



Horizontal Collaboration Value Proposition

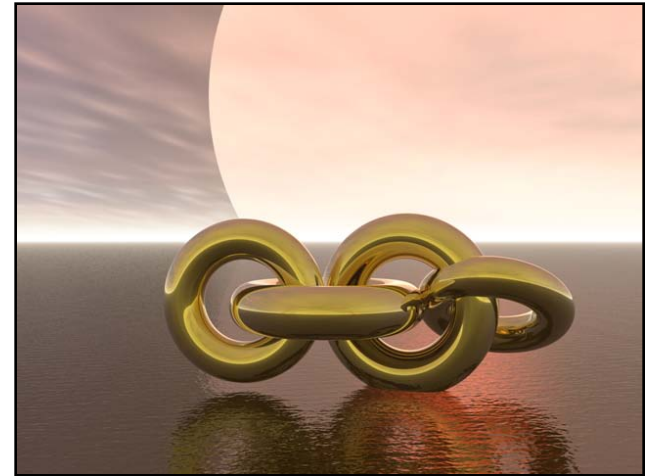
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Session Scope

This Session Will Focus On:

- Definition of horizontal collaboration
- Where are we with horizontal collaboration?
- Proposing a scalable strategic solution
- The value proposition
- How do we get there?
- Discussion



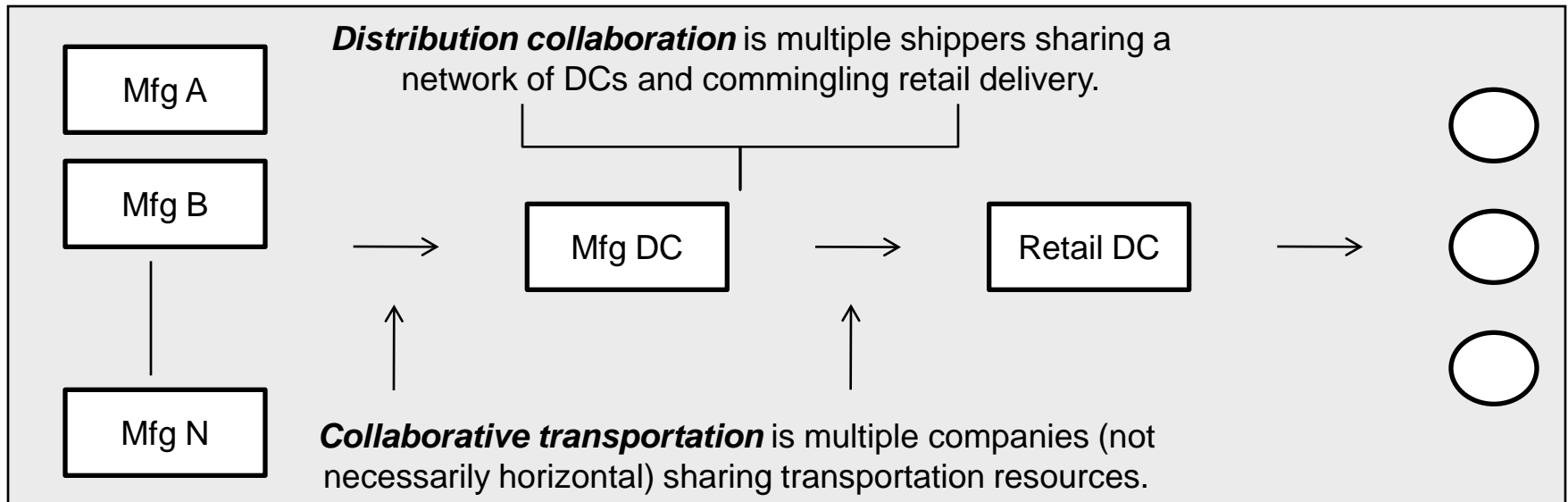
Collaborative Solutions...Can Be Quite Varied

- **1980s: VMI (vertical collaboration):** supplier managing (and owning) their own inventory in customer locations.
- **Late 1990s:** A software vendor introduced collaborative transportation management...This trend continues with spotty success.
- **Late 1990s/early 2000s Collaborative Planning Forecasting and Replenishment (CPFR):** (another vertical collaboration)
- **Collaborative Distribution**
 - **Early 2000s ES3:** a shared mixing center for shippers delivering to NE
 - **2009:** Other providers proposing shared distribution and shipment consolidation services

With collaboration, people tend to think about many different concepts. Clarifying the conversation is an important first step.

