



The Distribution Experts®



# National Association of Wholesaler-Distributors

Billion Dollar Operations Roundtable

11/2/2016

# Agenda

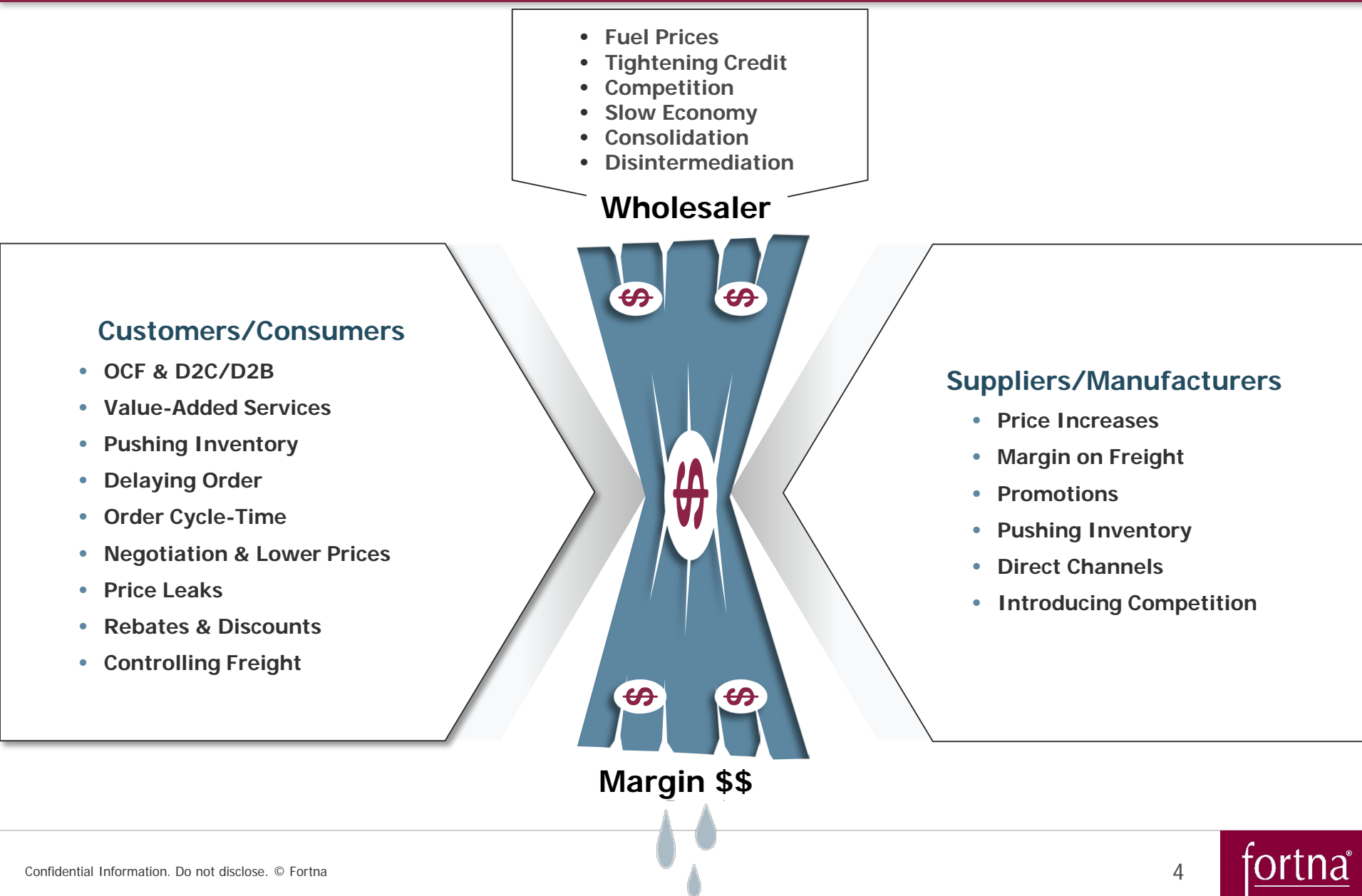
- **Introductions**
- **Challenges**
- **Distribution Strategy**
- **Service Expectations**
- **Flexibility**
- **Key Components:**
  - **Labor Strategy**
  - **Transportation Strategy**
  - **Inventory Strategy**

# It's Tough Being a Distribution Leader Today

- Market demands, distribution practices and technologies are changing rapidly
- Distribution can't support business requirements and strategies due to capacity constraints, service performance or operating expense issues
- Need to improve capital efficiency
- M&A activity creates redundancies and inefficiencies in distribution networks
- Distribution organization consumed with day-to-day operating priorities
- Lack expertise and resources to turn analytics into optimized strategies
- Significant consequences for a wrong step



# Wholesale Distributors are Squeezed from Every Direction...



# Distribution Strategy

# Strategy Questions to Address

What are the **key service metrics** our distribution network must meet to enable growth? What are the right **business questions** we should be asking?

