

Establish Davis Logistics Costs and Service 2013

As presented at

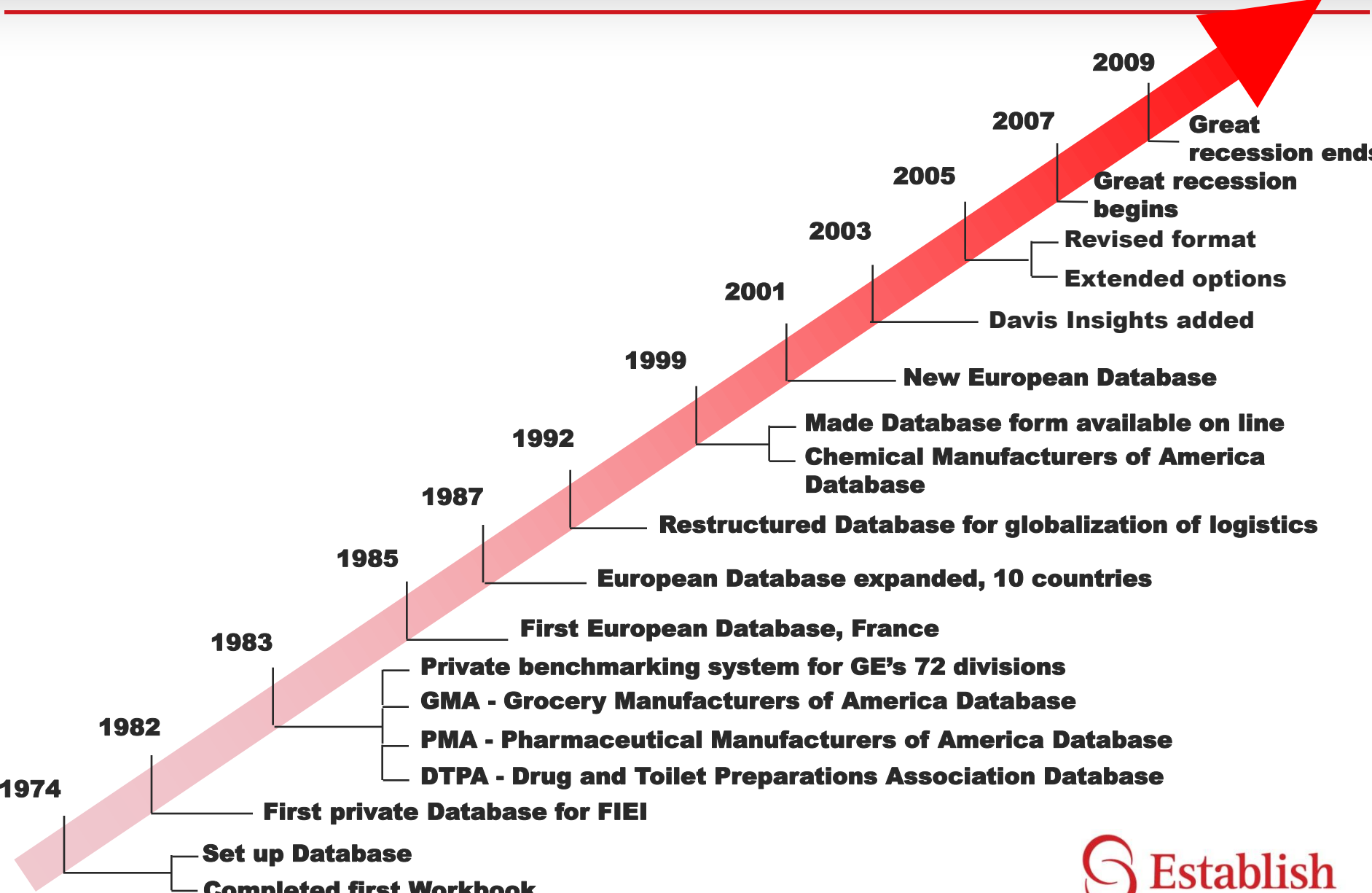
CSCMPS Annual Global Conference

Denver, October 20-23



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- 1. The Establish Davis Database Evolution**
 - 2. Logistics Cost and Service**
 - 3. What companies are doing to control/reduce costs**

The Establish Davis Database Evolution Over Time



The Establish Davis Database Contains Many Industries/Groups

Consumer Electronics

High-Value Industrial Durable

Telecommunications

Industrial Replacement Parts

Chemicals

Industrial Supplies

Consumer Service Parts

Small Appliances

Large Appliances

Publishing

Tires

Consumer Packaged Goods

Building Supplies/Hardware Products

Low-Value Consumer Packaged Goods

High-Value Consumer Packaged Goods

Grocery

Produce and Fresh Foods

Meat and Fish Products

Frozen Food

Beverages

Consumer Household Products

Health and Beauty Aids

High-Value Pharmaceuticals

Low-Value Pharmaceuticals

**Industrial and Consumer
Wholesalers/Distributors**

Apparel Retailers

Drug Wholesalers

Mass Merchandisers

Low-Value Industrial Durable

The Establish Davis Database

Participants confidential reports include:

- ▶ **Cost comparison by general industry group and product value.**

<i>Establish, Inc.</i>													
<i>Davis Logistics Cost and Service Database - Cost Comparison</i>													
Company Name: Your Company						Date Issued: 3 / 2013							
Company Number: 10619													
	Industrial Durable				Similar Product Value			Similar Weight Companies			Similar Revenue Companies		
	Your Company	Lower Quartile	Average	Upper Quartile	Lower Quartile	Average	Upper Quartile	Lower Quartile	Average	Upper Quartile	Lower Quartile	Average	Upper Quartile
Cost as a Percent of Sales													
Transportation	5.52	1.64	3.10	4.10	2.30	3.67	4.95	3.11	4.00	5.48	1.37	3.01	3.99
Warehousing	2.80	0.83	1.99	2.44	1.12	2.12	2.47	1.45	2.52	3.38	0.46	1.51	2.40
Order Processing	0.80	0.25	0.82	0.71	0.24	0.60	0.70	0.31	0.43	0.49	0.08	0.43	0.53
Administration	0.48	0.14	0.34	0.38	0.15	0.36	0.48	0.14	0.37	0.42	0.09	0.27	0.35
Inventory Carrying	2.88	0.95	1.83	2.25	1.11	2.89	3.05	1.08	1.86	2.34	0.80	1.80	2.33
Overall Cost	12.48	4.70	7.70	9.80	5.02	8.64	10.90	7.21	9.54	11.57	3.14	6.18	8.66
Cost per Hundredweight													
Transportation	11.50	7.49	24.25	23.88	8.79	15.68	17.96	3.26	6.40	7.76	7.02	31.12	32.95
Warehousing	5.83	4.22	13.42	13.71	4.31	8.89	10.04	1.80	3.90	5.44	3.62	13.02	11.05
Order Processing	1.67	0.86	6.25	4.79	0.88	2.62	2.78	0.08	0.52	0.64	0.25	5.38	3.88
Administration	1.00	0.60	2.36	2.39	0.65	1.62	2.17	0.12	0.48	0.71	0.35	3.75	2.21
Inventory Carrying	6.00	3.69	24.32	16.99	3.89	12.09	13.26	0.66	3.20	4.17	2.22	52.02	20.34
Overall Cost	26.00	17.51	80.54	56.26	20.17	38.55	43.02	6.14	13.95	17.24	15.75	88.88	60.98
Volumes													
Million Pounds	600	55	559	400	47	262	261	848	2,645	2,566	87	1,119	1,044
Million Sales (U.S.\$)	1,250	400	1,536	1,458	183	963	1,110	1,059	2,794	4,209	1,041	2,647	3,309
Product Value(\$/Lb.)	2.08	2.08	18.61	11.33	2.98	4.42	5.35	0.69	1.95	1.95	1.95	43.25	16.11
Number of Shipping Origins	5	1	7	8	1	6	5	8	26	29	3	13	16
Delivery Paid by Customer (%)	25	2.75	25	34.25	4.25	21	28.75	5.00	19	24.00	2.00	24	37.00
Your Costs													
Transportation	\$69,000,000				Order Processing	\$10,000,000		Inventory Carrying				\$36,000,000	
Warehousing	\$35,000,000				Administration	\$6,000,000		Total				\$156,000,000	
<small>Lower Quartile - 25% of the comparison group is below this value. Costs below the lower quartile are considered to be "Best in Class." Average - Statistical mean of the group. Upper Quartile - 75% of the comparison group is below this value.</small>													



▶ Other cost comparisons participants receive:

- ▶ **By volume**
- ▶ **By sales revenue**



Your company compared to similar companies.