Clarifying Some Terms

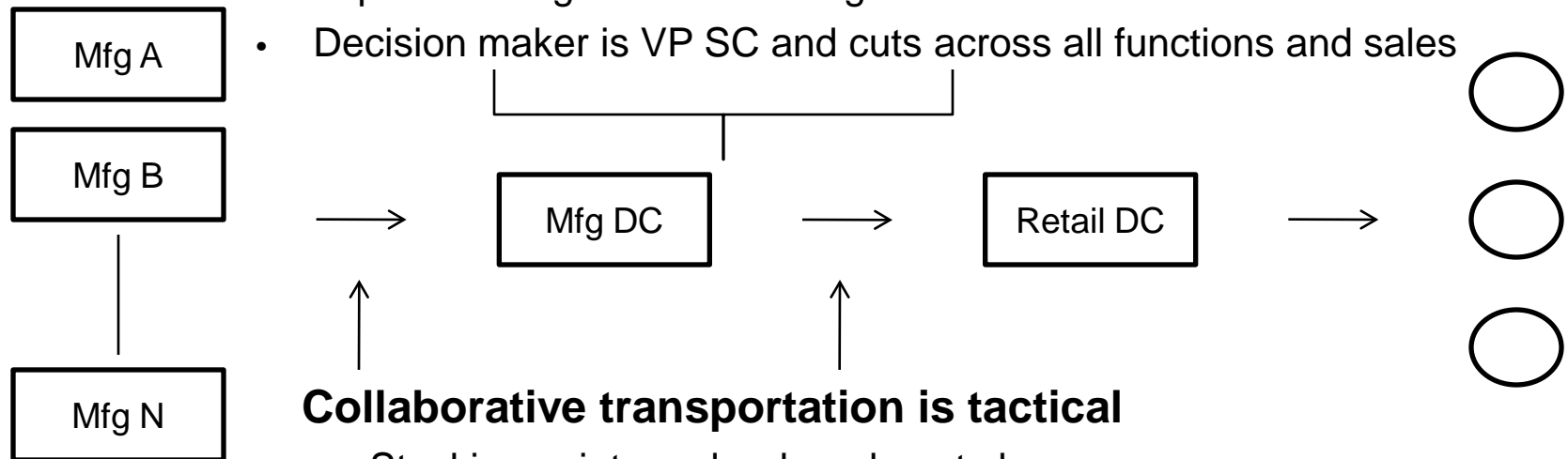
- Horizontal collaboration is multiple shippers sharing supply chain resources:
 - Consolidation of goods flow
 - Sharing vehicles, facilities and/or network capacity
 - Sharing information, tools or service providers
- Horizontal suggests supply chain “peers” as opposed to supplier to customer collaboration (vertical?)



Strategic Versus Tactical

Distribution collaboration is strategic

- A different network flow path
- Impacts changes in forecasting and order flows
- Decision maker is VP SC and cuts across all functions and sales