What are the appropriate **number, location, and types of facilities** needed throughout the network to meet service goals at the right costs?

How can we **optimize mode, carrier and service selection** at each of our facilities to minimize freight costs?

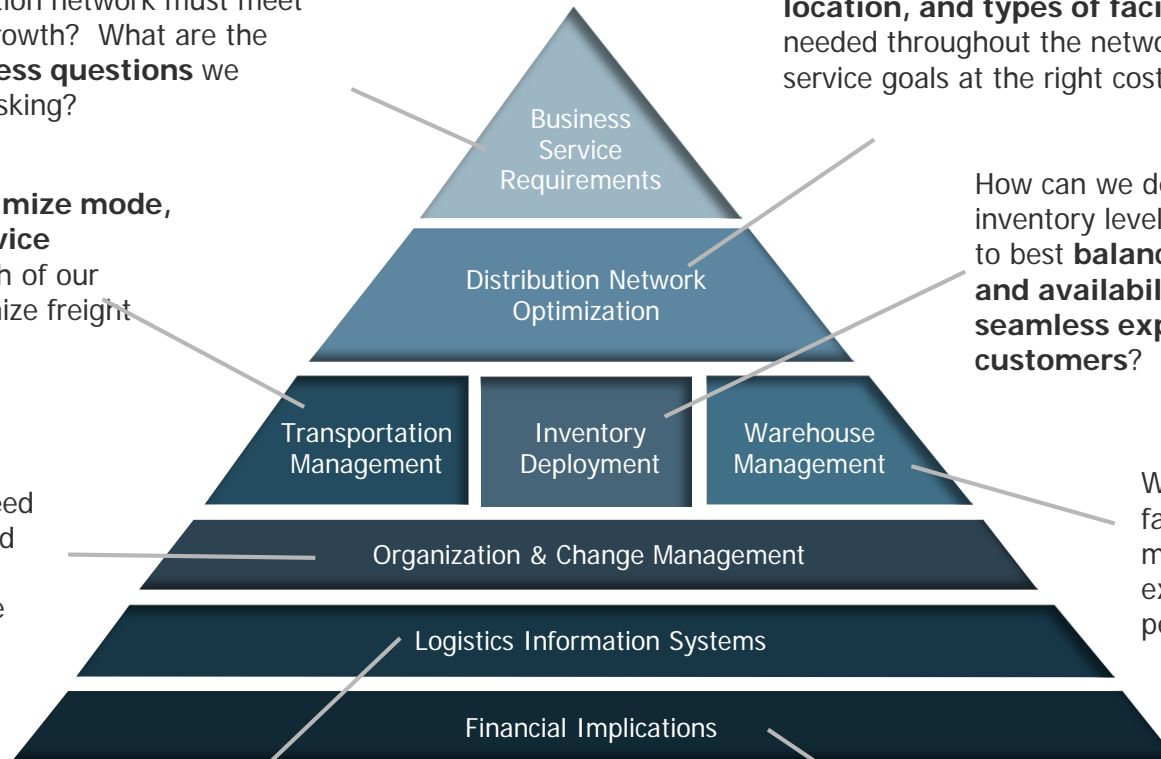
How can we deploy and rationalize inventory levels across the network to best **balance cost with service and availability** and keep **seamless experience for our customers**?

What **organizational infrastructure** do we need to implement, sustain, and continually improve the network, and how can we best cultivate change?

What **capabilities** must our facilities have, who will manage them, and what expectations do we have for performance?

What **enabling technology** is needed for management, execution, and visibility, and how will it interface with core systems?

Where are our opportunities for improvement in **costs, taxes and asset utilization**, and what investments will need to be made?



# Balance of Service and Cost

The network infrastructure requirements should provide the best balance of service and cost across all potential distribution channels

## Inputs to Distribution Network Strategy

### Science

- Number Crunching
- Optimization Logic

### Art

- Experience
- Intuition
- Creativity

### Evolution

- Company Maturity
- Current Service Capabilities
- Current Assets & Infrastructure

### Compromise

- Bandwidth for Analysis
- Bandwidth to Manage Change
- Propensity for Risk
- Culture

