

2006 Northeast Supply Chain Conference
& Educational Exhibition

How is retailing driving the supply chain?

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My topics

Retailers

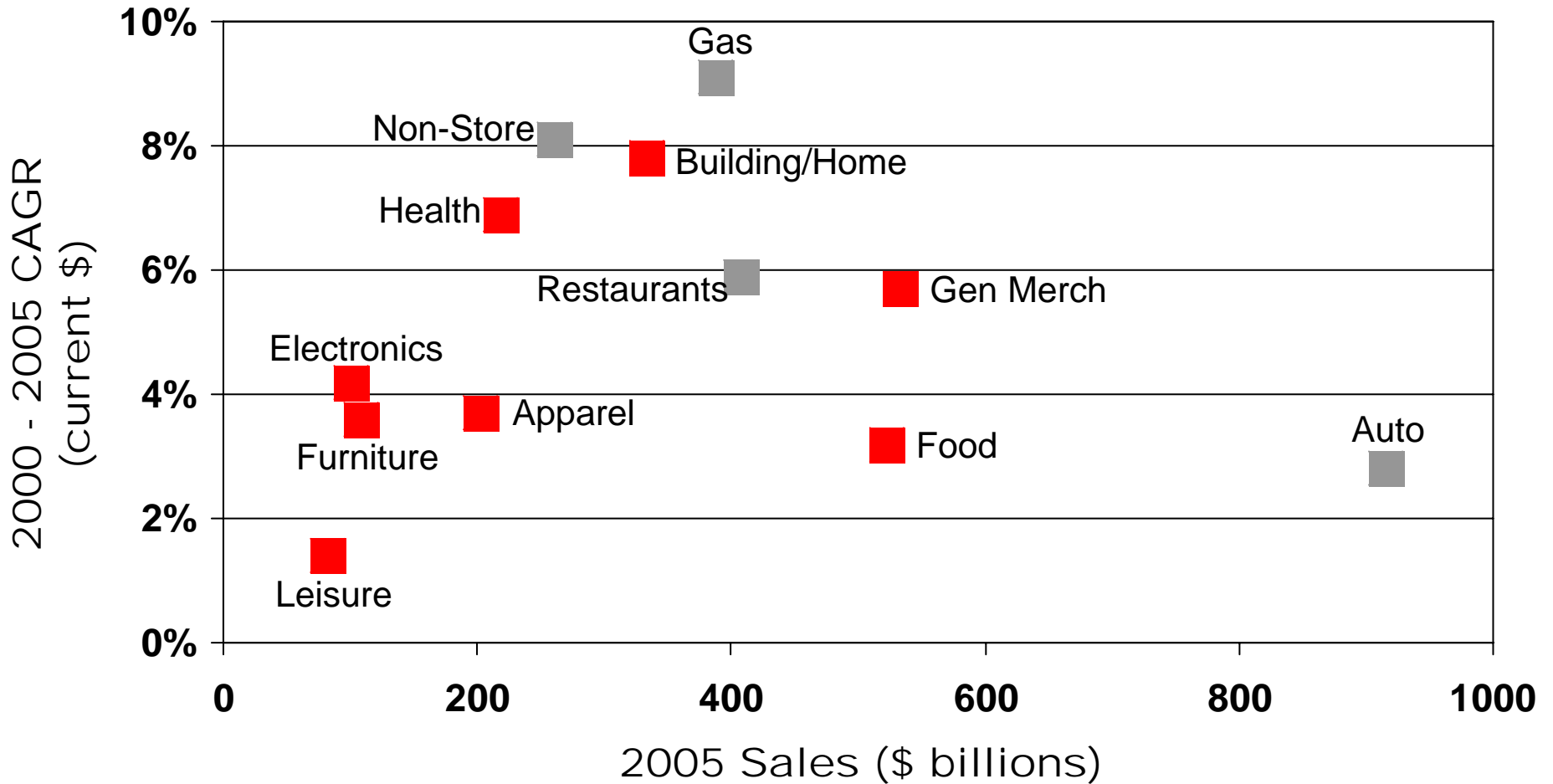