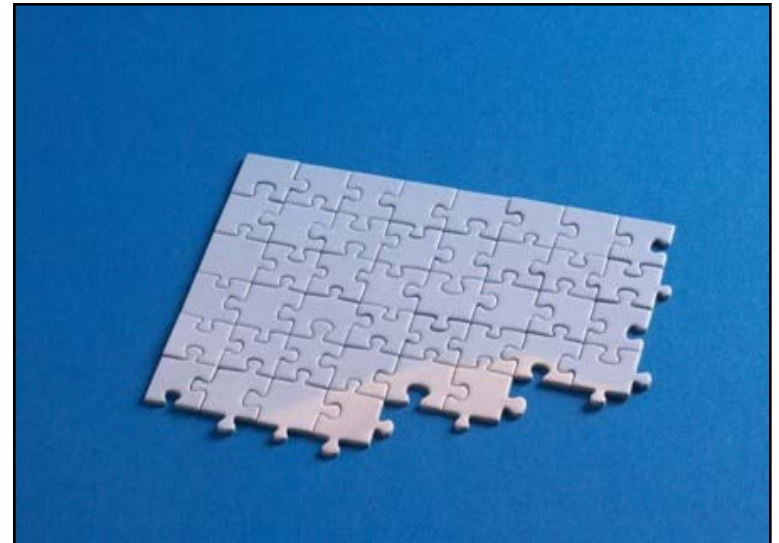


Collaborative transportation is tactical

- Stocking points and orders do not change
- Decision maker is VP Transportation
- Variations on this concept are many and include:
 - Lane matching
 - Collaborative tours
 - Heavy/light shipping

Where are we with Horizontal Collaboration?

- It's a conceptual no-brainer, but with few implementations.
 - The difficulty lies in the fact that it lacks a generally accepted business model.
- What are we missing?
 - A better definition of the concepts
 - A strategic value proposition
 - Lead investors
 - Orchestrators
 - Blueprint for pilots



Distribution Collaboration

- Dedicated networks are inherently suboptimal: cost versus service tensions require prioritizing either one or the other but not both.
- Collaborative networks (horizontal distribution collaboration) changes the game by eliminating the underlying cost/service constraints.
- We have created a framework for a strategic horizontal collaborative solution for CPG manufacturers based on:
 - A shared DC network serving retail DCs
 - Commingling space and trucks
 - Flowing replenishment items (not promo and limited seasonal)
 - A development model that shares the investment burden among parties
- We believe this model will create **step-change** improvements in:
 - Revenue generation as a result of supply chain innovation
 - Predictability of service and cost performance
 - 20%+ reductions in TL miles and huge impact on green initiatives

Problems with Dedicated Networks

Un-resolvable cost/service tradeoffs

CPG success (profitability) requires one or more:

- Consumer-demanded brand
- Low cost, or
- High service

Problem: Transportation Cost vs. Service

- LH trucking is the least controllable and predictable SC function:
 - Fragmented supply base
 - Fuel sensitive

LH trucking is a near-certain attribute of dedicated networks.

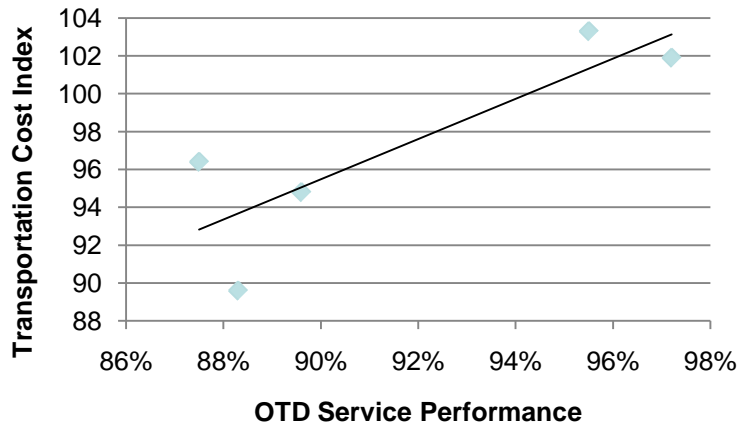
Problem: Inventory Cost vs. Service

- The industry EOQ is a full TL.