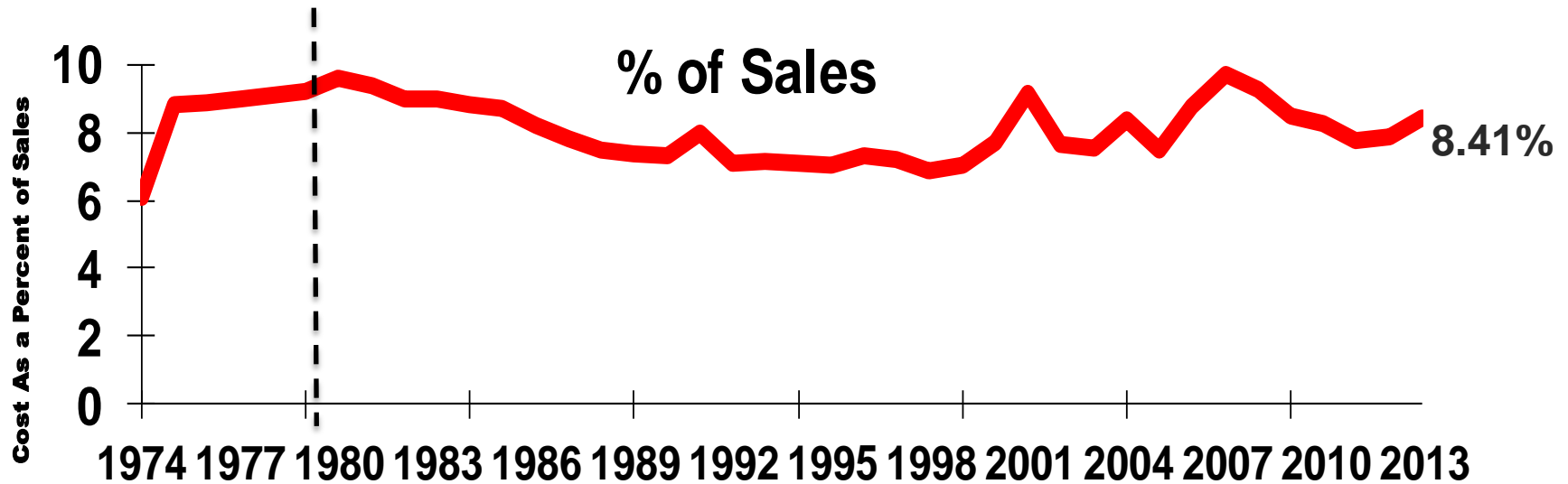
	Manufacturing			
	Your Company	Lower Quartile	Average	Upper Quartile
<i>Percent of Annual Sales</i>				
Transportation	4.50	1.79	3.66	4.85
Warehousing	2.10	0.54	1.78	2.37
Order Processing	1.00	0.19	0.51	0.54
Administration	0.40	0.08	0.29	0.36
Inventory Carrying	2.00	0.98	2.05	2.46
Total Costs	10.00	3.42	7.38	10.03
<i>Cost per Hundredweight</i>				
Transportation	18.00	8.04	36.93	38.60
Warehousing	8.40	3.30	19.98	12.57
Order Processing	4.00	0.46	6.71	7.13
Administration	1.60	0.36	3.93	2.61
Inventory Carrying	8.00	2.42	43.12	24.61
Total Costs	40.00	15.74	95.08	87.78
<i>Volumes</i>				
Million Pounds	500	15	510	327
Million Sales (U.S.\$)	2,000	200	1,330	1,277
Product Value(\$/Lb.)	4.00	1.90	31.00	16.76
Number of Shipping Points	2	2	10	11
Delivery Paid by Customer (%)	8	6.50	27	40.00



The Establish Davis Database

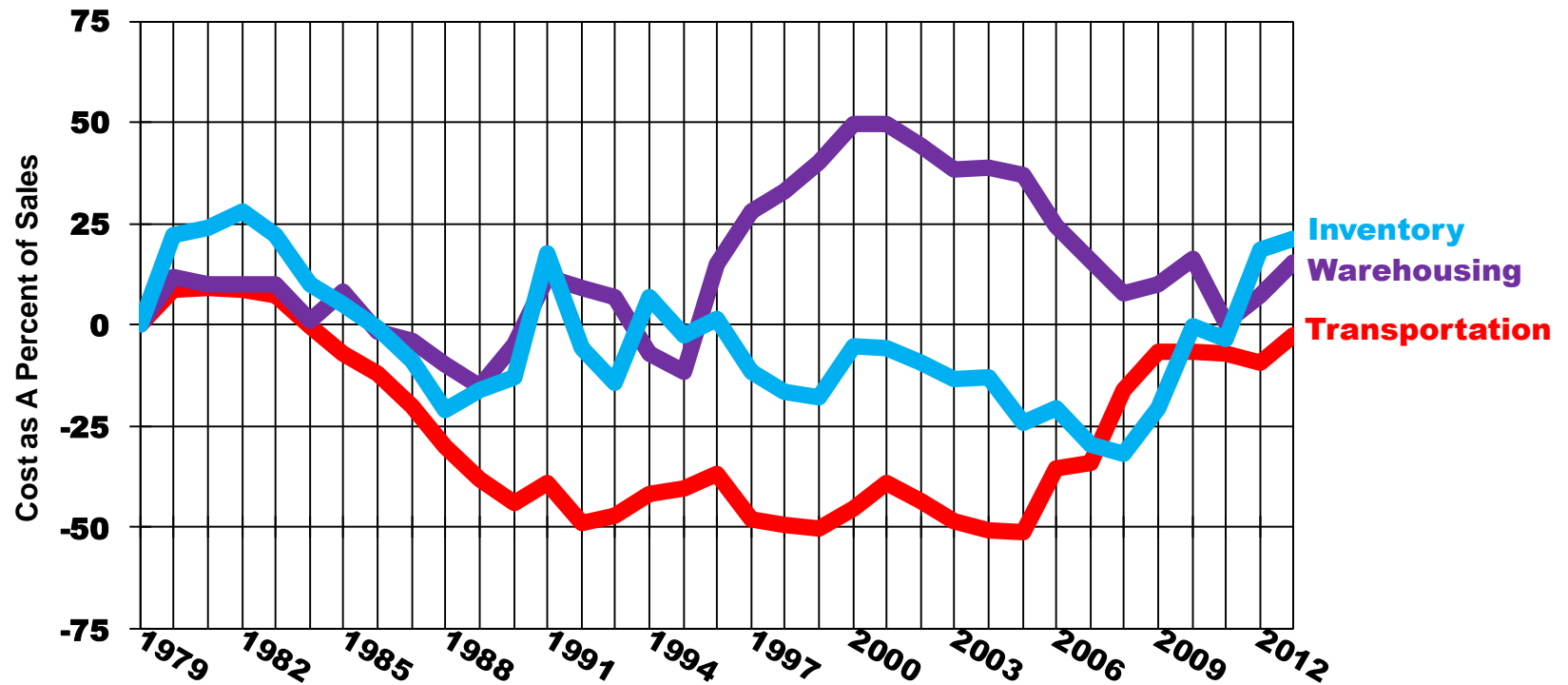
Annually, we summarize the data, track it over time, and report the results.