Consumer goods
manufacturers



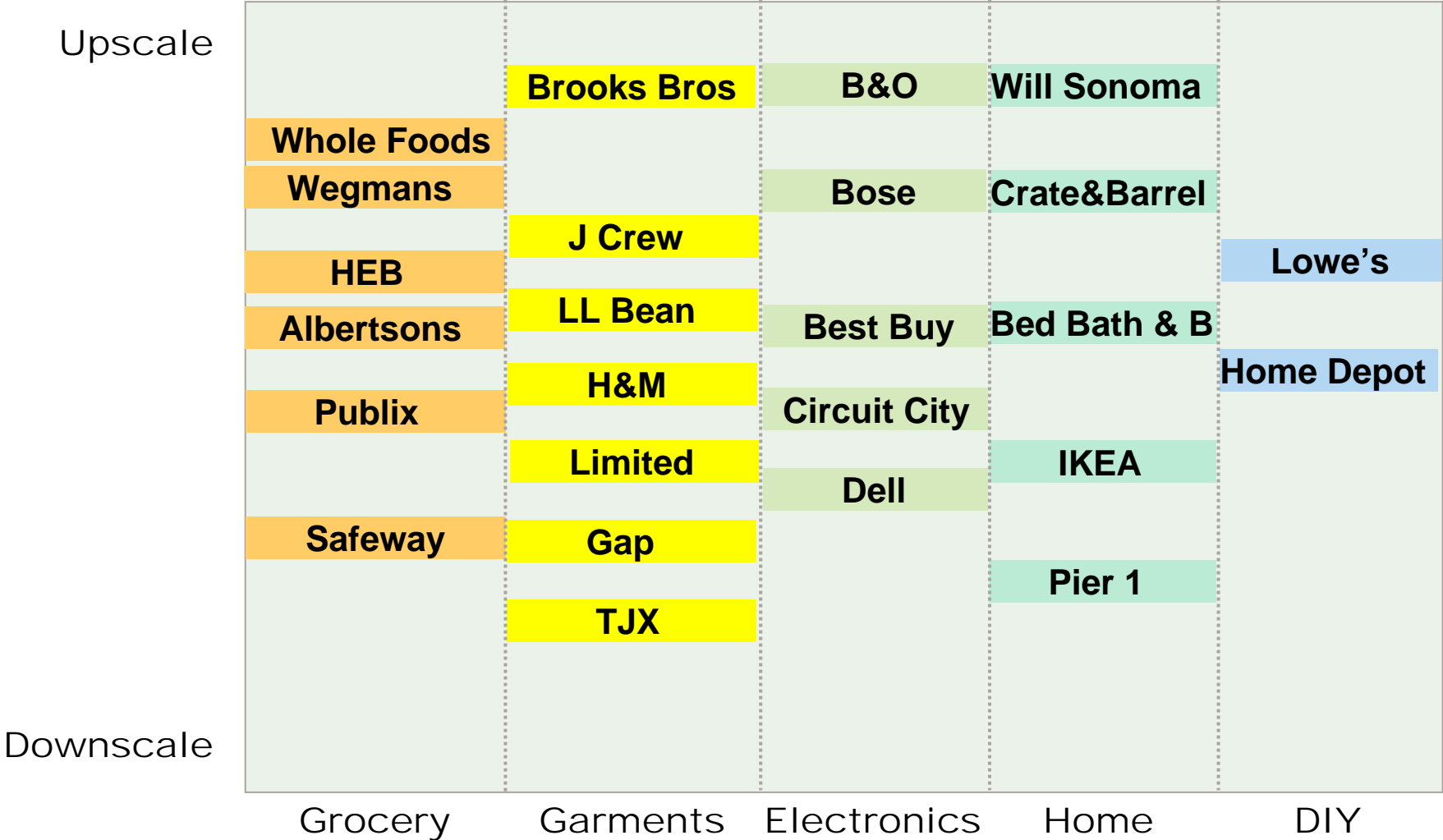
Supply chain

Retail trade is growing strongly

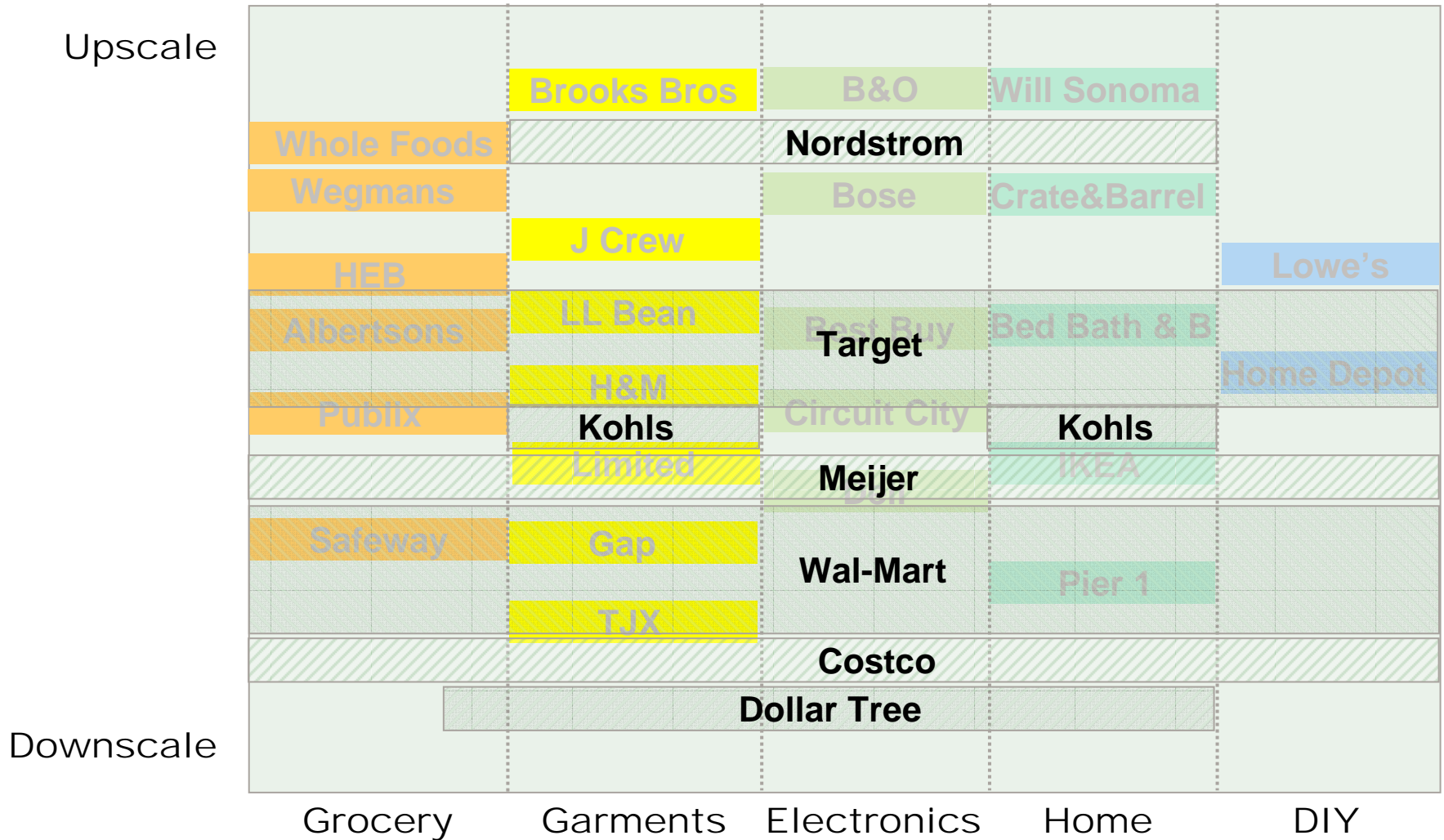
US Retail Spending: 4.9% current annual growth, 2000-05