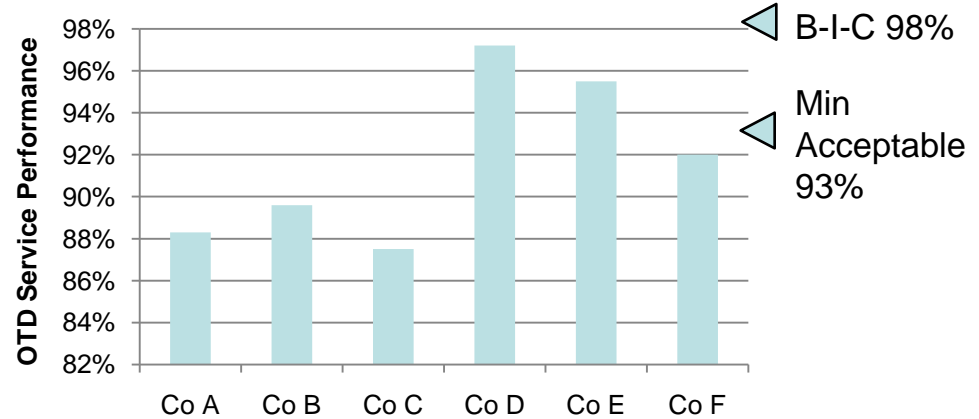
Constant challenge of managing item level inventory in a TL-size ordering environment.

Difficult to Control: Long Haul TL Cost Versus Service Trade-Off

Cost vs.. Service



Actual vs.. Expected Service Retailer's Expectation



The LH trucking cost /service tradeoff is undeniable, forcing compromise...

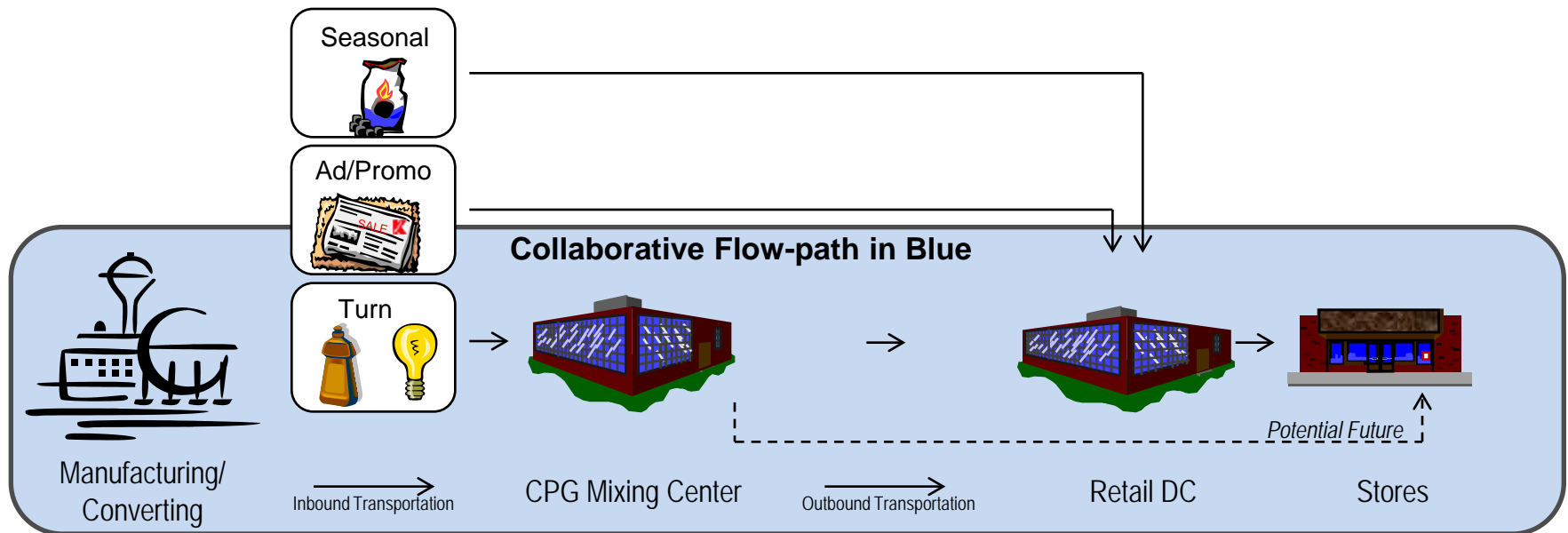
...resulting in relatively few CPG manufacturers achieving retailer delivery expectations.

