

PANEL DISCUSSION DOCUMENT

Retail Logistics & the Changing Global Marketplace

Perspectives from the Manufacturing Sector

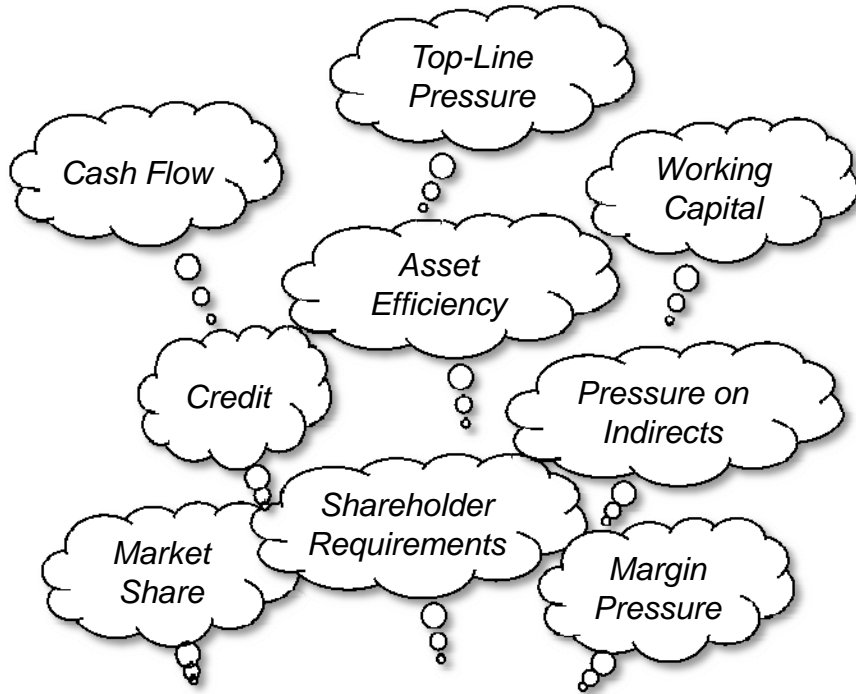
Coalition Of New England Companies for Trade (CONNECT) Conference

Newport, RI
March 19th, 2009

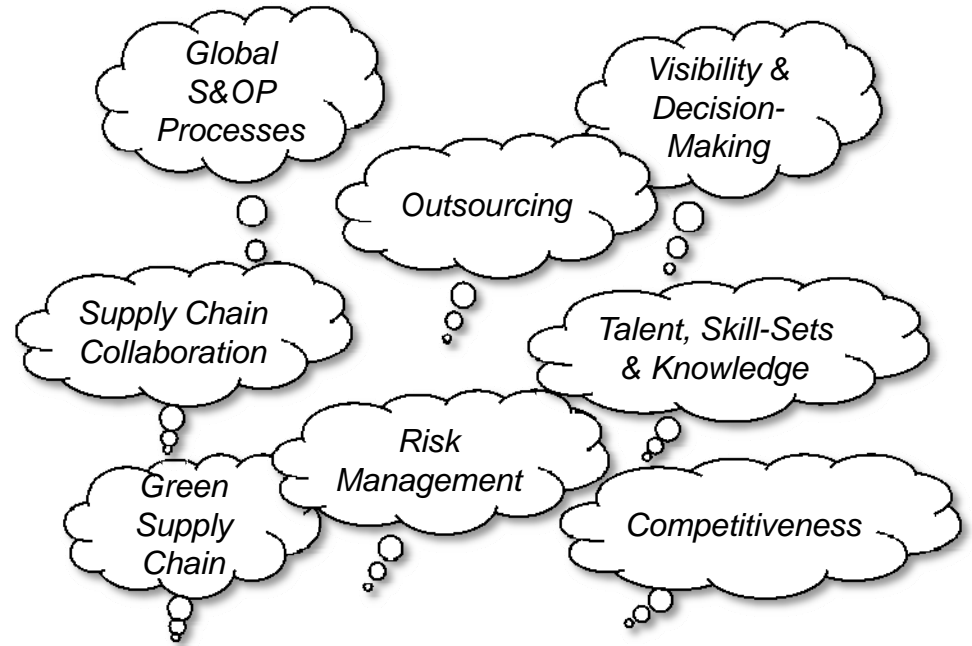
Agenda

- ▶ The Burning Platform for Manufacturing
- ▶ Four Sides of the Same Coin
- ▶ Retail strategy and how it needs to change

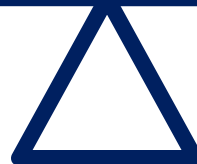
The balance (battle?) between the 'urgent' and the 'important'



**ECONOMIC
CRISIS**



**OPERATIONAL
EXCELLENCE**



Without sufficient cash in the short term, the long term is irrelevant

Cost ↓

How to Reduce Cost?