## Service vs Cost Trade-off

### Service Expectations

- In-store Availability
- Delivery Lead Time
- Service Area

### Freight

- Inbound
- Inter-Facility
- Outbound

### Warehousing

- Fixed
- Variable
- Overhead

### Inventory

- In-transit
- Warehousing
- Retail

### Financial

- Taxes
- Own vs. Lease
- Insurance
- Incentives

Balance

## Outputs of Distribution Network Strategy

### Facilities Plan

- Number
- Mission
- Location
- Size & Throughput

### Freight Plan

- Inbound & Outbound Mode Mix

### Inventory Plan

- Stocking & Replenishment Strategy

### Financial Plan

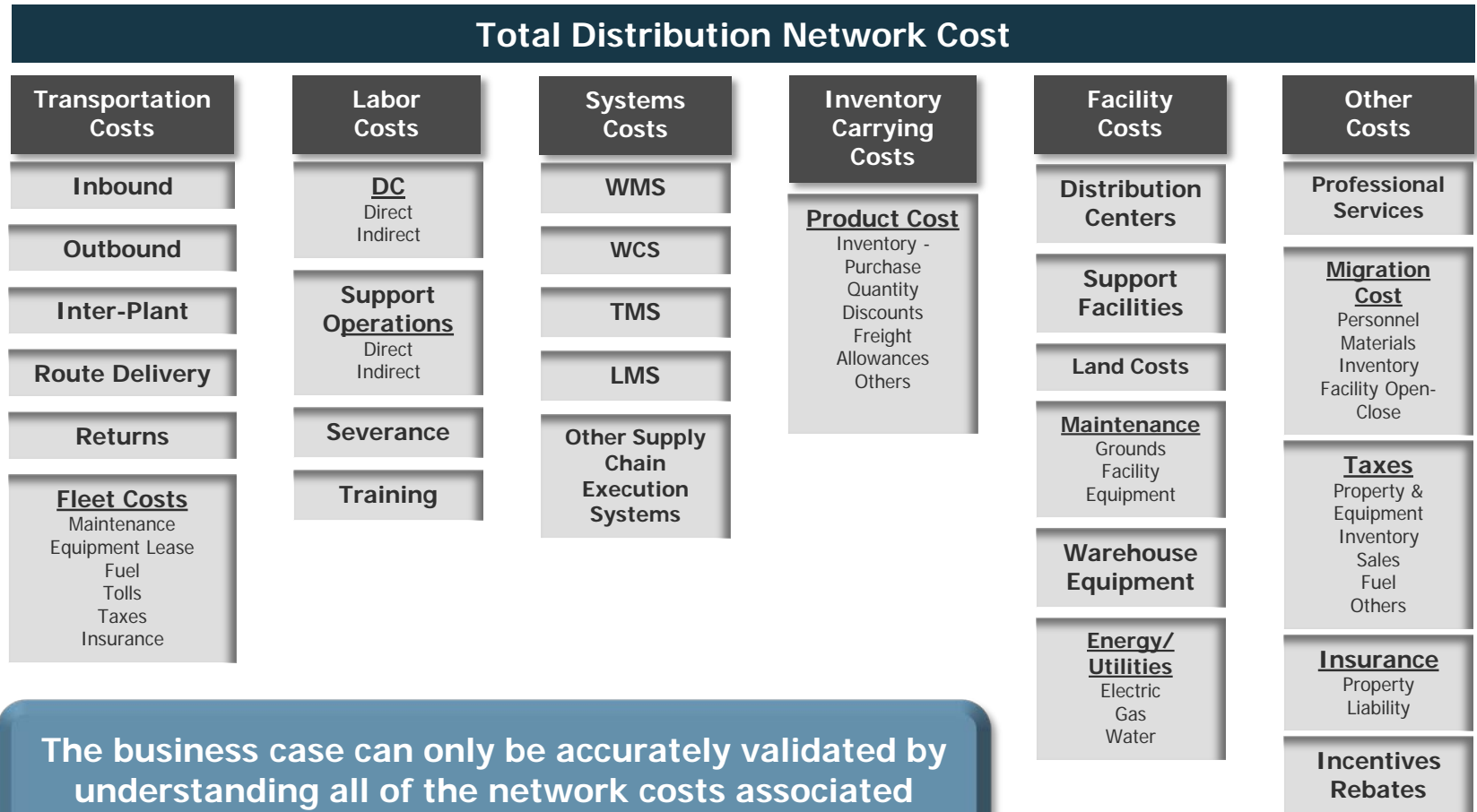
- Short & Long Term Investment
- Savings
- Inventory Impact

### Evolution Plan

- Long Term Roadmap
- Short Term Planning
- Change Management

# Total Network Cost Structure

Our experience suggests that distribution network initiatives must be evaluated from a total cost perspective





# Customers' Service Expectations

# Customers Driving Change

## What 'Service Levels' will you Offer Customers? What are they Willing to Pay for?



- Same Day Order Processing
- Same Day Shipping
- Next Day/Same Day Delivery
- Time-Specific Site or Business Delivery
- Transfer to 'Your Local Branch'
- Inventory Visibility
- In-Stock Guarantees
- Project Specific Stock Guarantees
- Order On-Line – Deliver to Branch
- Seamless Experience Across Channels
- Free Shipping and Free Returns
- Real-time Communications/Updates