*Data: Illustrative based on numerous client studies and interviews

Proposed CPG Horizontal Collaboration Solution

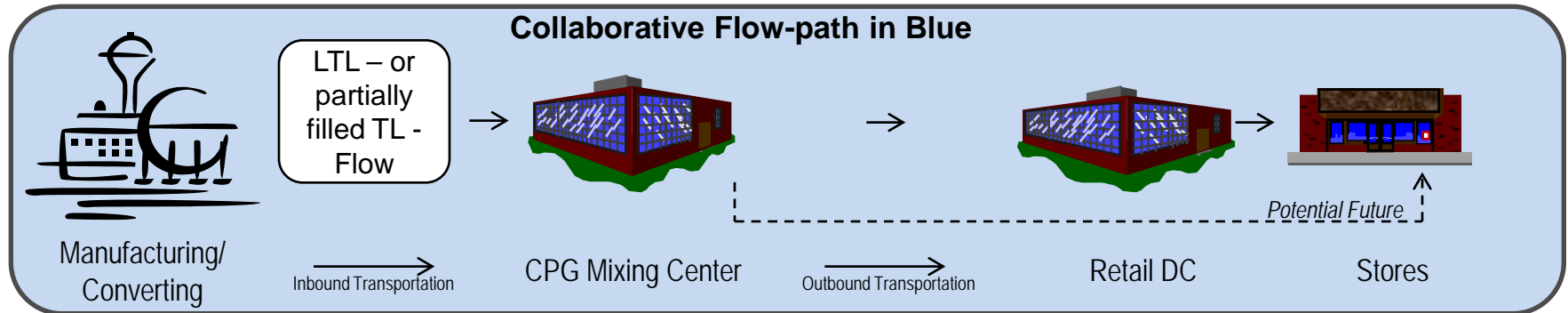
Key requirements:

- Sufficient volume for daily deliveries (collectively)
- Turn (replenishment) product, including the ability to forecast turn product
- VMI customer
- More stocking points



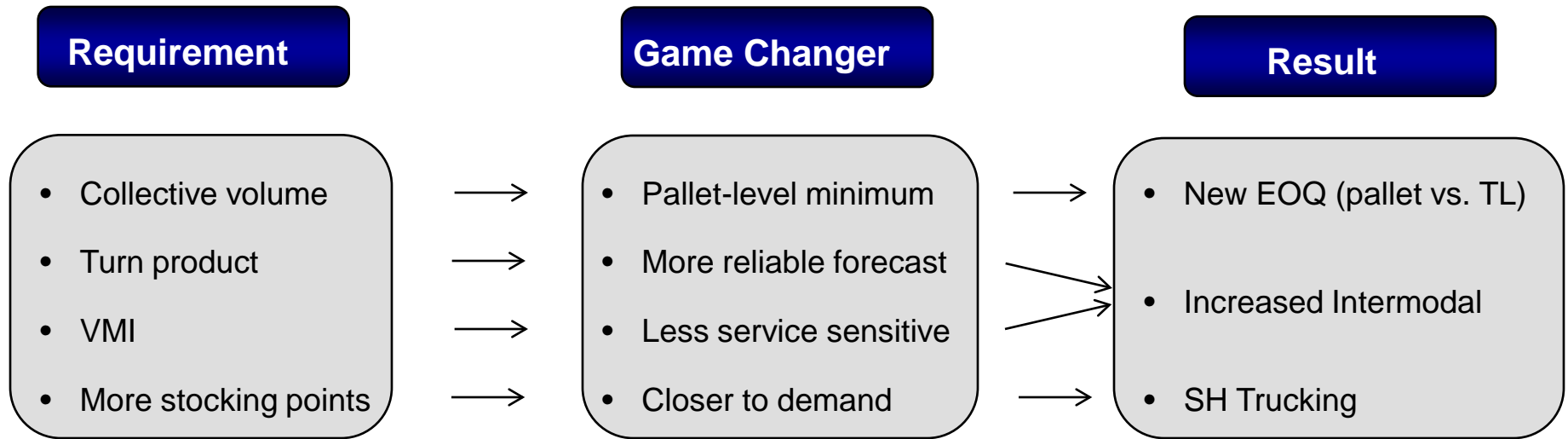
Horizontal Collaboration Problem

Focus: Partially Filled Trucks



- Geared to small and mid-sized CPG companies shipping lower volumes
- Argument is that dedicated networks by definition create partially filled trucks
- Supplier flows are consolidated into Co-mingled or Multi-Stop TLs
- Conceptually this is same concept...for lower volume shippers it may be more of a complete solution than a partial one
- Also may be a channel solution for larger shippers:
 - Drug channel
 - Club stores