Most categories have their killers ...



... But channel boundaries are blurring



Retailers face tough issues ...

Big box

- Market saturation at home ... category players fighting back
- Battle for global domination abroad

Category specialists

- New entry by big box retailers
- E-retailers competing

Department stores

- Discounter competition
- Consumer fatigue ... malls in decline

Supermarkets

- Squeezed between high-end players and big box
- How to grow in low-margin, low-growth markets

... And respond with tailored strategies

Customization

- 66 lifestyle segments
- Best Buy:
 - Customer-centric formats
 - 5 customer types
 - Sales gains = 2X average

Speed

- Zara and H&M:
 - Speedy sketch-to-shelf
 - Style ... not quality
 - Small lot sizes
 - Fast turnover

Service

- Lowe's:
 - Knowledgeable employees
 - Wider aisles, better lighting
- CVS
 - Beauty advisers for women

International

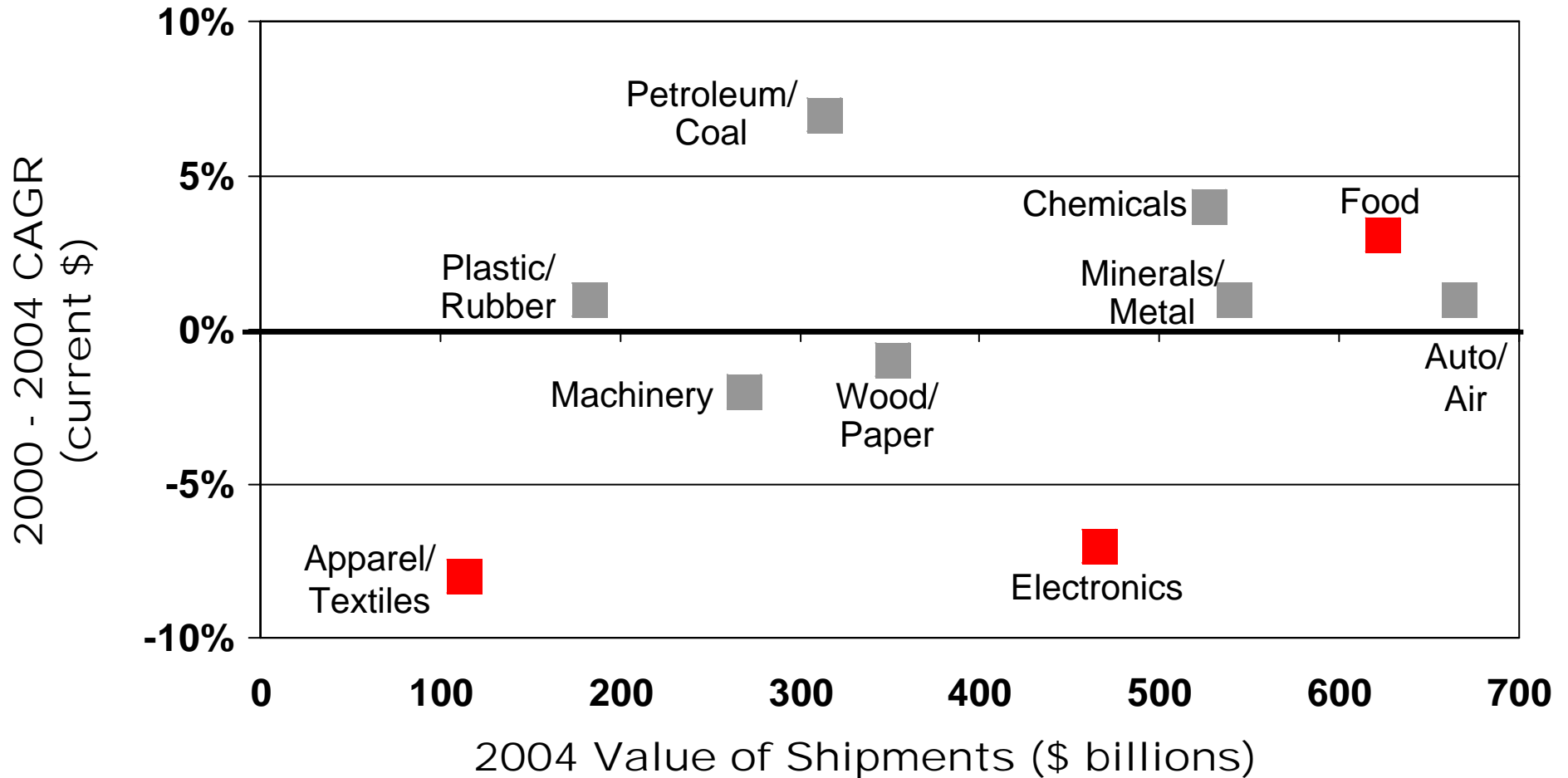
- Wal-Mart in China
- Wal-Mart in Mexico
- Borders in Ireland
- IKEA in the US

