

Shipper Logistics

*Emerging Drivers in response to the
Downturn*

Bremen, June 17, 2009



How can shippers successfully adapt?

Economic backdrop



**Supply chain implications
& shipper strategies**



Transport mode impacts

- Ports and container shipping
- Trucking
- Rail and intermodal



Economic backdrop: Volatile and uncertain

GDP

**Deepening
recession . . .
worldwide**

Trade

**China trade
decelerating . . .
exports weakening**

Fuel Cost

**Fuel down (and
up). . . still double
7 years ago**

Currency

**Dollar down 40%
vs. Euro
over 7 years**

Supply chain responses

Tough, shifting environment

Supply chain moves

- Sourcing
- Making
- Moving
- Integrating



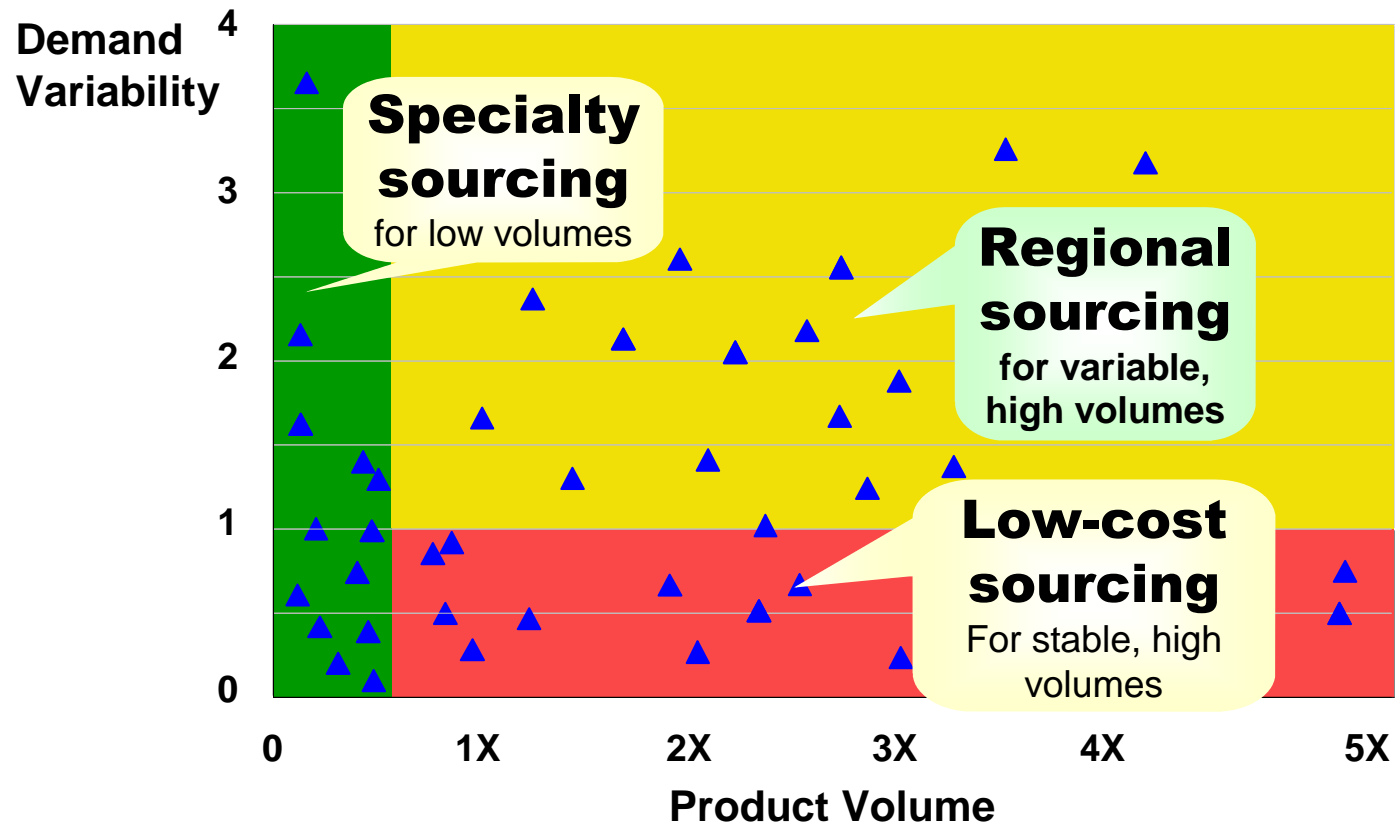
Twelve smart responses

