



CONNECT Presentation Newport, RI

Pat St. Laurent
Global Director, Network Solutions

March 20, 2009

Agenda

- Rapid Emergence of a New Paradigm
- Innovative Practices Emerging in Response
- Examples

The Emerging Paradigm

What you're Seeing	The Consequence	What's Expected of You
Volumes are Down	Critical Mass is Diluted	Re-shape the Network Model
Capital is Tight	Can't Afford to Maintain Inventory Levels	Reduce Network Inventory
Resources are Being Eliminated / Re-allocated	Burning Platforms Define Priorities / Failures Increase	Do More with Less (with Little Tolerance for Failure!)
Warp Speed is the Norm	Analysis is Abbreviated (Ready, Fire, Aim)	Adapt

Possible Solutions

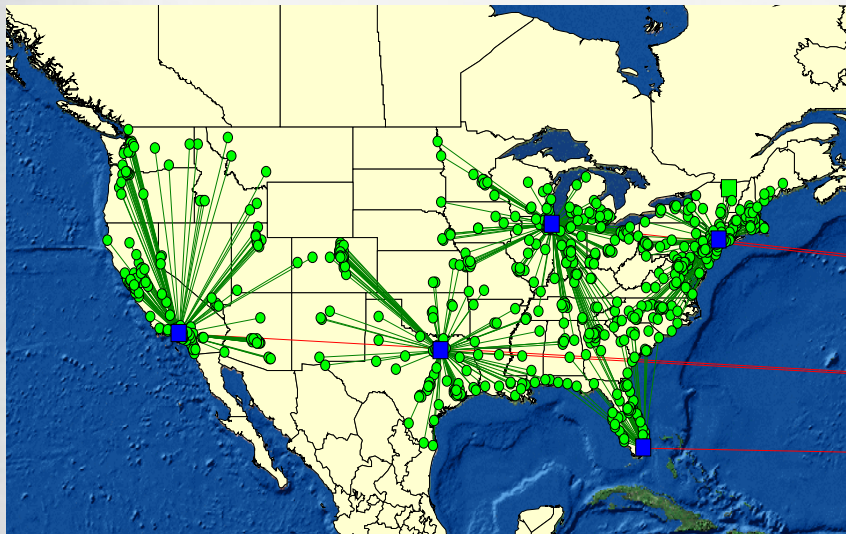
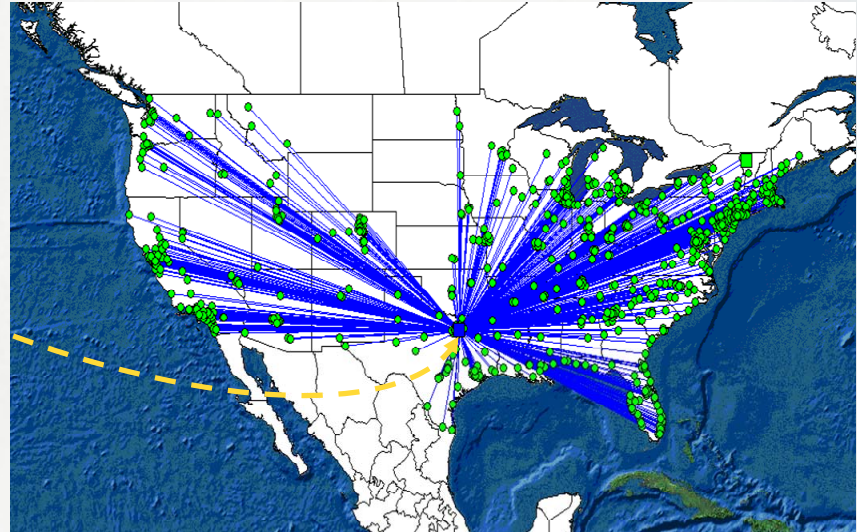
What's Expected of You	How Others are Doing it
Re-shape the Network Model	<p>Redesign Distribution Network Model</p> <ul style="list-style-type: none"> • Optimize DC network • Optimize gateway locations • Adjust consolidation frequency • Leverage hybrid modes (sea/air, air/sea, sea/team-truck, etc) • Leverage multiple cost / speed variants in a single mode • Transload to inter-modal • Bypass DC network & deliver directly to customers
Reduce Network Inventory	<p>Increase Velocity to Reduce C2C Cycle</p> <ul style="list-style-type: none"> • Reduce miles traveled • Virtualize the distribution function • Create portable / scalable capabilities • Use visibility to <i>manage</i>, not just to <i>monitor</i>
Do More with Less	<p>Optimize Workflow & Business Process Architecture</p> <p>>> <i>Most cost is locked up in the design of network and process (see above!)</i></p> <ul style="list-style-type: none"> • Reduce process dwell-time • Open up horizontal communications • Re-align people to a single set of goals • Instill a bias for action
Adapt to the Warp Speed Paradigm	<p>Use Every Available Resource!</p> <ul style="list-style-type: none"> • Across the enterprise (no sacred cows) • Logistics Providers • Software • Customers (they're in the same boat)