Impacts on retail supply chains

- Relentless drive for lower costs
- Longer, more complex supply chains
- Greater variety than ever
- Faster-changing assortments
- Conducting the orchestra is challenging

Manufacturing output has been flat

US Manufactured Shipments: 0.3% current annual growth, 2000-04



What manufacturers are doing

- Low-cost country sourcing
- Design for distribution
- Complexity reduction
- Teaming with retailers and distributors
- Improving new product introduction

Seven supply chain trends are underway

Globalization

1. Retailers control global supply chains
2. Flows are being optimized worldwide
3. Global supply chain risks are rising

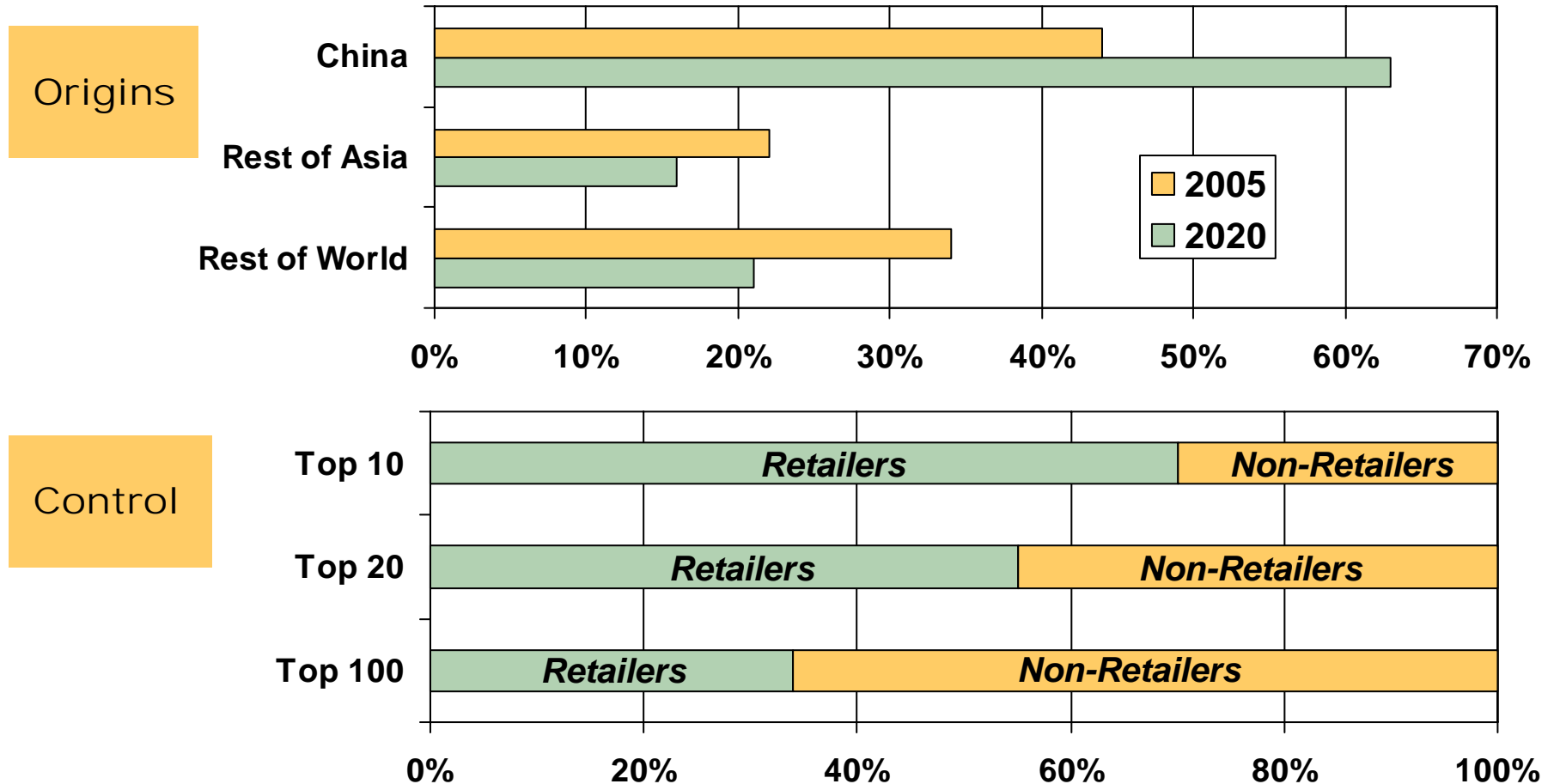
Logistics shifts

4. Transport costs are up, service is down
5. Distribution patterns are shifting

The virtual company

6. Information exchange is increasing
7. Outsourcing the operations “steak”

