the world's fifth-largest economy, is a center for supply management activity — from manufacturing to exporting and importing — thanks to its location and infrastructure.

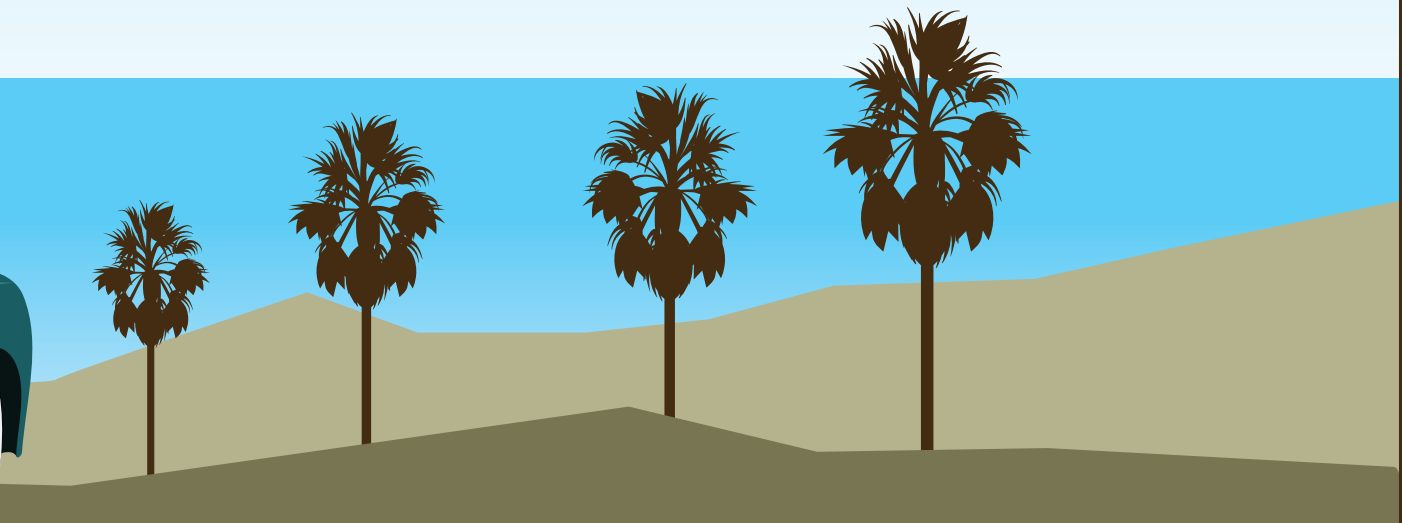


California here we come

By Sue Doerfler

Welcome to California: Home to Hollywood, Disneyland, beaches, redwood forests and great weather — and a hotbed for all things related to supply management.

The state has more than 38,000 manufacturers, whose goods range from tortilla chips to aerospace components. It boasts a robust infrastructure that includes an expanding warehouse sector and the nation's two busiest ports — the world's 10th-largest port complex. California accounts for 11 percent of the nation's exports. On the talent side, it has a sound educational system, decreasing unemployment and workers with a penchant for innovation and entrepreneurship.



California

By the Numbers

US\$2.75 trillion

Gross domestic product (GDP)

\$172 billion

Amount of exports in 2017

1.3 million

People working in manufacturing

38,000

Number of manufacturers

229

Countries goods are exported to

No. 5

Where the state would rank in a list of the world's largest economies

2

The nation's two busiest ports

Sources: U.S. Census Bureau, U.S. Department of Commerce, International Trade Division and experts.

Not to mention the state's strong economy: "If California were its own country, it would be the fifth-largest economy in the world," says Braden Baseley, lead research analyst with ProcurementIQ, a division of IBISWorld, in Los Angeles. With a gross domestic product (GDP) of more than US\$2.75 trillion at the end of 2017, California ranks above the United Kingdom and behind the U.S., China, Japan and Germany in GDP.

The thriving economy — the state's most recent economic growth rate was nearly double the U.S. average — isn't isolated to any one region or sector, says Sam Chiu, spokesman for the California Governor's Office of Business and Economic Development (GO-Biz). Every economic sector except agriculture contributed to the growth, he says: "Financial services and real estate led the pack at \$26 billion in growth, followed by the information sector, which includes many technology companies, at \$20 billion. Manufacturing was up \$10 billion."

The numbers tell a part of the California supply management story. Location, opportunities and challenge tell others.

Manufacturing

Most people consider the Midwest and Great Lakes region the country's manufacturing center, but California would beg to differ. Its location on the West Coast makes it a gateway for manufacturers who appreciate the proximity of ports for exporting and importing goods, as well as the extensive highway and rail systems that make it easy to transport goods to and from the ports and across the country.

Or across California. Many of the goods produced in California stay there. "More than half of California's freight is the movement of goods entirely within the state — between California producers and California consumers," Chiu says.