Logistics Cost as a Percent of Sales



The Establish Davis Database - Average Company Logistics Costs Change

Annual Functional Cost Change (Percent of Sales)



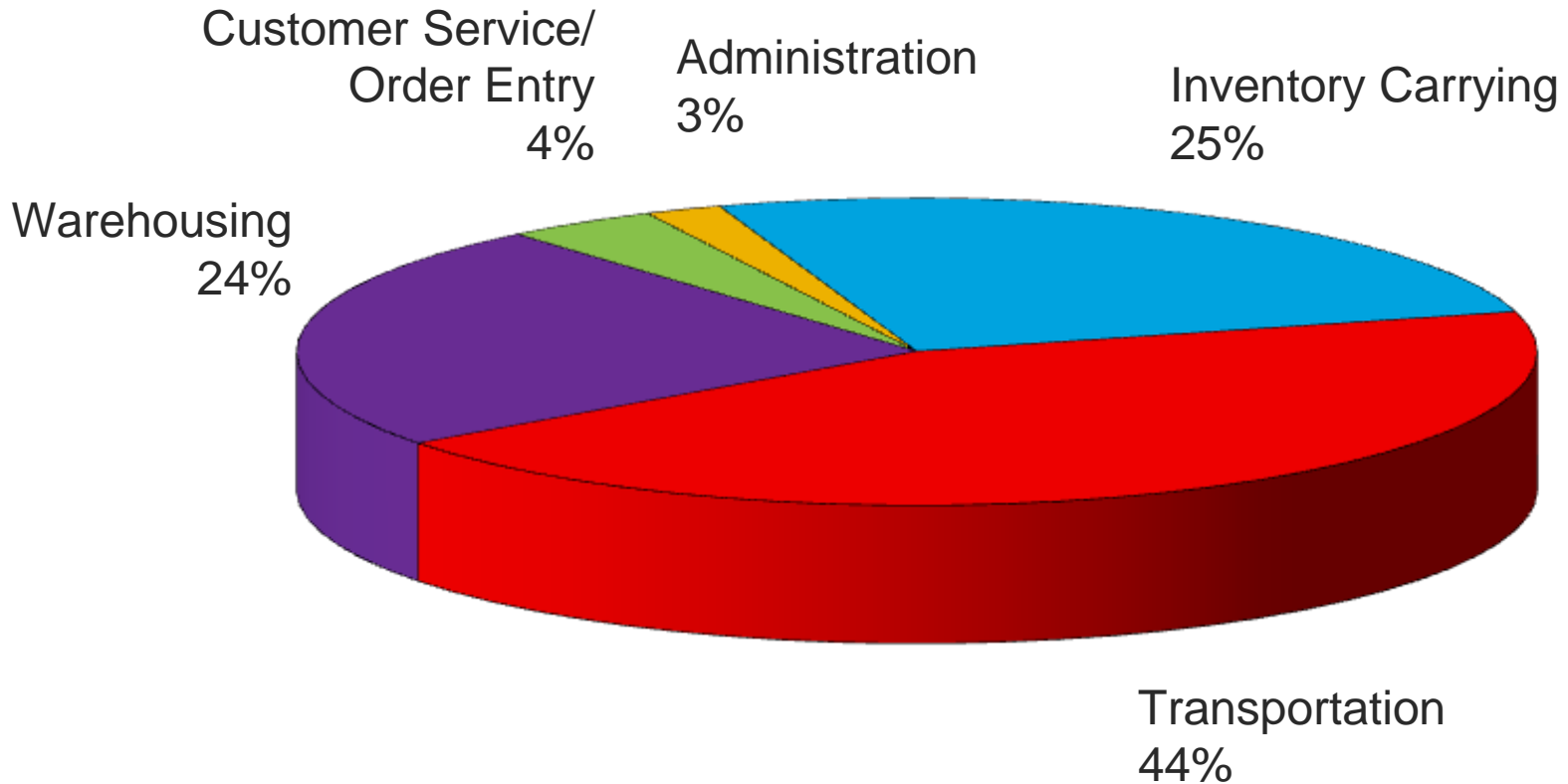
Establish Davis Database - Average Company 2013 - Key Findings