1. Retailers control global supply chains



Retailers in the Top 100 Importers account for 9.4% of total imports

2. Flows are being optimized worldwide

- **Payless Shoe Source** shipping from Asia to Latin America via Panama, without ever touching the US
- **IKEA** planning supply chain globally and using software to optimize its worldwide flows
- **Epson** bringing in containers of printers direct to Peru from Asia
- **McDonald's** shipping french fries, packaging and toys globally

3. Global supply chain risks are rising ...

Transportation issues . . .

- **Service delays:**
Ports – rail – truck
- **Cost hikes:**
All modes

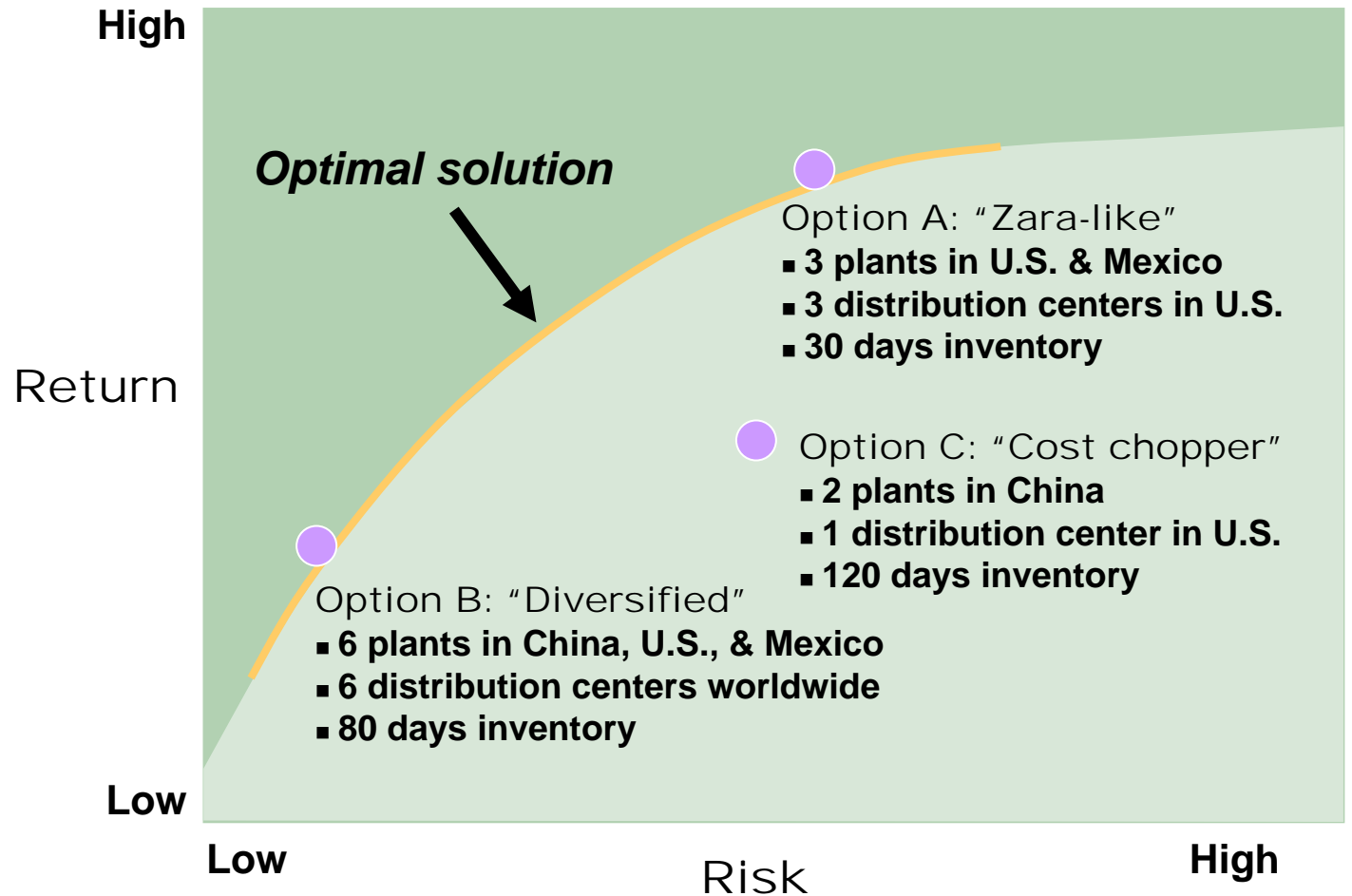


. . . and other supply chain risks

- **Demand variability**
- **Regulatory scrutiny**
- **Natural disasters / disease**
- **Supplier delays**
- **Currency fluctuations**
- **Terrorist threats**