Sourcing	Making	Moving
<ul style="list-style-type: none">✓ Balance supply and demand by world regions✓ Find sources closer to home✓ Seek situations where “far-shoring” still works✓ Mitigate risk	<ul style="list-style-type: none">✓ Maximize plant utilization✓ Move closer to market✓ Increase exports	<ul style="list-style-type: none">✓ Downshift modes & slower sailing✓ Revise DC network and flow paths✓ Create a more agile distribution system
Integrating		
<ul style="list-style-type: none">✓ Raise visibility and collaboration across the supply chain✓ Promote sustainability . . . when it can drive productivity		

Some Examples . . .

Sourcing: Regional demand/supply balance

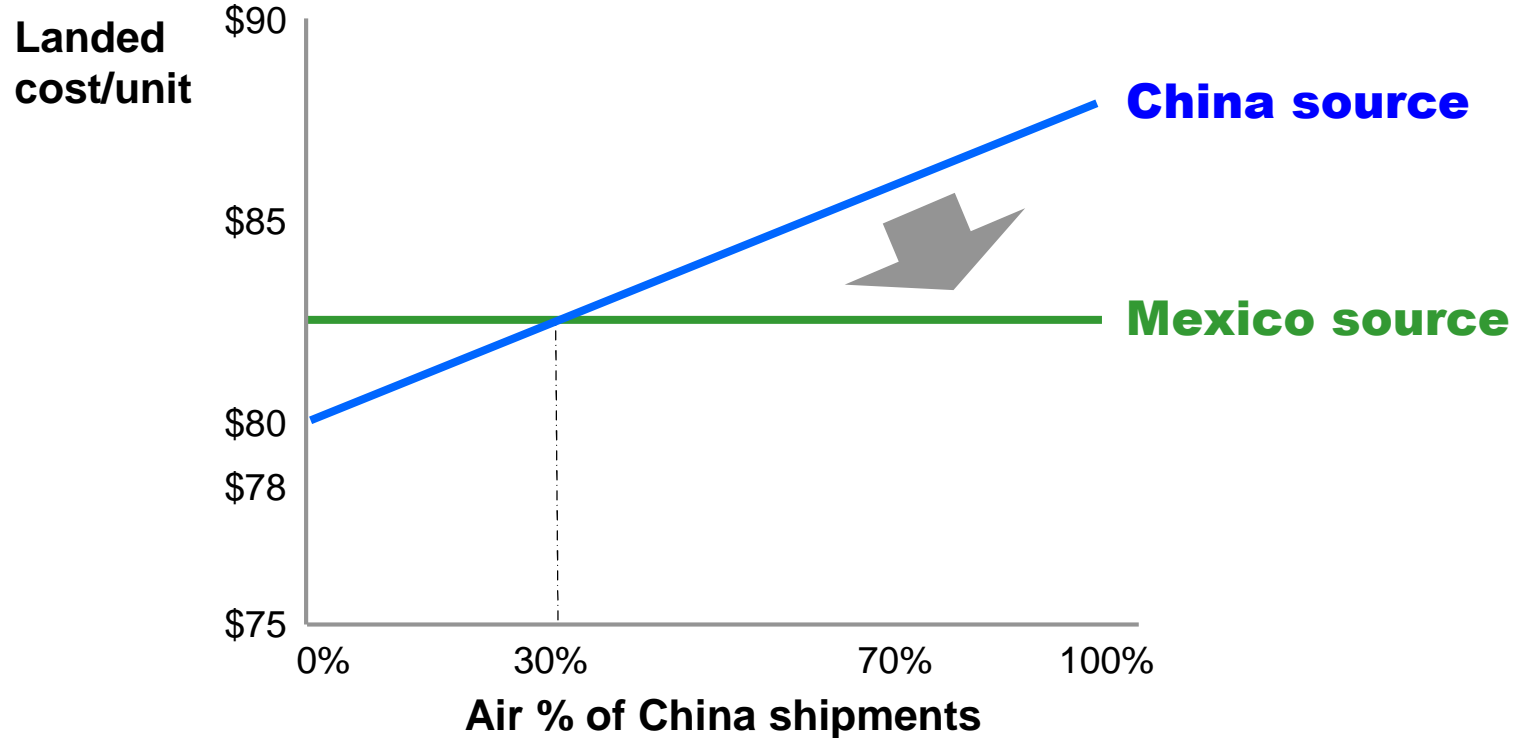
Global Sourcing Strategy (example)