- ▶ **Logistics costs for the average company in the database are 8.41 percent of sales and \$55.95 per hundredweight shipped.**
- ▶ **Logistics costs increased moderately (2 to 3 percent) from 2012 to 2013. Transportation and warehousing costs drove the increase.**
- ▶ **Overall logistics costs are on an upward trend.**
- ▶ **Companies with higher product values continue to have lower logistics costs.**
- ▶ **Smaller companies continue to have higher logistics costs.**
- ▶ **Service performance levels have remained about the same for several years.**

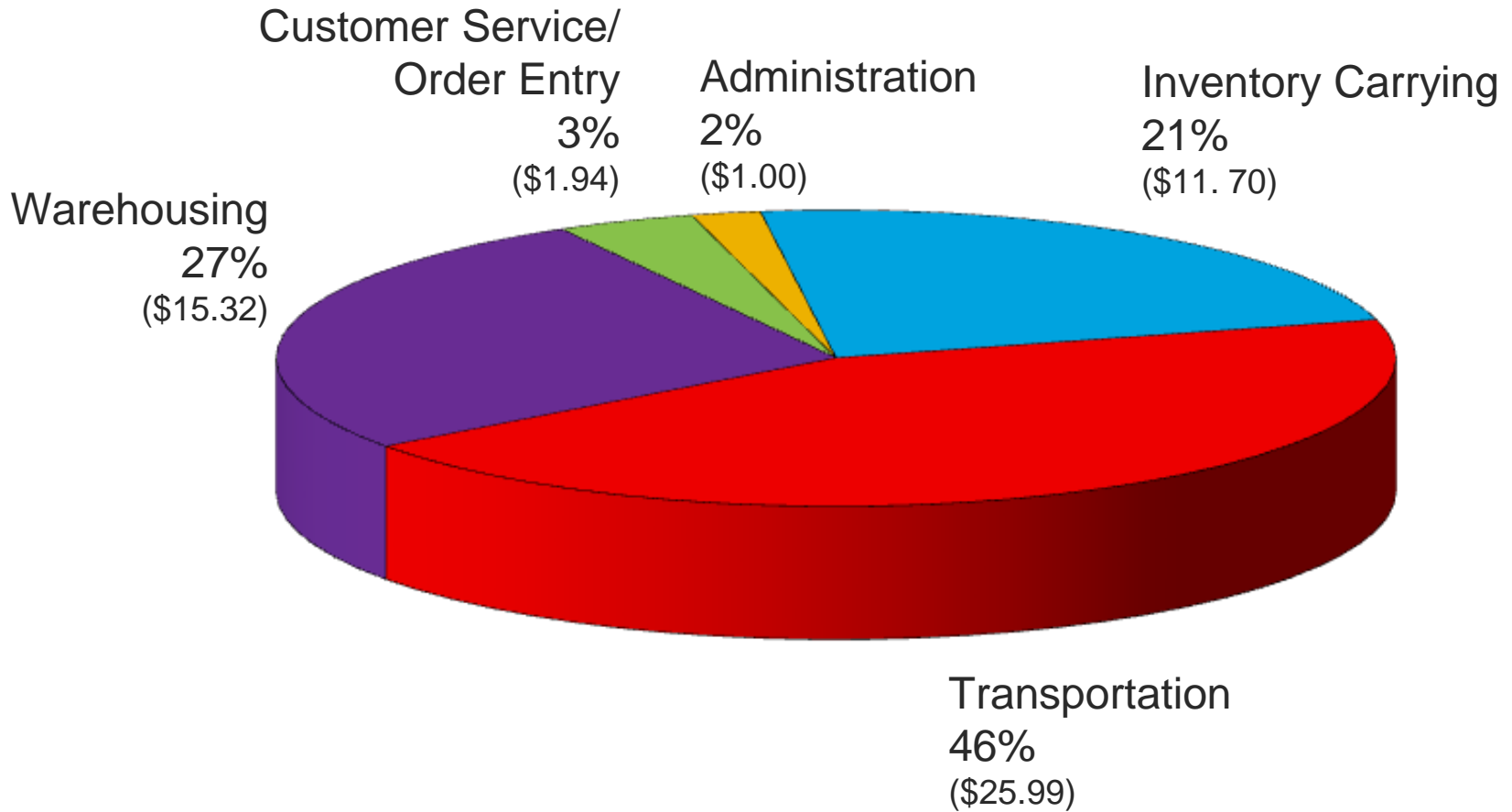
The Establish Davis Database - Average Company 2013 Logistics Costs