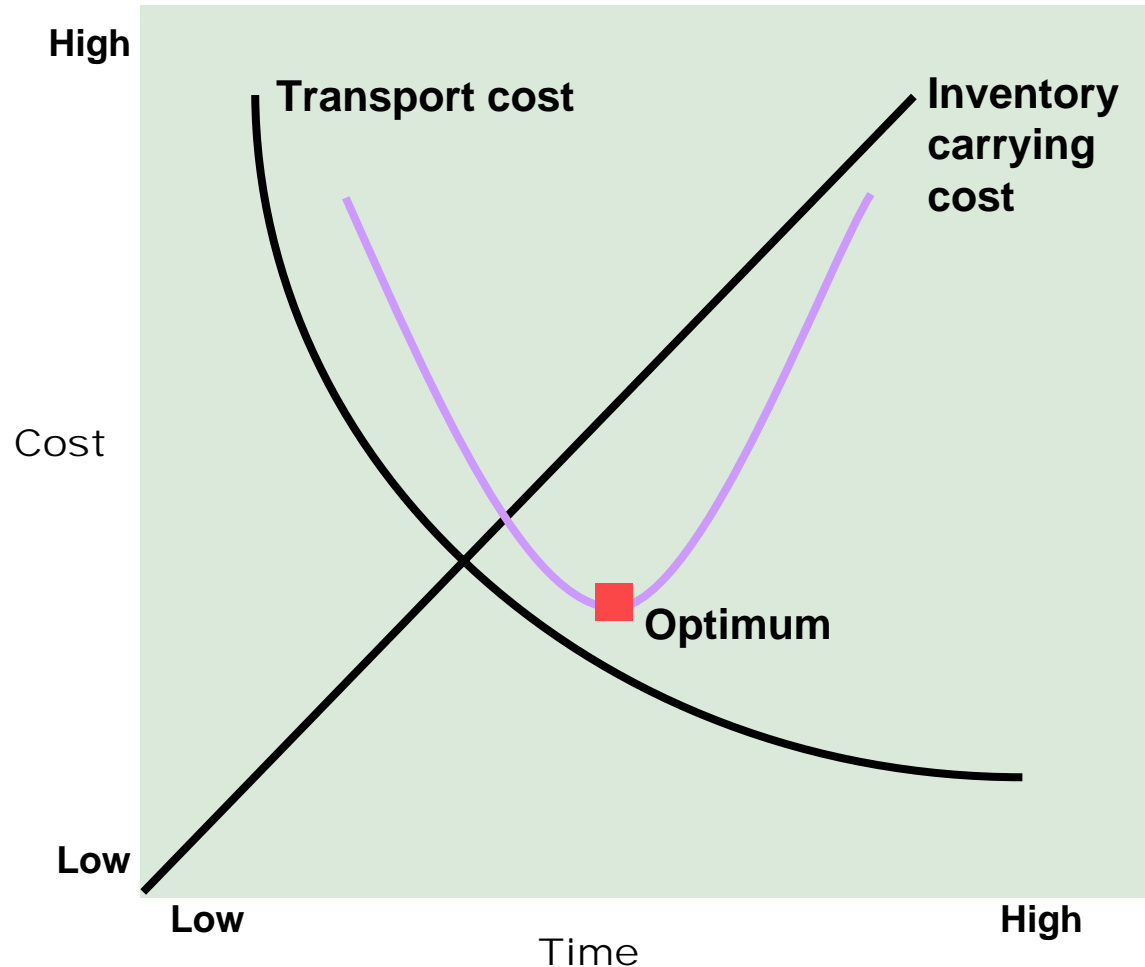
... Causing rethinking of global sourcing

- Multiple supply sources
- Multiple modal and carrier solutions
- Contingency planning for backup