Mexico as an alternative to China (for US)

- **Closer proximity to the US market is key**

China – Mexico sourcing comparison example



Making: Localization can make sense

- Driven by weak dollar, fuel and “love of local”



Danville, VA – First US plant, May '08

Localy Known™



Maine organic farm: \$1 less/5 oz.

The Room&Board logo is at the top in white text on a green background. Below it is the slogan "Close to home – Furniture made in your own backyard" in black text. The furniture items are arranged in two columns. The left column shows a wooden dresser with a television on top, a small vase, and a wooden floor. The right column shows a wooden dining table, a wooden sofa, and a wooden floor. The locations "Wisconsin" and "North Carolina" are written below the dresser and sofa respectively. "West Virginia" is written below the dining table.

Room&Board

“Close to home – Furniture made in your own backyard”

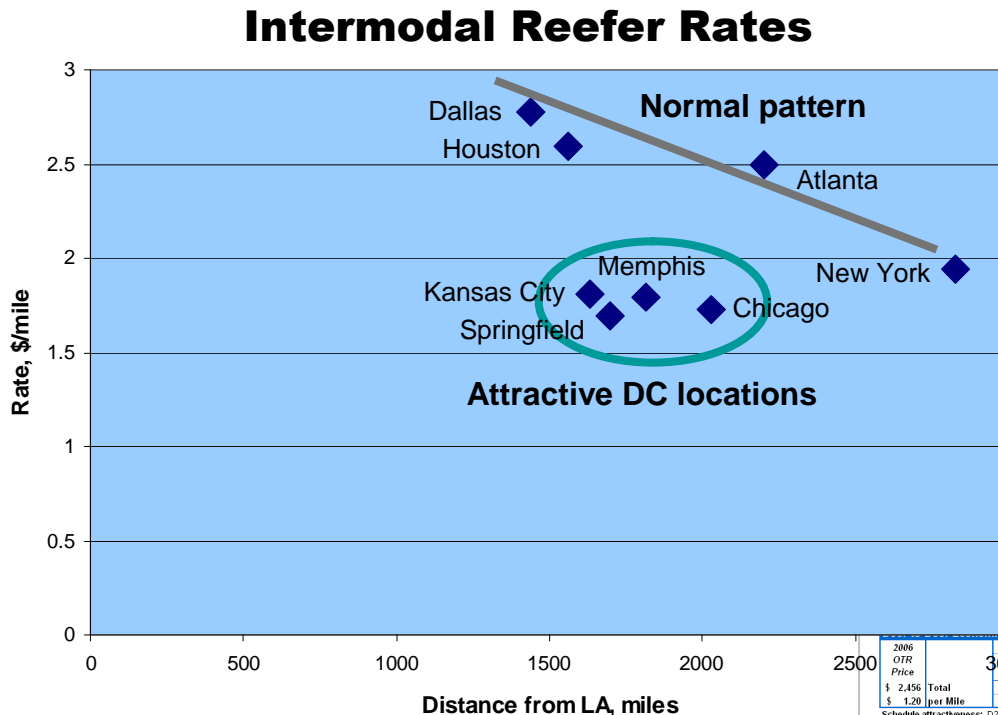
Wisconsin

North Carolina

West Virginia

Moving: Downshifting modes

- Intermodal can work – depends on specific destinations, not just miles