# Changes in Wholesale Distribution

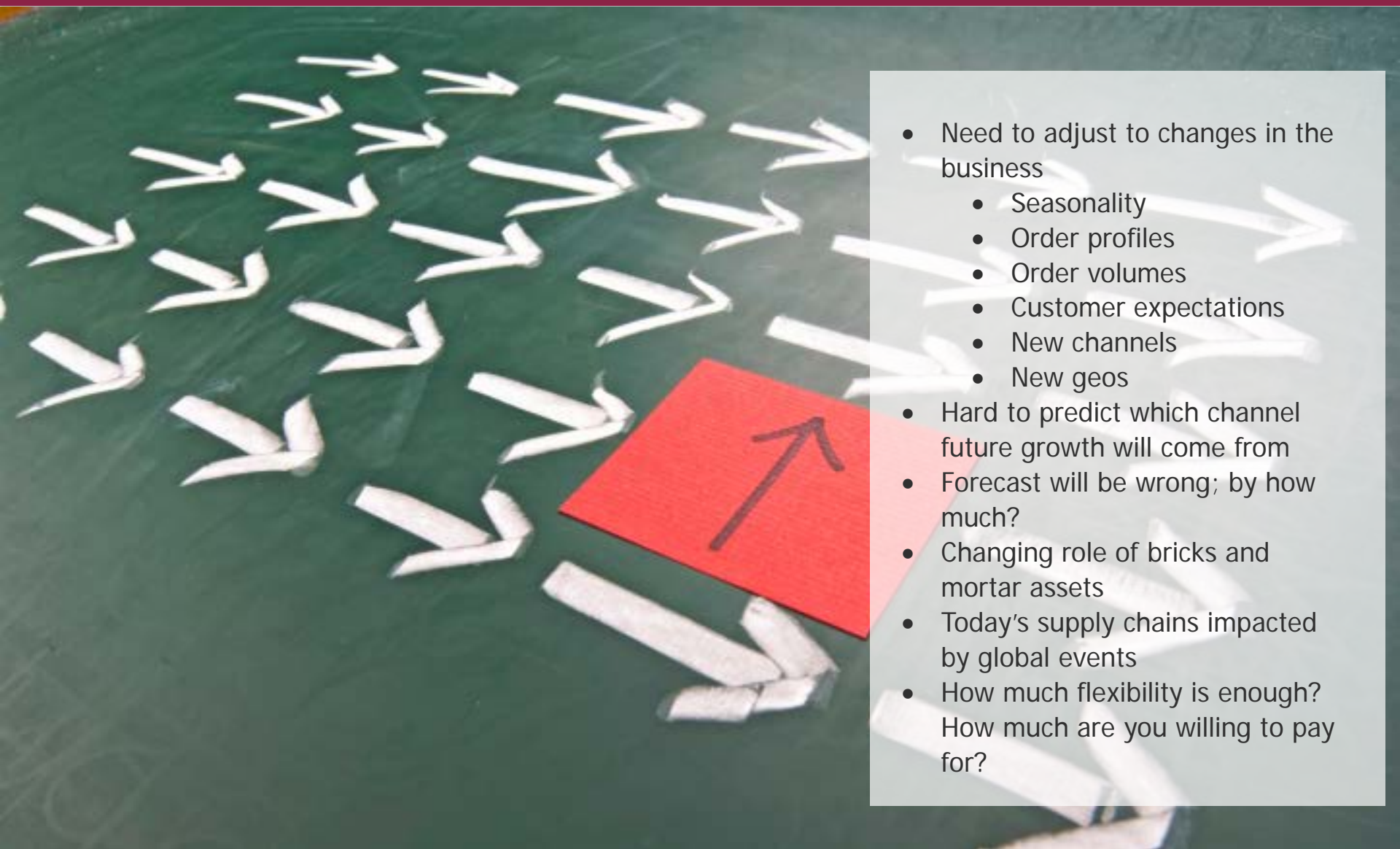
D2C, eCommerce, Omni-Channel Fulfillment, Multi-Channel Distribution..., they all are changing the face of Wholesale Distribution...

- Increased Number of Channels to Serve
- Shift from Pallet-In/Pallet-Out and Full Case to Custom Packs and Each Picks
- Pick-Pack, Small Package
- Smaller, More Frequent Orders
- Shorter Order Cycle times
- New Order Capture Options and Requirements
- SKU Proliferation & Category Growth
- Focus on Value-Added Services (VAS)
- Next-Day & Same Day Delivery
- Evolving Last-Mile Delivery Options

To make it  
**EASY** for the  
**customer,**  
makes it  
**COMPLEX** for  
**distribution**

# Flexibility

# Building in Flexibility for an Uncertain Future



- Need to adjust to changes in the business
  - Seasonality
  - Order profiles
  - Order volumes
  - Customer expectations
  - New channels
  - New geos
- Hard to predict which channel future growth will come from
- Forecast will be wrong; by how much?
- Changing role of bricks and mortar assets
- Today's supply chains impacted by global events
- How much flexibility is enough?  
How much are you willing to pay for?