4. Transport costs are up, service is down

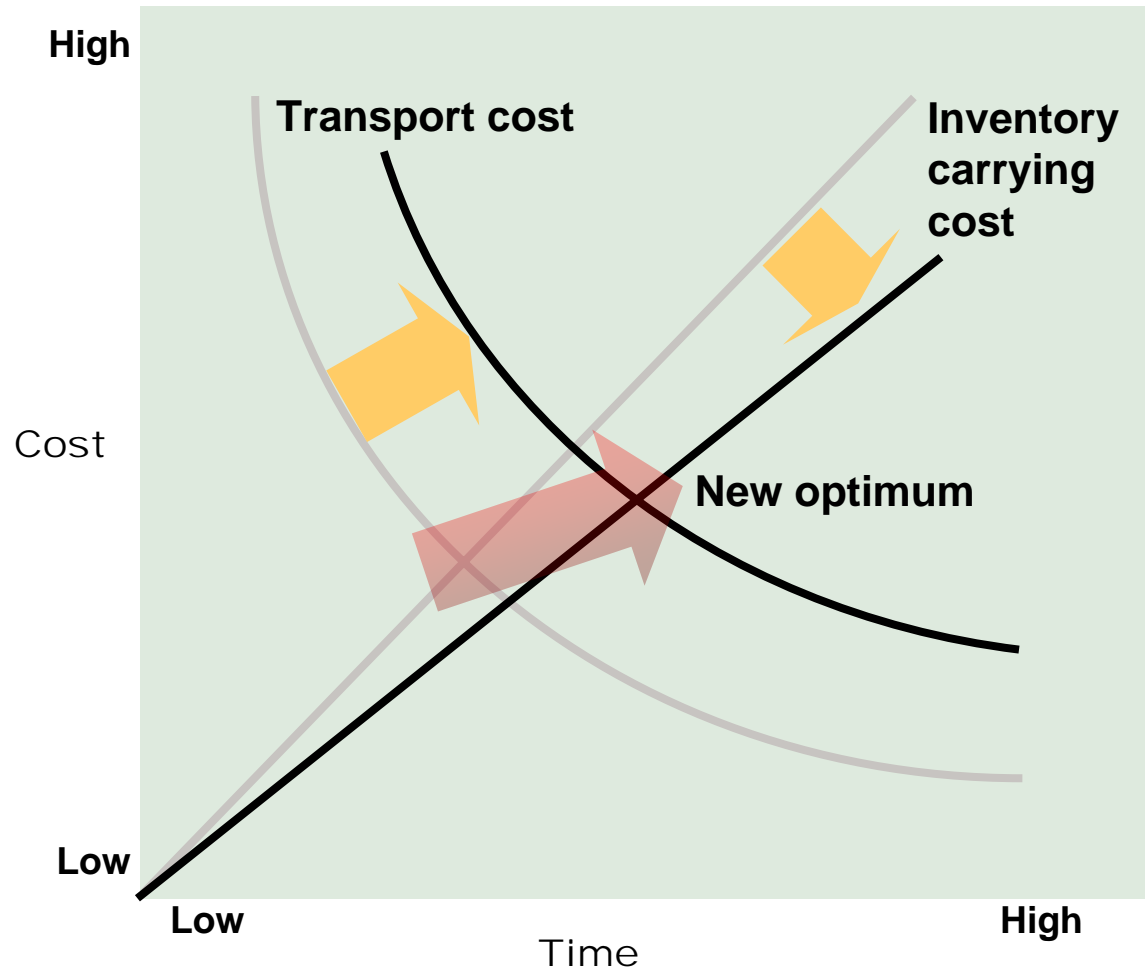
- Optimal mode choice is determined by considering transport cost and inventory carrying cost
 - Assuming steady-state
 - Assuming comparable reliability