Intermodal vs Truckload

Demo Intermodal vs. Truckload Comparison Analysis

City	1	2	3	4	5	6	7	8
Orig Dray Miles	74	14	234	372	355	74	74	361
TR Rail Miles	2,218	2,218	2,314	1,835	2,307	2,218	2,218	2306.9
Fast Dray Miles	19	19	19	19	19	10	19	7
Total D2D Miles	2,311	2,251	2,567	2,226	2,681	2,302	2,311	2674.9
Sched D2D Hrs	61	65	78	85	89	89	61	80.36
Fastest PU at Cust	6:28-0	12:00-0	16:09-0	18:18-0	16:15-0	17:28-0	6:28-0	11:46-0
Fastest Deliv. to Cust	19:23-2	5:41-3	22:23-3	7:23-4	8:58-4	10:12-4	19:23-2	20:08-3
Fastest D2D Days	2.5	2.7	3.3	3.5	3.7	3.7	2.5	3.3
Fastest PU at Cust	6:28-0	12:00-0	16:09-0	18:18-0	16:15-0	17:28-0	6:28-0	11:46-0
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Fastest D2D Days	2.5	2.7	3.3	3.5	3.7	3.7	2.5	3.3

Main Menu

Batch Model

Click to view schedules for selected route

Click to view a list of terminal names and codes

For Selected Schedules

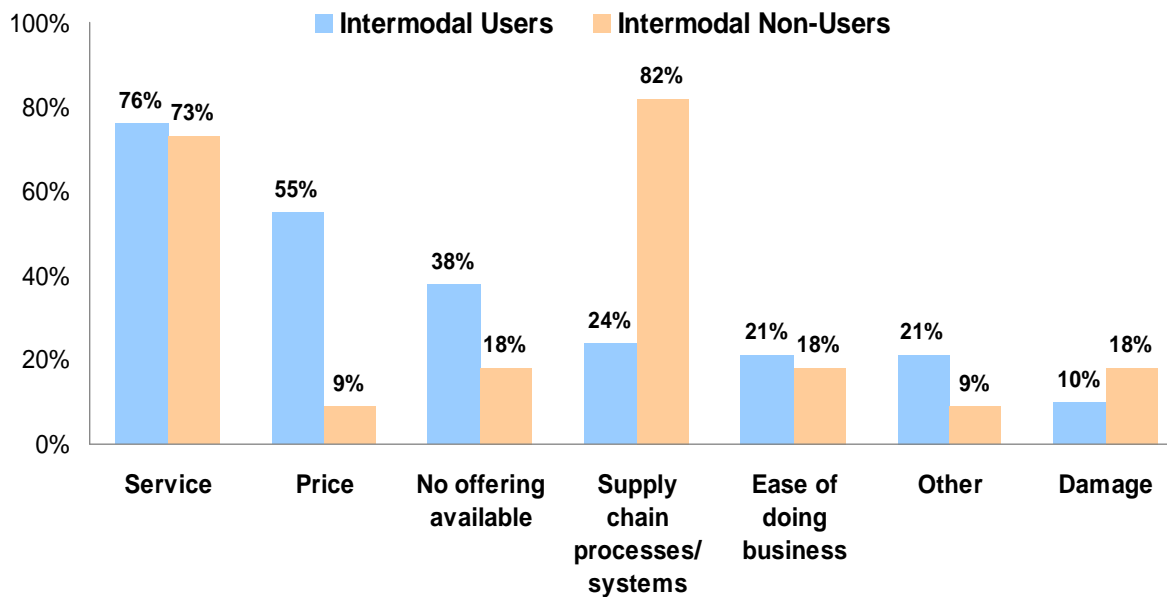
Advantage (Disadvantage) vs. OTR	Advantage (Disadvantage) vs. LP
Circuity % -11%	Circuity % 16%
Fastest Days 0.5	Fastest Days 0.8
Cust Adj. Days 0.5	Cust Adj. Days 0.8