	Cost	
	% of Sales	\$/CWT
Transportation	3.66%	\$25.99
Warehousing	2.04%	\$15.32
Customer Service	0.37%	\$1.94
Administration	0.22%	\$1.00
Inventory Carrying	2.11%	\$11.70
Total Logistics Costs	8.41%	\$55.95

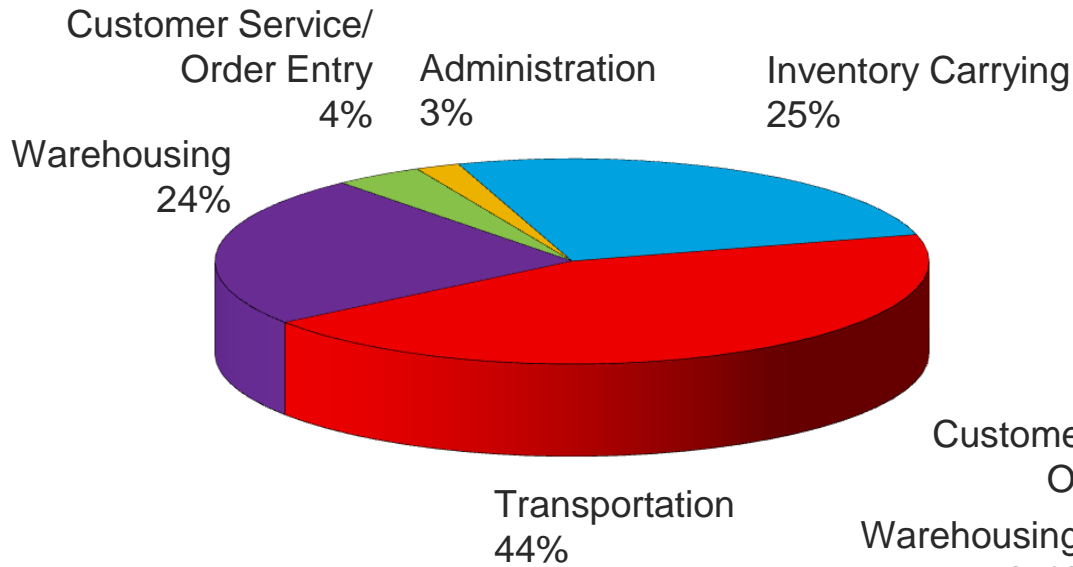
Cost as a Percent of Sales (8.41%)



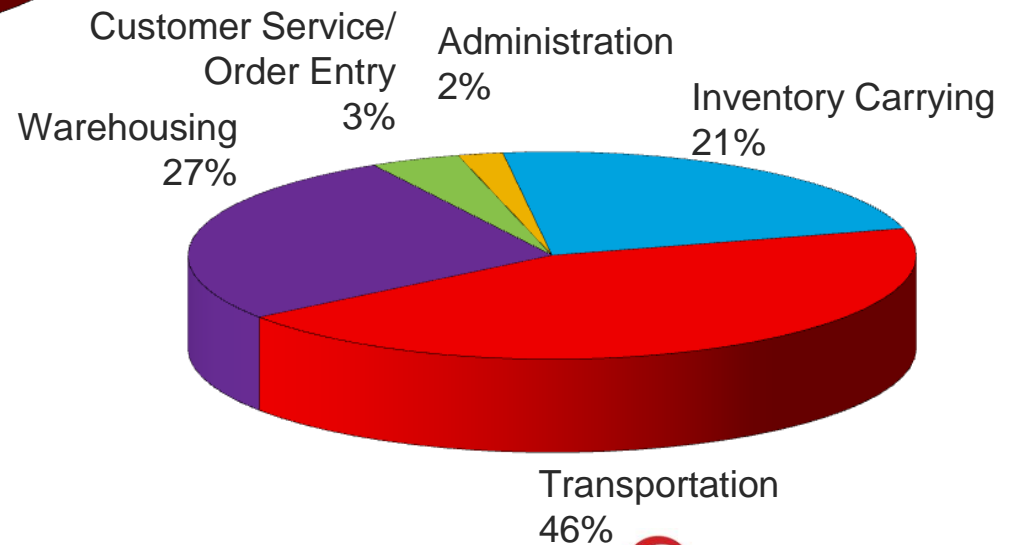
Cost per Hundredweight (CWT – \$55.95)