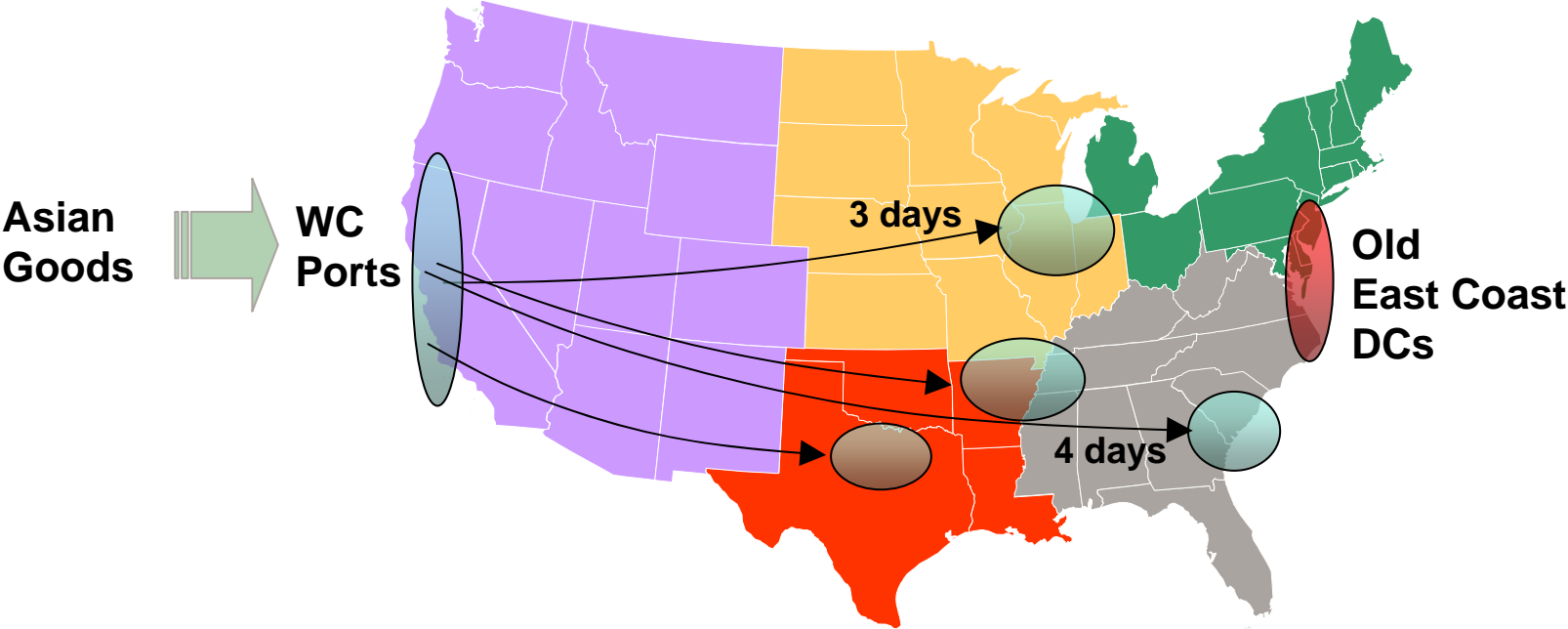
... Leading to new logistics solutions

Higher costs and less reliability lead shippers to:

- Reduce transport usage
- Consider slower modes – intermodal
- Optimize backhauls
- Use dedicated capacity
- Improve planning
- Coordinate with carriers



5. Distribution patterns are shifting ...



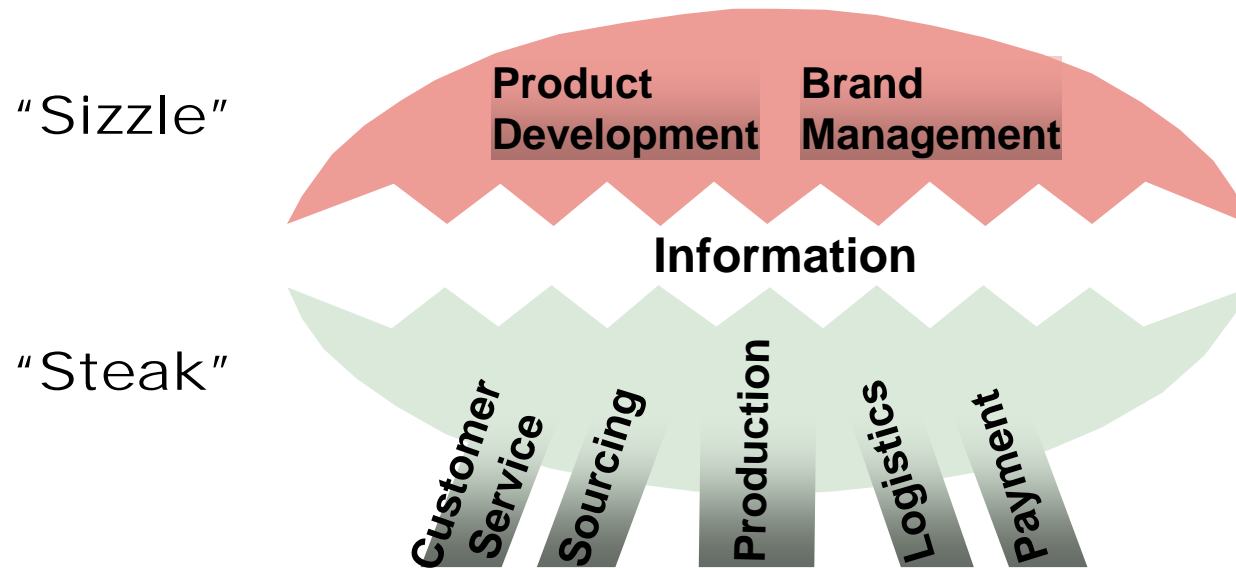
... In response to new sourcing patterns

- Logistics streamlining
 - Transloading into 53' equipment at ports
 - Shipping direct store-ready in some cases (HP-WMT example)
- Port diversification
 - Diverting more to Southeastern ports
 - Thinking about Suez – growing fast
 - New ports are being developed – Prince Rupert, Lazaro Cardenas
- Distribution network
 - Creating more import warehouses
 - Big intermodal logistics centers growing (Alliance, Joliet, ...)
 - Suppliers renting public warehouse space closer to retailers' DCs

6. Information exchange is increasing

- Driven by progressive retailers
- Supply chain performance data shared online
- Manufacturers using new software to solve supply chain problems
 - Store-shelf inventory
 - Multi-echelon inventory
 - Asia lead times
- Old-fashioned talking also used
 - Dell's daily cross-functional team meeting
 - Right people and frequency
 - Simple XL spreadsheet

7. Outsourcing the operations “steak”



- “Sizzle” is looking for someone to manage the “steak”
- Value of rapid product introduction and global branding is rising
- Manufacturers seek broad operations solutions
- End-to-end offerings are still sparse

We live in interesting times

- Retailers are leading manufacturers and service providers toward the supply chain frontier
 - Cheaper, faster, reliable, and convenient
 - Also customized and flexible
- Addressing risk in the global supply chain
 - How can supply be assured?
 - How to live with congestion, high fuel prices, driver shortages, uncertain exchange rates, avian flu, intense competition?
- The good news: There are significant needs to fill!