Note: If ranking by schedule, default for schedules accepting both equipment types is Trailer.
 Schedule attractiveness: D2D schedule days is Green if <1 day slower than truck OTR or rail competitor, Yellow if 1-3 days slower than truck OTR or rail competitor, Red if 3+ days slower than truck OTR or rail competitor.
 Economic attractiveness: D2D cost per mile is Green if <85% of OTR cost, Yellow if 85-100% of OTR cost, Red if >100% of OTR cost.
 Fastest (24/7) schedule: Assumes customer can release/receive load at any time of day.
 * Pickup and Delivery at Specified Times

Challenge: Many barriers to intermodal use

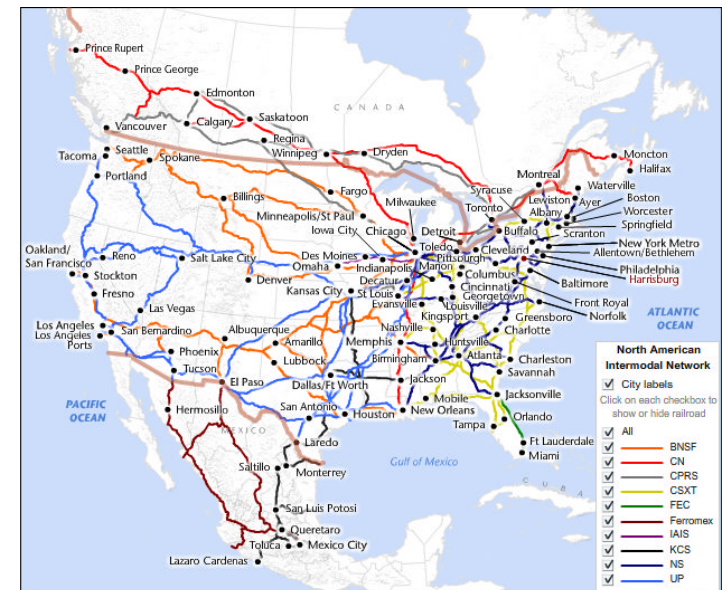
“What are the main inhibitors to shifting significant volume to intermodal?”

Percent of Interviewees Mentioning Barrier



Source: Norbridge interviews with transportation buyers (BCOs)