# Labor



# Changing Labor Landscape

- Quality Labor pool is shrinking
- Amazon and others building large DCs in popular destinations and siphoning off workers.
- Competition among distributors driving wages up
- Companies relying on temp workers more than ever to meet needs for low cost, flexible labor force that can scale up and down quickly based on volume; heavy burden of training, retaining most productive workers
- Minimum wage and healthcare laws are adding to labor costs
  - \$1 per hour = \$1 million annual
- Driving investments in automation to reduce dependence on large labor pool





# Technology and Automation Reduce Dependence on Labor





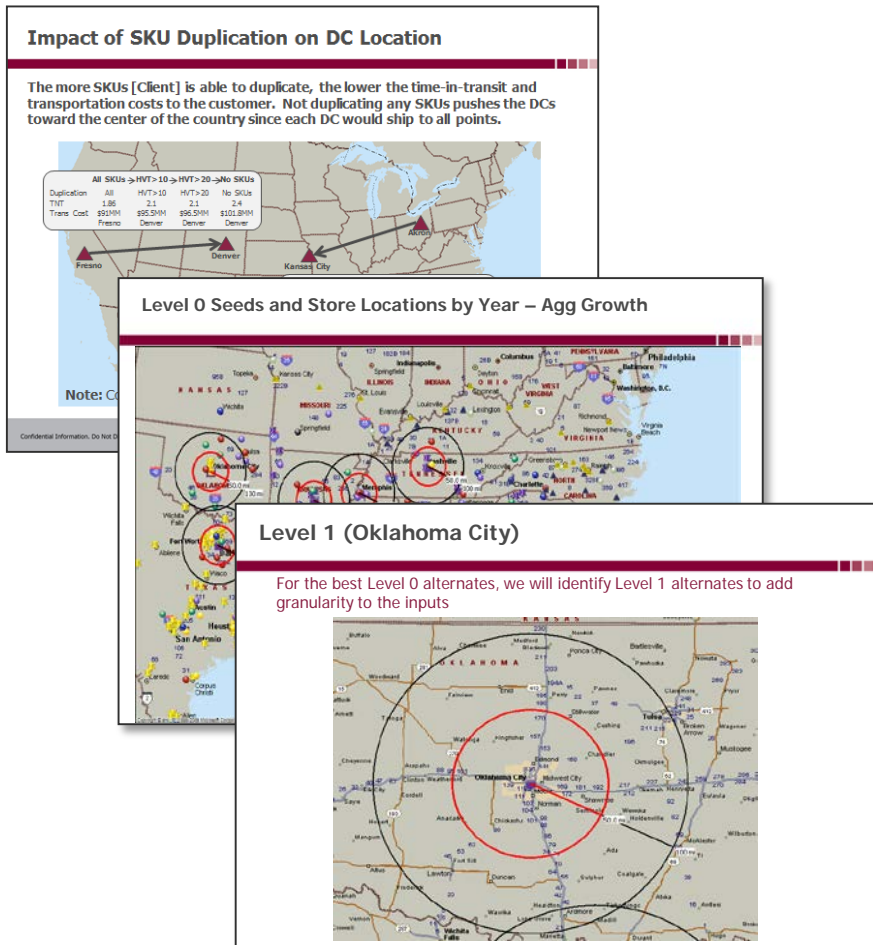
# Transportation

# Shipping Costs Eating Away at Margins

- UPS and FedEx recently announced rate increases
- Dimensional weight pricing impacting small package costs
- Amazon enhancing its own transportation capabilities to make up for capacity shortage and get control over shipping costs (cargo planes, tractor-trailers, trucks, vans, drones, etc.)
- Uber, Lyft, Deliv and others opening their networks for last mile
- Companies experimenting with drone and droid shipping methods
- Increasing cost and liability for dedicated transportation