Cost as a Percent of Sales



Cost per Hundredweight



The Establish Davis Database - Average Company 2013 vs. 2012 Logistics Costs

	2013 Cost		2012 Cost	
	% of Sales	\$/CWT	% of Sales	\$/CWT
Transportation	3.66%	\$25.99	3.44%	\$24.85
Warehousing	2.04%	\$15.32	1.89%	\$15.07
Customer Service	0.37%	\$1.94	0.30%	\$2.38
Administration	0.22%	\$1.00	0.19%	\$1.37
Inventory Carrying	2.11%	\$11.70	2.05%	\$13.02
Total Logistics Costs	8.41%	\$55.95	7.87%	\$56.69

The Establish Davis Database - Average Company 2013 vs. 2012 Logistics Costs Change

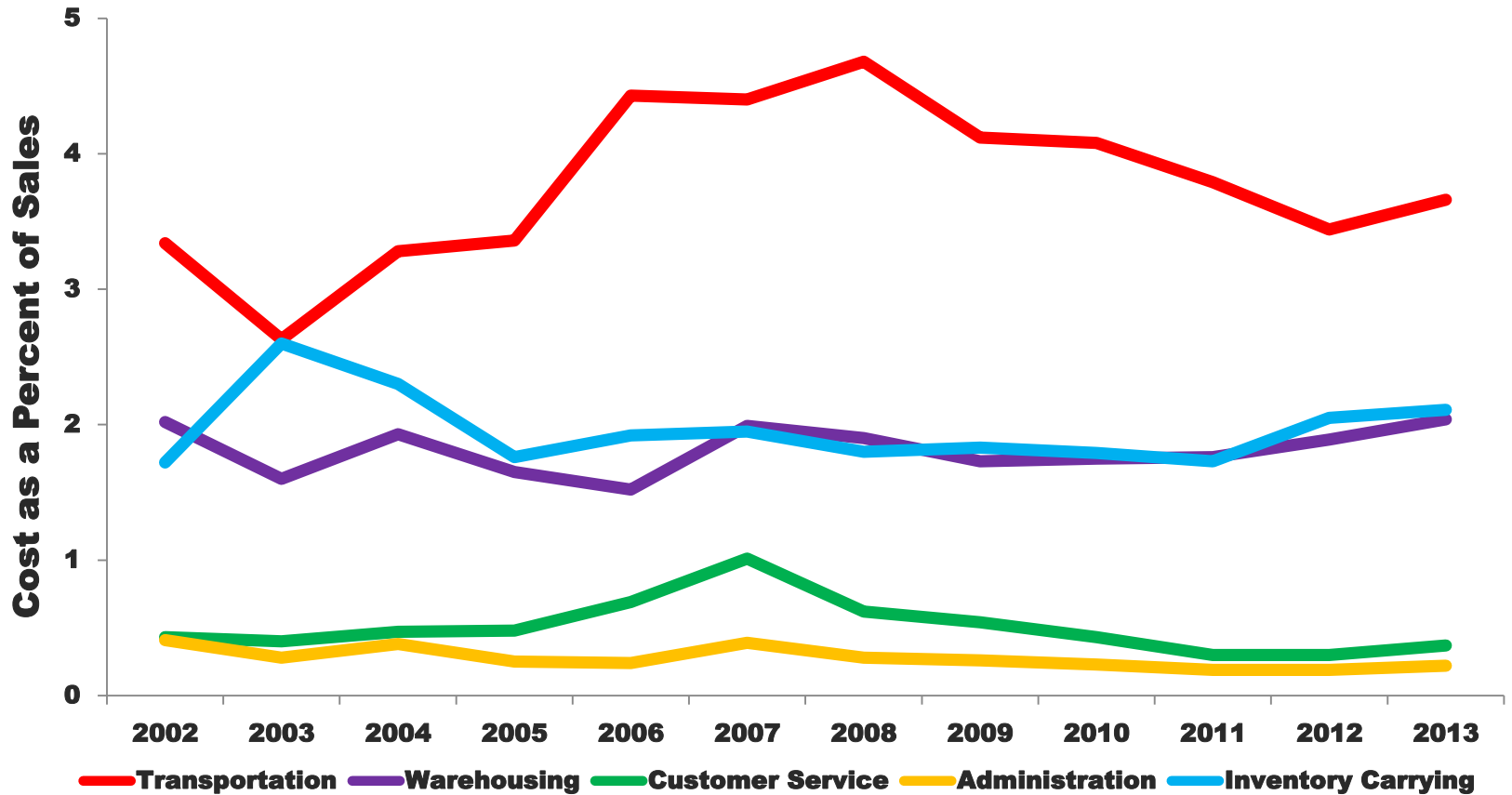
	<u>% of Sales</u>	<u>\$/CWT</u>
Transportation	+6.4%	+4.6%
Warehousing	+7.9%	+1.7%
Order Entry/Customer Service	+23.3%	-18.5%
Administration	+15.8%	-27.0%
Inventory	+2.9%	-10.1%
Total	+6.9%	-1.3%