- ▶ Supply chain cost to maximize efficiency
- ▶ Fixed & variable costs
- ▶ Materials / commodities hedging
- ▶ Distribution & transportation cost
- ▶ Contract-manufacturing for flexibility
- ▶ Materials cross-sourcing
- ▶ Outsourcing for non-core activities
- ▶ Overstock vs. Lost-Sales analysis
- ▶ Complexity & business waste insights

Cash ↑

Where to Invest the Cash?

- ▶ Retailer vs. Consumer?
- ▶ New Product Introductions?
- ▶ Innovation vs. Renovation?
- ▶ New channels / markets?
- ▶ Co-branding products with Retailer?
- ▶ Joint programs with Retailer?
- ▶ Collaborative planning with Retailer?
- ▶ Business process improvement?
- ▶ Technology / information upgrades?

Four big value gaps for manufacturers cause the most issues

Product Proliferation



Losses On-Shelf



Gaps of Ownership



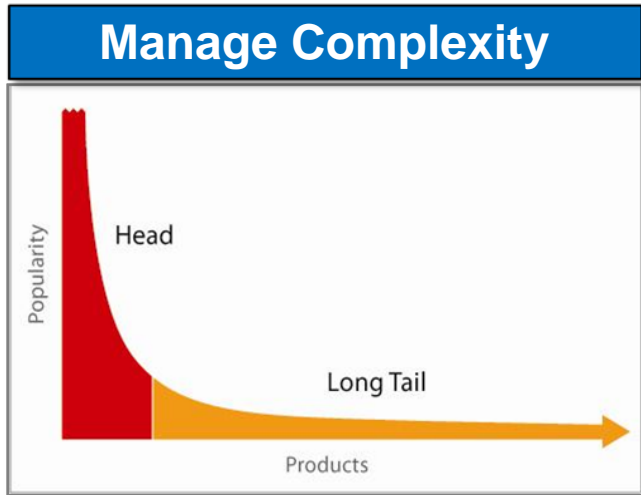
Information Silos



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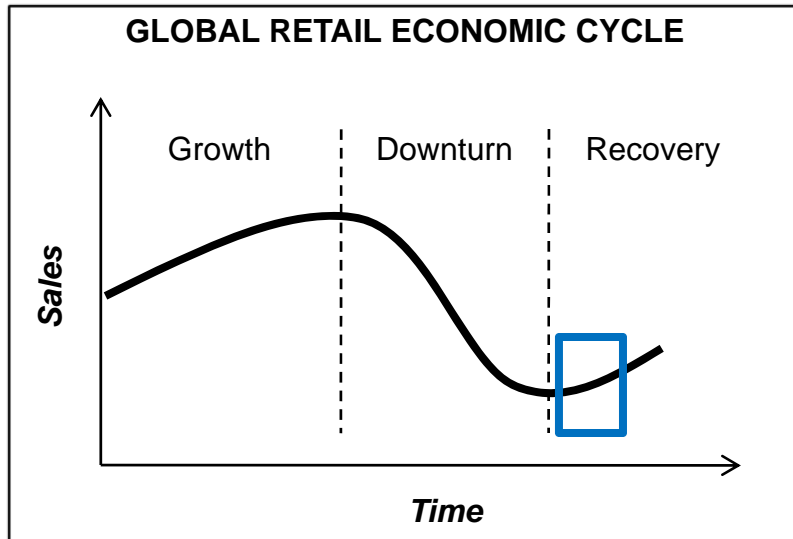
Four key themes that manufacturers & retailers must pursue



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A slow recovery means having to balance the ‘urgent’ & ‘important’



- ▶ The average retail subsector growth rate during the first year of recovery following the 1990–91 and 2000–01 downturns was 0.3 percent.
- ▶ 12 of 15 retail sectors lagged behind even that rate of growth during one or both upturns.