# Sensitivity Analysis – Asking the What-Ifs?

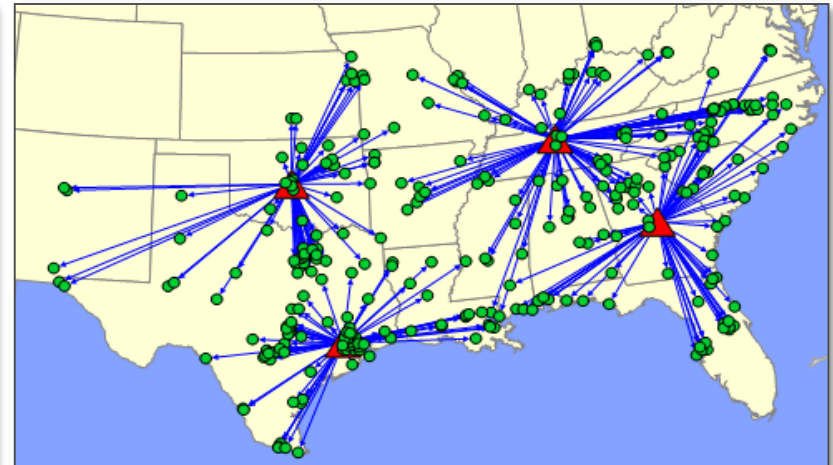
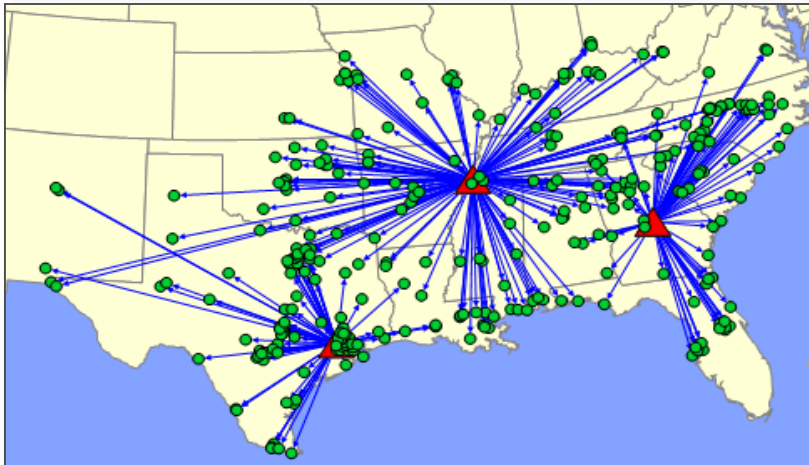
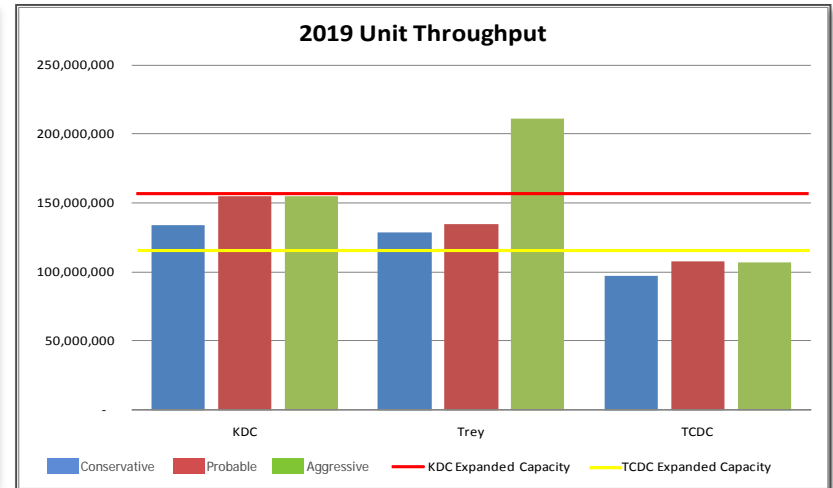
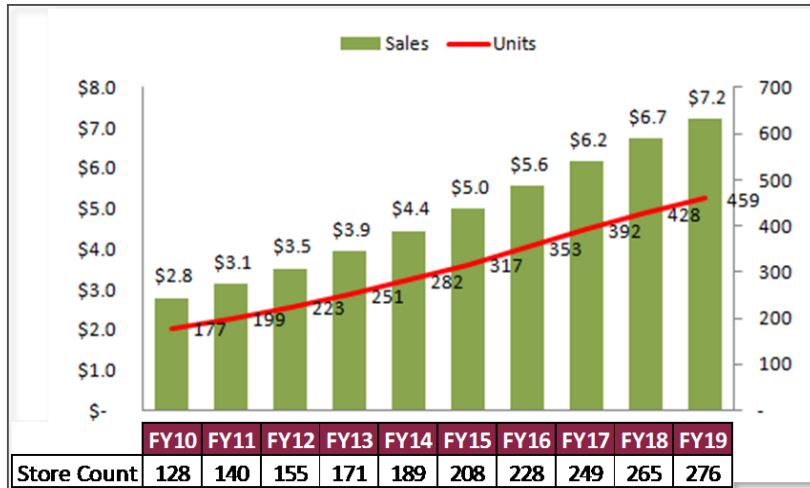
Sensitivity results help refine level of accuracy and provide intuitive understanding of how variables can shift the answer



- Test key drivers or sensitivity levers to understand those inputs that have the biggest impact on the model outputs.
- Establish a range for key sensitivity levers that is agreed upon by stakeholders, e.g. Fuel cost range, % growth etc.
- Tipping point analysis can be used to compare and contrast varying sensitivity levers and identify thresholds
  - Example: At what price per gallon does the scenario no longer beat the adjusted baseline?
  - Example: At what growth rate do you not only need a 5th DC, but also a 6th?
  - Example: At what growth rate do you not need a new DC at all?
- Conduct Workshops to gain consensus & alignment – it will evolve
- Develop the cash flow analysis and transition roadmap