 **Innovate!**

Virtual DC – Example

Before

- Single DC near Dallas
- 100% of inbound goods by ocean
- All catalogue items in stock
- Weekly orders to +800 retail stores
- Seasonal demand fairly predictable
- 98% fill rate
- Network cost - **\$ 12.5 million**



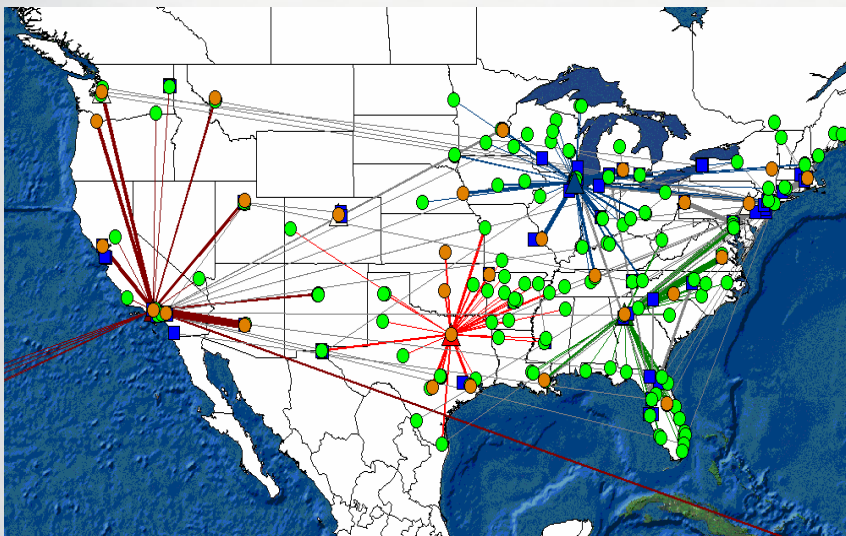
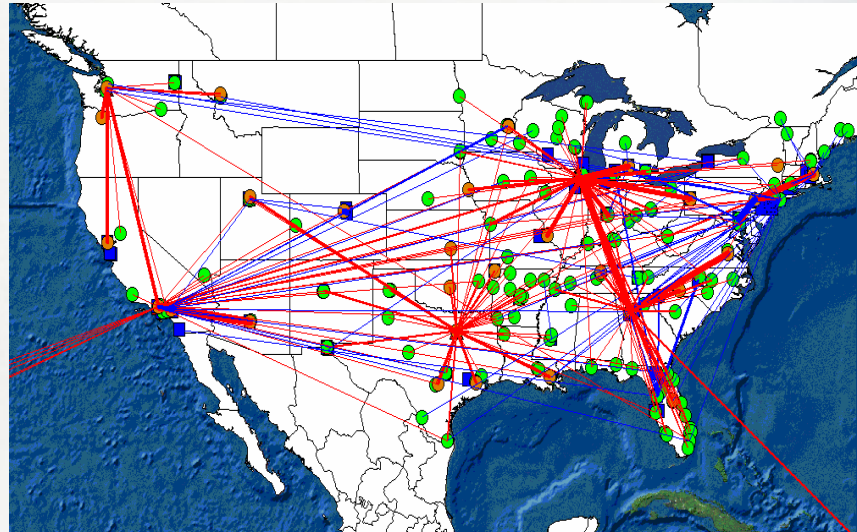
After

- Five regional cross-docks with small buffers (discrete assortments in each)
- Replenishment orders filled from optimal cross-dock if available
- Customer shares in financial incentive
- Order fill lead-times have tolerance increased
- Network cost - **\$ 9.2 million**

Hybrid Distribution Model – Example

Before

- Six regional DCs across US
- 100% of product sourced in China
- Containers shipped directly to DCs
- Each DC stocks full SKU assortment
- Weekly shipments to 500 drop points
- Considerable “wrong DC” fulfillment
- Network cost - **\$ 5.4 million**



After

- Three regional cross-docks and one cross-dock / DC
- Buffer stock 80% at west coast DC, and 20% at regional cross-docks
- 25% improvement in container utilization
- All DC transfers eliminated except from west coast DC
- Network cost - **\$ 4.7 million**