Growth below 0.3% Both recoveries

- ▶ Discount
- ▶ Dollar Stores
- ▶ Drugstores
- ▶ Grocery Stores
- ▶ Shoes & Accessories

Growth below 0.3% One of the two recoveries

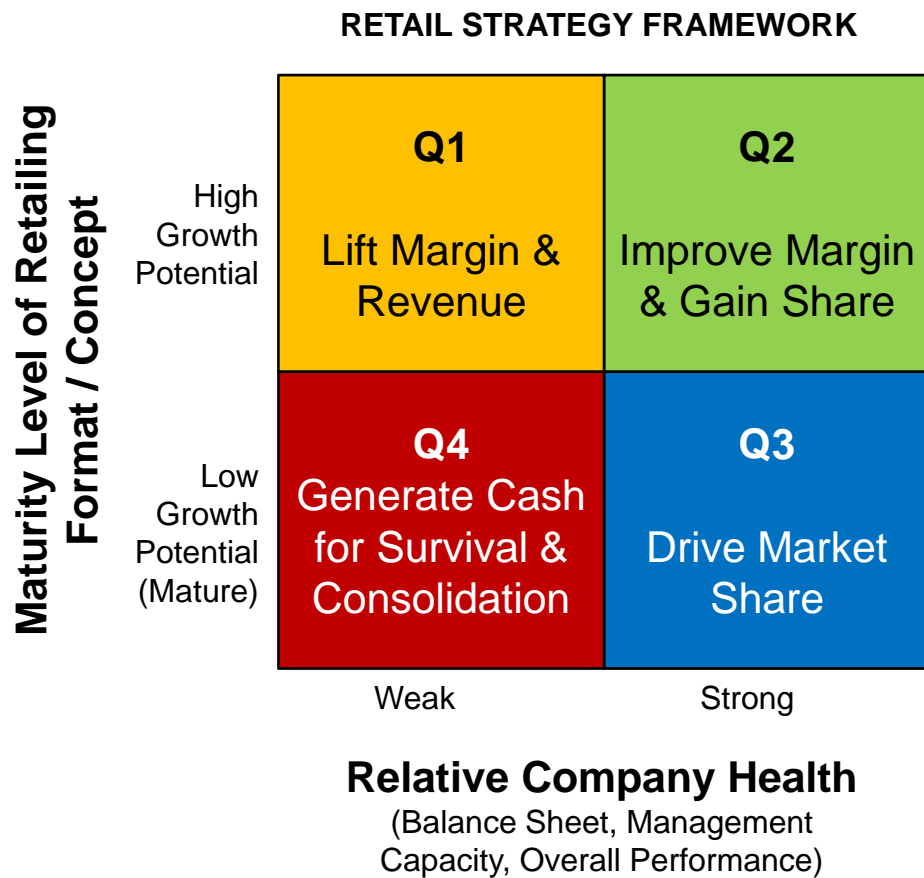
- ▶ Consumer Electronics
- ▶ DIY
- ▶ Jewelry
- ▶ National Chains
- ▶ Office Supply
- ▶ Specialty Apparel
- ▶ Wholesale Club

Growth above 0.3% Both recoveries

- ▶ Department Stores
- ▶ Off-price Apparel
- ▶ Specialty Hard Goods

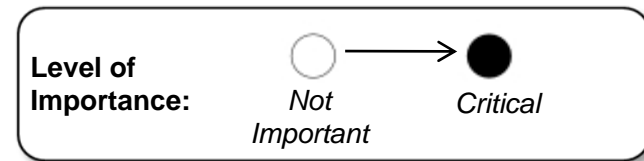
Source: McKinsey & Company, 2009

Balancing 'urgent' and 'important' requires a strategy for Retailers

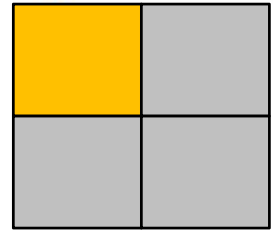


- ▶ To address the 4 key areas, Retailers need to have a new framework
- ▶ Dimensions of improvement by quadrant:

Focus	Q1	Q2	Q3	Q4
Complexity	◐	◐	○	●
Synchronization	●	●	●	◐
Velocity	●	◐	●	●
Visibility	◐	●	◐	○



Quadrant 1: Sound the warning bell



▶ WHO:

- High growth potential (immature market / retail format / concept), but relatively weak company health. This could be symbolic of certain e-tailers, who are still in their fledgling stage and not quite mature enough. Others who may be in this quadrant also include mature companies in high growth niches, with weak balance sheets.