# Sample Results – Answering the What Ifs?

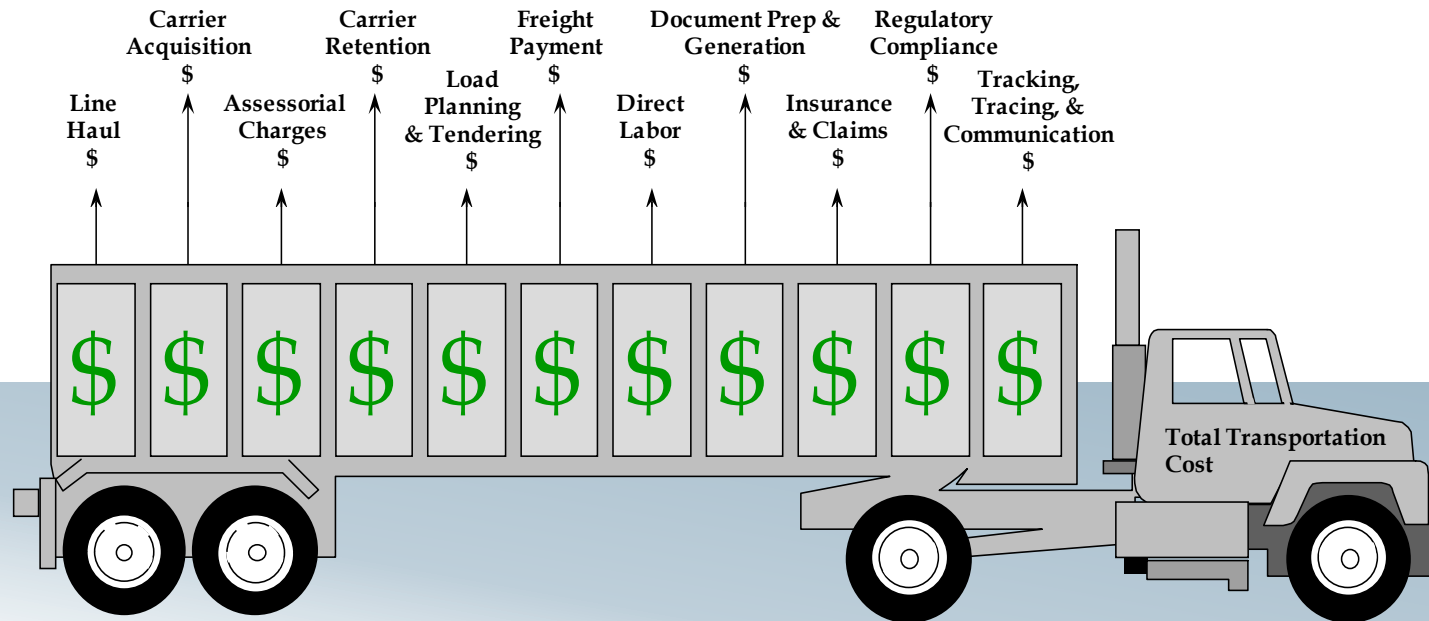
In a conservative store growth scenario, ACME will be a \$7B company operating in not 3, but 4 DC locations by 2019



# Transportation Tactics & Opportunities

5% to 25% Transportation Savings and benefits can come from several sources...