North American Intermodal Network

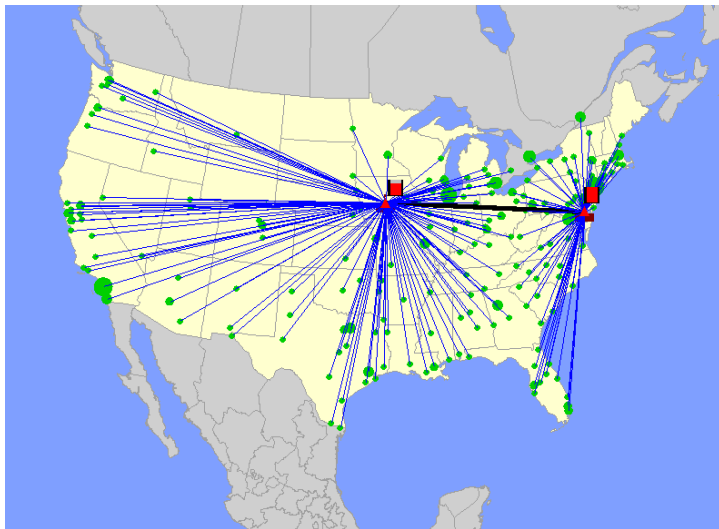


Source: Skedz.com

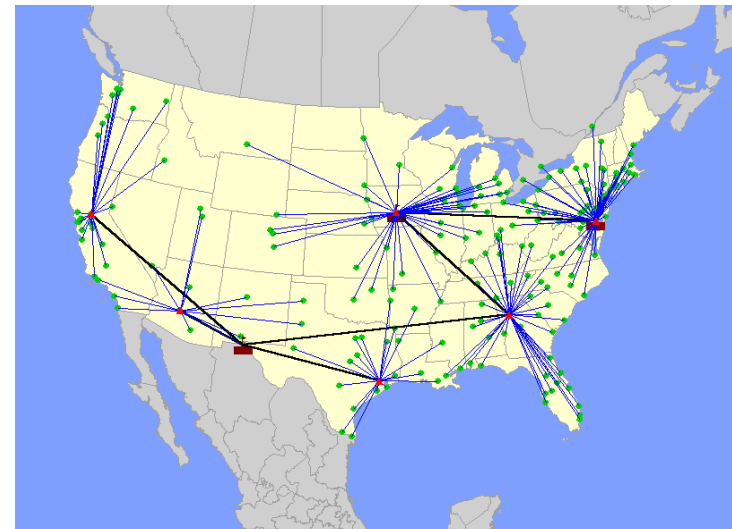
Network and flow path optimization

- **Essential to shorten the “last mile”**
- **Typical US network goes from 5 to 8 sites**
- **Optimizing routing through network is critical**

Baseline
2 plants + 2 DCs



Optimal
3 plants + 6 DCs



Agility needed to confront change

Dual sourcing on key items



Plant and DC redundancy



Postponement strategies



Ops analytical team



Agile example: Large US consumer goods importer

Product: High value, short shelf life

China to Memphis DC

- Postponement strategy based on a central Memphis DC
- Through containers – intact ISOs
- Rail intermodal from West Coast to Memphis