Solution: Game Changer



We believe this solution eliminates underlying cost vs. service constraints by

- Changing the EOQ
- Converting from LH to SH trucking

The Value Proposition

- We are proposing a new collaborative solution for turn product.
- By collaborating with other companies, we gain volume leverage, allowing us to ship orders of any size in a daily delivery system... ***This will enable us to achieve service and sustainability performance that is simply not possible with our current design.***
 - On-time delivery of 98-99% for targeted centers
 - Reduce TL miles 20%+ (or more depending on intermodal conversions)



The Value Proposition

- Customers should love it.
 - Daily deliveries of any size order
 - Better on-shelf fill rate
 - Near-perfect on-time delivery performance
 - Safety stocks reduced
- The board should love it.
 - Growth strategy
 - Improves our competitive position with key accounts
 - Significant enhancement to our sustainability agenda.
- The cost impact... *TBD*



What Is the Potential Scale?



- Common destinations of 5 CPG companies to 5 major retailers.
- 13 locations cover 85% of common destinations within 200 miles.
- Collaborative network of 30% volume for these 5 shippers would be approximately 40,000 short-haul TLs and over 1M pallets per year.

Note: Volume data aggregated over several years of client engagements

How Do We Get There?

Industry needs more leadership

- Privately held LSPs have been the strongest.
- Most LSPs will struggle with:
 - Typically reactive (RFP-oriented)
 - Often shareholder-focused (short term)
 - Analytical strength varies and tends to be inconsistent
- CPG manufacturer?
 - Least amount of partnering visibility
 - Resource constrained
- Retailer?
 - A vested interest but typically won't invest
 - Maintain role of demanding better solutions



How Do We Get There?

Industry lacks a multi-company orchestrator

- Research consistently suggests the need for an orchestrator as a coordinator in a multi-company solution.
- Utilize your resources and pre-established relationships to help develop and sustain strategic collaborative solutions.
 - A community of shippers interested in supply chain advancements.
 - A separate yet linked consortium of logistics service providers who could execute the solution.
 - A clean-room environment for analyzing multi-company data to suggest potential partnerships.
 - Access to an unbiased cadre of supply chain engineers equipped with tools to engineer solutions.

How Do We Get There?

We would argue for collaborative leadership

- LSPs with national footprints:
 - Development-oriented mindset
 - Create a strawman proposal and enlist potentially compatible current customers
 - Partially fund pilot projects
- CPG manufacturer(s):
 - Ask LSPs to develop solutions/known supplier partners to participate
 - Create a task force and funding mechanism to share the pilot investment with LSP
 - Engage with LSPs (not an RFP)
 - Enlist a preferred consultant to provide objectivity, analytical expertise and commonality for all participants
- Retailers:
 - Ask CPG manufacturers for horizontal solutions
 - Be willing to switch to VMI for pilot projects

Conclusion

- The collaboration conversation has definitely progressed...
- The conceptual benefits are simply too strong to ignore:
 - But one size does not fit all. We need to define specific collaboration solutions depending on the individual volume and variability characteristics of the subject supply chain.
 - Traditional benefits of cost reduction and asset utilization are no doubt easy to grasp.
 - We are excited about the more compelling strategic benefits – growth and sustainability.
 - We draw particular attention to the significant sustainability benefit (for this design).

Conclusion

- We think it is time for CPG manufacturers and service providers to lead by investing in pilot solutions to work through specific solution ideas:
 - New flow path has huge impacts on network design, inventory planning, LSP cost and CPG pricing analysis, systems, logistics practices, contingency planning.
 - Go slow.



Discussion



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