About 1.3 million people are employed in manufacturing, which is the state's fifth largest sector, Baseley says. "Manufacturing is important because it supports a lot of downstream transportation and logistics networks," he says. "Research indicates that for every manufacturing job created, another 2.5 jobs are created in other sectors."

While the state has its share of larger manufacturers, about 75 percent of such companies have 20 or fewer employees, says John Anderson, director, field operations of California Manufacturing Technology Consulting (CMTC) in Torrance. "The manufacturing world is run by small-business suppliers up the supply chain, from lower tiers up through Tier 1s and OEMs," he says.

The largest industries are semiconductor/electronic component manufacturing, aerospace, and navigational and medical-device manufacturing. The fastest-growing industry is food and beverage, from craft beer to organic food production, Anderson says. Another notable industry is fabricated metals.

The state features hubs for various types of manufacturing: Silicon Valley and the greater San Francisco Bay Area are known for electronic hardware and software development; the agriculture industry dominates the Central Valley, and the aerospace/aviation industry is prevalent throughout southern California.

There are benefits for manufacturers in those hubs. For one, suppliers are nearby, says Erin Dyer, vice president of Accurate Dial & Nameplate, Inc., a Glendale company that specializes in custom-identification products, primarily for the aerospace industry. “If we were to move out of state, we would have longer materials lead times,” she says. Many of the company’s suppliers are 15 minutes away, although it can take an hour or two, depending on Los Angeles-area traffic, to reach others.

The proximity also limits the likelihood of damage due to transport, she says: “We work with a lot of thin aluminum foil, which gets dented easily just with regular handling, let alone putting it into freight and shipping it.”

Proximity also affects the outsourcing of processes. When Accurate Dial & Nameplate needs to outsource work, some customers require the company to use vendors from an approved-suppliers list (ASL) or the National Aerospace and Defense Contractors Accreditation Program (Nadcap) list of certified aerospace industry suppliers. For example, “while we offer in-house painting, sometimes we have to use an outside source because the end-use customer has a specific requirement,” Dyer says. That source is usually in California.

“Having so many suppliers nearby allows us to use second vendors if our first-choice vendors are backlogged or their equipment is down,” she says. “Even when we need to use somebody else from the Nadcap or customer ASL list, they’re usually in southern California.”

Richard Brent, president of Louroe Electronics in the Van Nuys area of Los Angeles, says he “makes a big deal” about using California-based suppliers. “When someone asks me, I can point to the product and say, ‘This California company made this. And José (a local metalworker) did the sheet metal work. ... Everything you need nationally is in our state — you don’t have to go beyond the boundaries of California.’”

The state’s infrastructure helps to make that California connection so viable. “We’re less than a mile away from a freeway,” Brent says. “That’s my mode of transportation to get something to the airport or to the common freight carrier depot to be shipped out. We have great infrastructure in this state. And, as we build more infrastructure, it creates more jobs.”

Infrastructure and Logistics

With 12 deepwater seaports, 12 major-cargo airports, three commercial border crossings, 6,000 miles of railroad tracks and 5,800 miles of high-volume highways, the state’s footprint for logistics and distribution “is second to none,” Chiu says. There’s a strong warehouse and distribution sector for all of the goods coming in and out of the state. Freight (encompassing the transportation, warehousing, utility, trade, manufacturing, construction, agriculture and mining industries) accounts for more than 5 million jobs and more than \$740 billion — about 30 percent — of the state’s GDP, he says.

California’s climate contributes to its infrastructure strength. “The climate is reasonably steady and predictable, which makes it easy for companies to plan the logistics of transporting goods,” Baseley says.

One region that stands out as a logistics hub and gateway for U.S. trade is greater Los Angeles, which comprises five counties — Los Angeles, Orange, Ventura, San Bernardino and Riverside. The region houses the nation’s two busiest ports, the Port of Los Angeles and Port of Long Beach, which handle about 40 percent of incoming U.S. ocean freight. That’s about \$2 billion worth of goods going in and out of the region daily, says Stephen Cheung, president of World Trade Center Los Angeles, an affiliate of the Los Angeles County Economic Development Corporation (LAEDC). “This (area) is a pipeline to the rest of the U.S.,” he says.

Imagine ships, many of which are from China and other Asian countries, unloading thousands of containers onto the docks at those ports. “If you leave the boxes on the docks for a few days, you have to pay demurrage fees. In L.A., you don’t have to worry about that,” Cheung says, due to direct access to rail shipping from the ports. More than 100 trains a day run in and out of Los Angeles, he says.

Not all goods leave the area. About 18.7 million people live in greater Los Angeles — and that translates into 18.7 million consumers, Cheung says. “A lot of (companies) want to be able to drop off their goods and sell to a large population — that’s why L.A. is such an ideal location. Because of the population and our economic development with various industries, the GDP

for the greater Los Angeles area is more than \$1 trillion dollars,” he says. “So, if it were a country, it would be almost as big as Mexico (which ranked as the world’s 15th-largest economy in 2017). Therefore, you can see why a lot of the logistics hubs and providers have decided to put their homes here — because of that great population, that great economy and the various industries that have located here.”