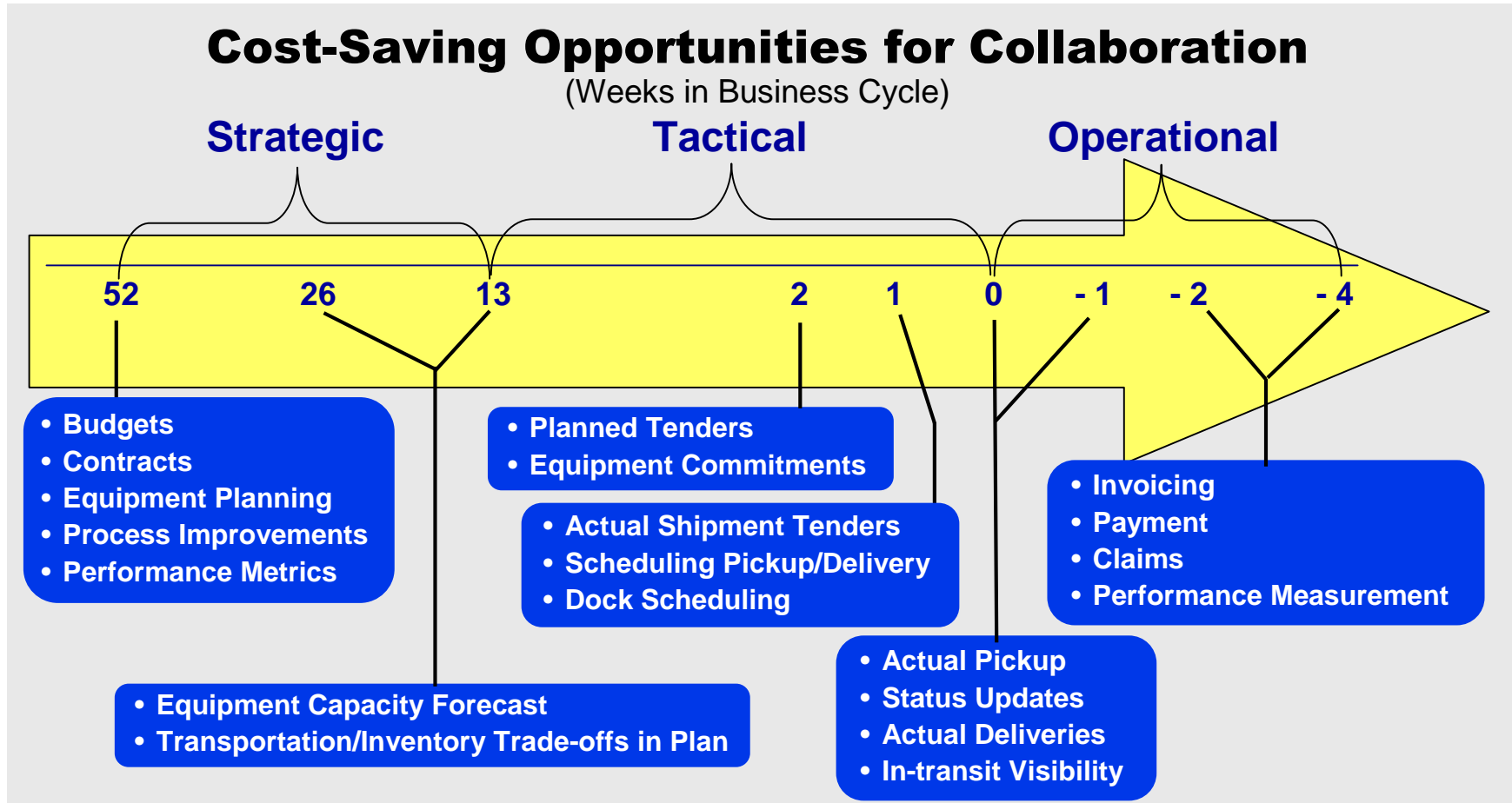
New “No Touch” Program

- China plant to LA/LB in customer-ready full containers
- Received at West Coast
- LA transload into 53’ equipment
- Moves TL to retail customer DCs

Benefits

- Supports fast service to retailers: 5 business days order-to-delivery cycle
- Reduced inventory by 12 days of supply
- Avoided increasing inland rail intermodal costs for ISOs

Integrating: Shipper-carrier collaboration



Source: Logility

Supplier responses: Smart moves by mode

Container Lines & Ports	Trucking	Rail & Intermodal
<ul style="list-style-type: none"> ✓ Question return of 7-10% growth ✓ Lines must absorb capacity – more multiport or web service networks ✓ Port focus on customer franchises, services, and inland connections ✓ Less emphasis on port capital expansion 	<p>LTL</p> <ul style="list-style-type: none"> ✓ Responses to YRCW outcome ✓ Network restructuring <ul style="list-style-type: none"> ➤ Lower cost ➤ Better service ✓ Price restructuring <p>TL</p> <ul style="list-style-type: none"> ✓ Managing chronic cost pressures ✓ Deal with negative productivity ✓ Survive . . . to thrive 	<ul style="list-style-type: none"> ✓ Tailor networks to respond to secondary opportunities ✓ Position for regained strength in exports ✓ Maintain base price discipline . . . with selective action ✓ Focus on capturing significant long-term productivity gains

Summary: It's how you take the curve

**Everyone can gun it down the straightaway,
but positioning opportunities are greatest
in the dangerous curves**



Adapted from BCG

Slow In, Fast Out

- ✓ Ease on the brakes
don't panic – retain key resources
- ✓ Anticipate your line
plan carefully – end-to-end review
- ✓ Steer with confidence
be flexible – best of lean & agile
- ✓ Power out into the next straightaway
ready and robust for the recovery