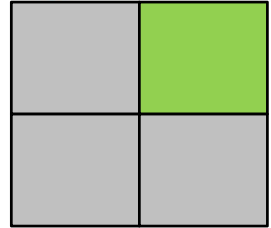
▶ WHAT TO DO:

- These Retailers need to lift margin & revenue, in order to capture the profits that the market has to offer. Methods to do this include:
 - ▶ Reduce direct costs, such as shifting their sourcing base to countries with lower cost structures and automating or outsourcing processes
 - ▶ Reduce or eliminate ‘business waste’, by optimizing store workflow, leveraging labor to become more efficient, optimizing distribution, and reducing / eliminating double-handling

▶ RETAIL LOGISTICS IMPACT:

- Retail LSPs are in a prime spot to take advantage of this strategy shift, by offering their expertise and knowledge in locating lower cost suppliers in other countries (who may also be their clients)
- LSPs can also help with new sourcing networks, reduction of double handling, and consolidating loads on typically LTL products for different retailers

Quadrant 2: Leverage Your Position



▶ WHO:

- Financially strong / stable Retailers in High Growth Potential formats / concepts. Chains such as Target come to mind for this quadrant, as well as strong regional players. These retailers have the cash to spend on their growth strategy, and can quickly improve margin through carefully culled product ranging, portfolio rationalization, shelf-face optimization. Further, their financially weaker counterparts may have to shut down stores, which drives further traffic and margin, as well as gain in market share.

▶ WHAT TO DO:

- The strategy here would be to update stores by selectively investing in some stores in key markets. Another source of share & margin gain is to identify and pursue acquisition opportunities. This makes even more sense if the focus is put locally, in winning key local markets, to consolidate the position of strength.

▶ RETAIL LOGISTICS IMPACT:

- This is somewhat of a mixed bag – the phrase “what the left hand giveth, the right hand taketh away” comes to mind. Consolidations, acquisitions, mergers mean more pressure for LSPs on cost and terms, but also a larger customer and more services to sell them. We anticipate seeing a lot of these in local markets, where not all competitors are financially stable, and the LSP market is fragmented.

Quadrant 3: Gentlemen, Start Your Engines



▶ WHO:

- These are the Walmarts and Costcos of the world, with strong balance sheets, but mature retailing formats. The option of superficial face-lifts on stores is much too costly for this scale of stores, and the format is too well ingrained to make drastic changes.

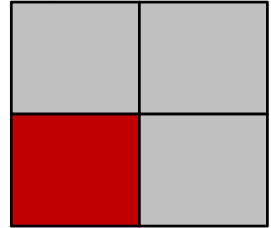
▶ WHAT TO DO: Sharpen the competitive edge by doing the following:

- Be clear about communicating values, by adjusting promotions to increase consumers' perception of value
- Lower out of stocks on shelves for fast-moving products, especially during peak hours
- Drive traffic to the stores using alternate means and different channels, such as the internet

▶ RETAIL LOGISTICS IMPACT:

- More frequent shipments to more stores may drive some LTL business to a degree, to trade off against on-shelf product shortages. LSPs can add value through load consolidation, or vendor-managed inventory value propositions, as well as through back-end store management services.

Quadrant 4: Get Your Act Together



▶ WHO:

- Weak financials combined with a mature store concept or format.

▶ WHAT TO DO:

- This is survival mode – these Retailers need to generate cash and consolidate for survival. This means reducing working capital through portfolio rationalization, and increasing their return on investment (ROI) from their assets, which will imply closing some stores, and investing more heavily in other stores, where the potential for growth exists once the economy recovers.

▶ RETAIL LOGISTICS IMPACT:

- LSPs can help Retailers through network modeling, routing optimization, load consolidation, and offering higher value chain services such as analysis and modeling.

Where can the Retail LSPs help with this opportunity?