## Transportation can **DRIVE** significant savings...





# Inventory

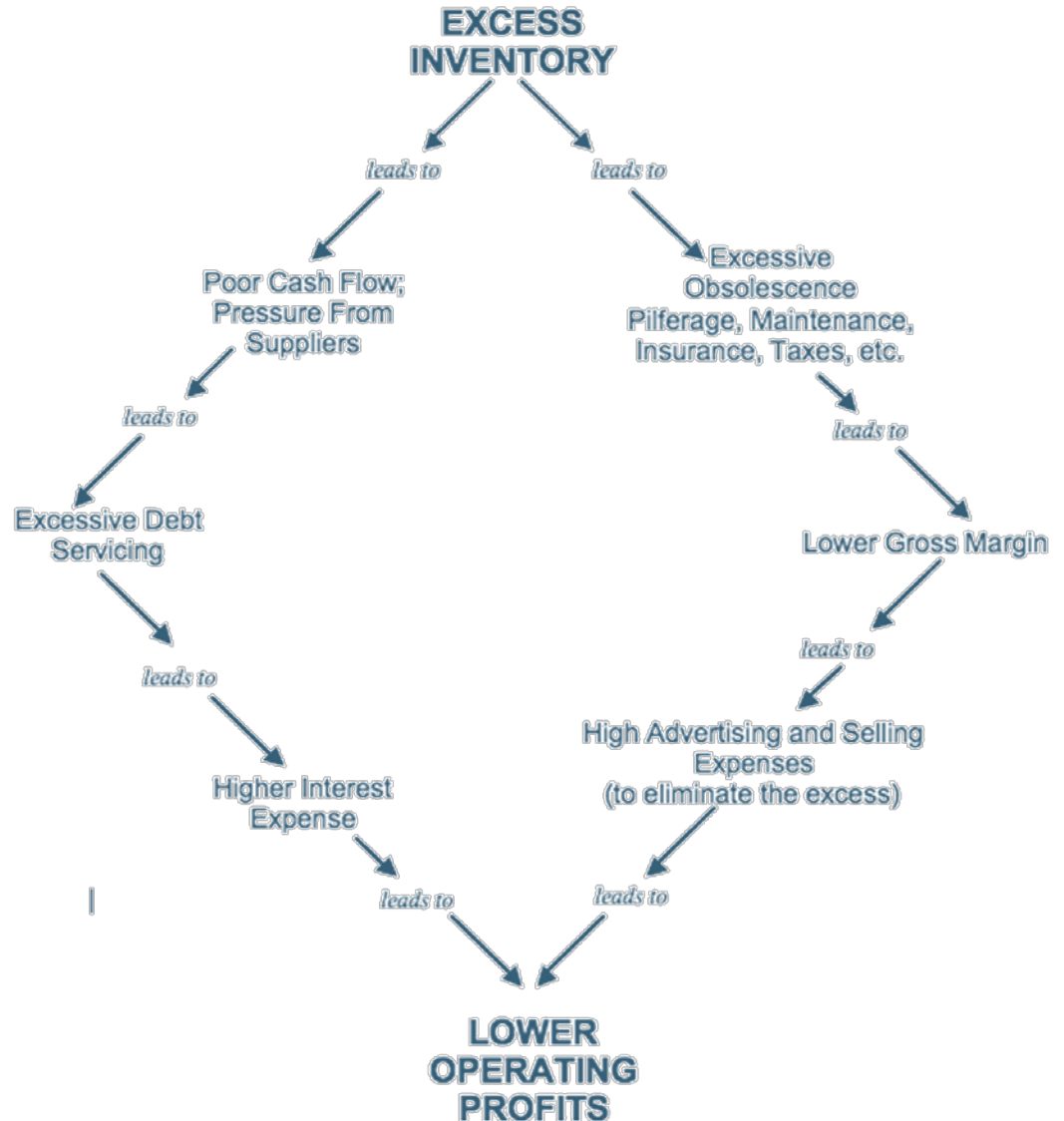
# Inventory

- Inventory Strategy must be aligned to:
  - Support Business Growth
  - Meet varying needs by geography
  - Provide localized feel
  - Leverage spend
- 2<sup>nd</sup> most often question we hear is on Demand Planning and Forecasting and discipline necessary to support the right strategy.
- Branches make decisions without corporate alignment
- Must be balanced with service, cost, and OPEX models.
- Lot of “bleeding over” – e.g., adding MRO, or Safety, or other complementary SKU’s



# Inventory, Inventory, Inventory

- Safety Stocks Pushed Back on Distributors
- Off-Shore Supply Creates More Inventory
- Poor Forecasting
- New Fulfillment Models
- SKU Proliferation
- Store/Branch-Level Fulfillment



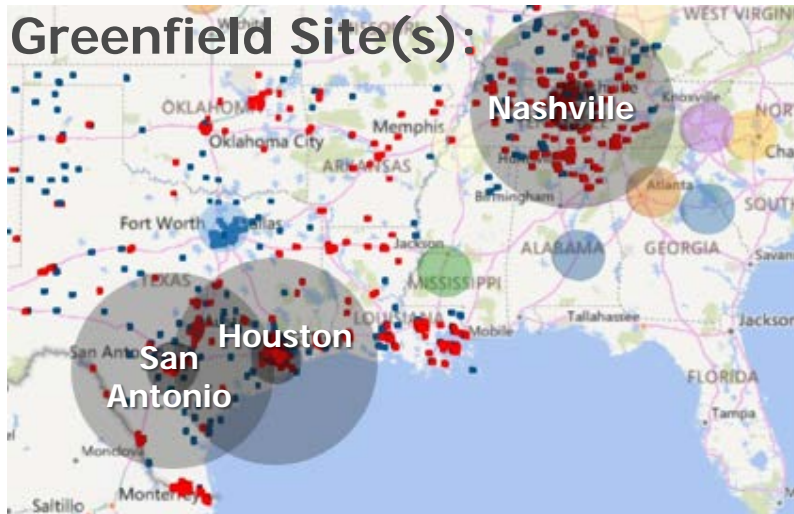


# Distributor Strategy

## Challenge:

- **Integrating two (2) complementary businesses** using daily service model of shipping branches 5x week from DC
- Insufficient DC to market proximity to achieve service levels – losing market share
- Lacked mid market operating model for DCs leading to excessive costs.
- Constrained resources and bandwidth to **implement network and Systems capabilities** to meet objectives

## Greenfield Site(s):



## Solution:

- Alignment on Business and Supply Chain strategy with key stakeholders
- Integrated Detailed Design for three buildings and leveraged spend for concurrent procurement for Multi-Site bundle
- Turnkey WMS, WCS, and DOM deployment
- Operations readiness, performance based

## Business Case Levers:



More Efficient Storage of 250K SKUs  
Operations flexibility and agility  
Capacity relief in legacy DCs  
Capital efficiency per site



Picking labor 5X  
Time to benefit of all systems  
Operational ramp up time  
Reliance on internal staff



**Tray Anderson**  
**Strategy Practice Lead**  
**trayanderson@fortna.com**



**Helgi Thor Leja**  
**Industrial Distribution Lead**  
**helgileja@fortna.com**