The greater L.A. area contains more than 1.5 billion square feet of warehouse and distribution space that is located within 90 miles of the ports, Cheung says. Much is located within the Inland Empire, an area east of Los Angeles encompassing much of Riverside and San Bernardino counties; this area is ranked among the top five markets in the nation for warehouse and distribution-center space growth, according to Jones Lang LaSalle’s (JLL) *JLL Industrial Outlook 2017*. Anderson notes that land costs within about 25 miles of the ports are high, prompting a warehouse boom in outlying areas with convenient access to highways.

Mayor Eric Garcetti has described Los Angeles as the western capital of the U.S., the eastern capital of the Pacific Rim and the northern capital of Latin America, Cheung says: “Those concentric circles come together in that one spot: Los Angeles. That’s why L.A. is so popular when it comes to goods movement.”

Exports

California isn’t only a hub for imported goods. Its \$172 billion in exports in 2017 ranked second in the country behind Texas, according to the U.S. Census Bureau. California’s top five export countries are Mexico, Canada, China, Japan and Hong Kong; the top exported goods include civilian aircraft, engines and parts; computer and electronic products; transportation equipment; machinery; and agricultural products. According

to the U.S. Commerce Department International Trade Administration, nearly 684,000 U.S. jobs in 2016 were supported by goods exported from California, 92 percent of which were manufactured goods.

Public and private initiatives and programs are helping create additional exporting opportunities. “Governor Jerry Brown has signed 19 business and trade-investment agreements with subnational jurisdictions in nine countries — seven of these agreements are with Chinese counterparts,” Chiu says. “These agreements pave the way for bilateral trade opportunities that allow California exporters to compete on a global basis.”

California’s shared border with Mexico positions multinational companies to create cross-border jobs, he notes: “For example, the city of San Diego, in coordination with the Brookings Institute’s Global Cities Initiative, found that foreign firms in San Diego like Kyocera and Sony maintain operations on both sides of the border, which enables them to leverage their respective R&D and manufacturing expertise.”

Other programs work to help small and midsized manufacturers increase export activity. “When I talk to companies, I tell them they are sitting on gold — their own products,” says Elizabeth Glynn, CMTC’s export advisor. CMTC is part of the National Institute of Standards and Technology’s (NIST) Manufacturing Extension Partnership (MEP) program, a public-private partnership to help small

and midsized manufacturers become stronger players in the marketplace. Glynn facilitates CMTC’s ExporTech program, which is associated with MEP.

“What we’ve noticed is companies are sitting on potential opportunities,” Glynn says. “For many companies that are exporting, it’s the overseas buyer that’s driving the business, not the company itself. One of the questions we ask is, ‘If you’re exporting already, could you sell more to those clients? Or, if you’re selling to a couple markets, could you be selling to a few other markets?’ A lot of them haven’t considered that. It’s planting seeds and raising awareness of added global business opportunities.”

Brent says the ExporTech program helped him learn how to find export opportunities. “We went on a trade mission with Mexico,” he says. The result: Revenues for one product alone increased from \$80,000 annually to \$1.2 million a year, he says.



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— Sam Chiu

California Governor’s Office of Business
and Economic Development (GO-Biz)

Challenges

Skills training is an issue for California manufacturers and logistics providers, just as it is elsewhere, as the workforce ages and new technologies emerge. “Recruitment and training are a vital component in maintaining competitiveness in the state’s goods movement sector,” Chiu says. However, training offered by community colleges, university supply management departments, apprenticeship and internship programs, and such projects as ExporTech help fill skills gaps.

Training isn’t the only challenge. “The most pressing threat in manufacturing is the recent escalation of the trade war,” Baseley says, referring to tariffs imposed by the Trump administration and retaliatory tariffs by other countries.

These will have numerous potential impacts, Cheung says, including:

- Manufacturers decreasing production, resulting in layoffs
- An increase in back orders, which could disrupt the entire supply chain, including shipping and distribution
- Decreased U.S. consumers’ demand, in particular for goods from China, and conversely, Chinese consumers’ desire for U.S. products.

“(A trade war) is going to suppress the shipment of goods going back and forth between China and the U.S.,” he says. “Because

the Los Angeles region is the main gateway, it’s going to be affected most. I don’t think enough people, even in Los Angeles, know how intricately we’re tied with and how dependent we are on global trade.”

Other challenges affecting the California supply management landscape are traffic congestion, high overhead costs and a higher cost of living, Dyer says. “Many employees can’t afford homes,” she says. “And if they can, they might be driving far. Their quality of life goes down because they’re spending more time in traffic and less time with their families.”

Still, the state boasts such amenities as great weather, natural resources like beaches and mountains, and the world’s entertainment capital. Add a strong manufacturing sector, robust infrastructure and location as an import-export center, and California will continue to be a haven for companies — and their employees — throughout the supply chain. **ISM**

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