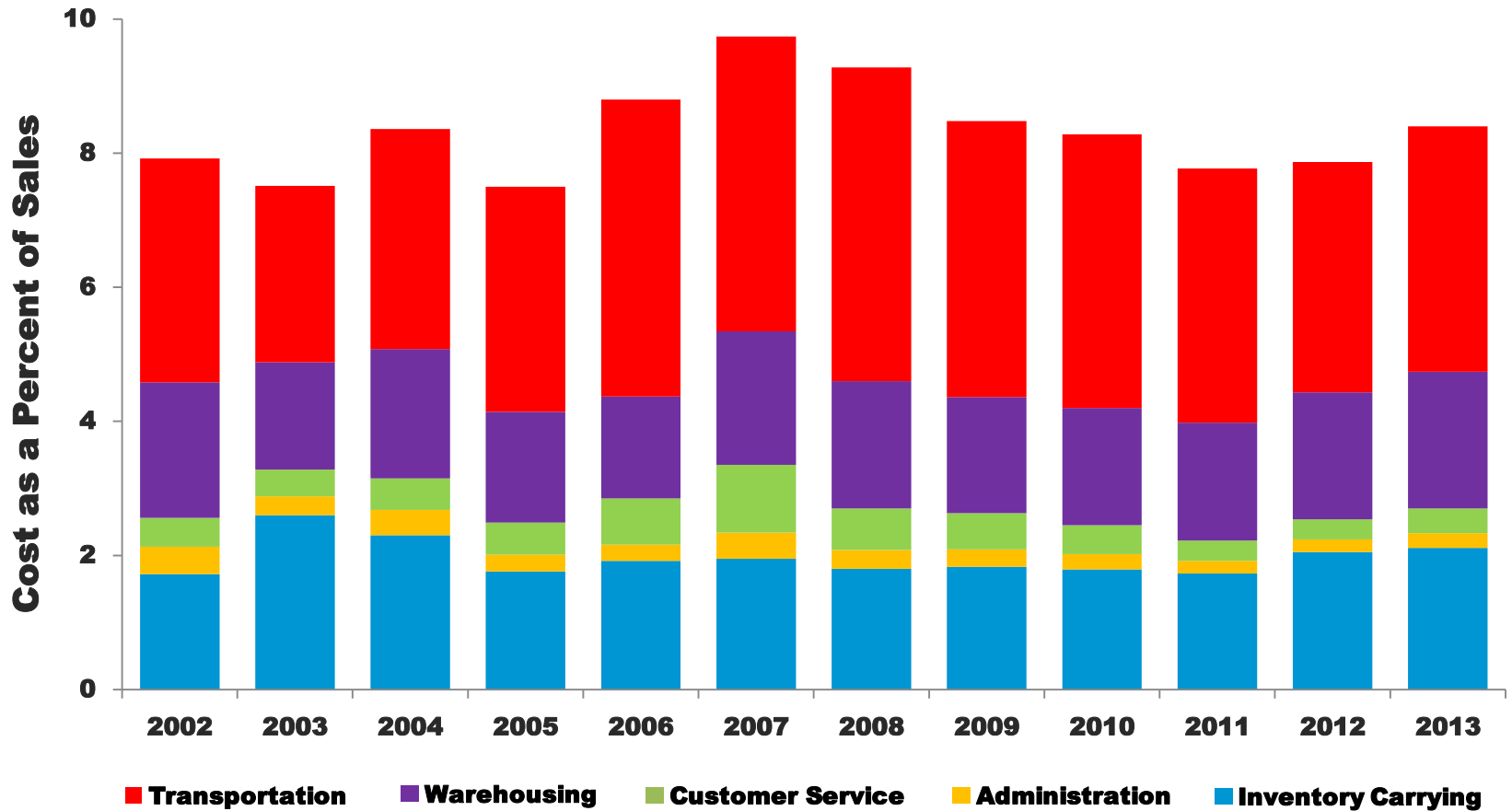
The Establish Davis Database - Average Company 2013 Logistics Costs

	Cost as % of Sales
Transportation	3.66%
Warehousing	2.04%
Customer Service	0.37%
Administration	0.22%
Inventory Carrying	2.11%
Total Logistics Costs	8.41%

Cost as a Percent of Sales Over Time



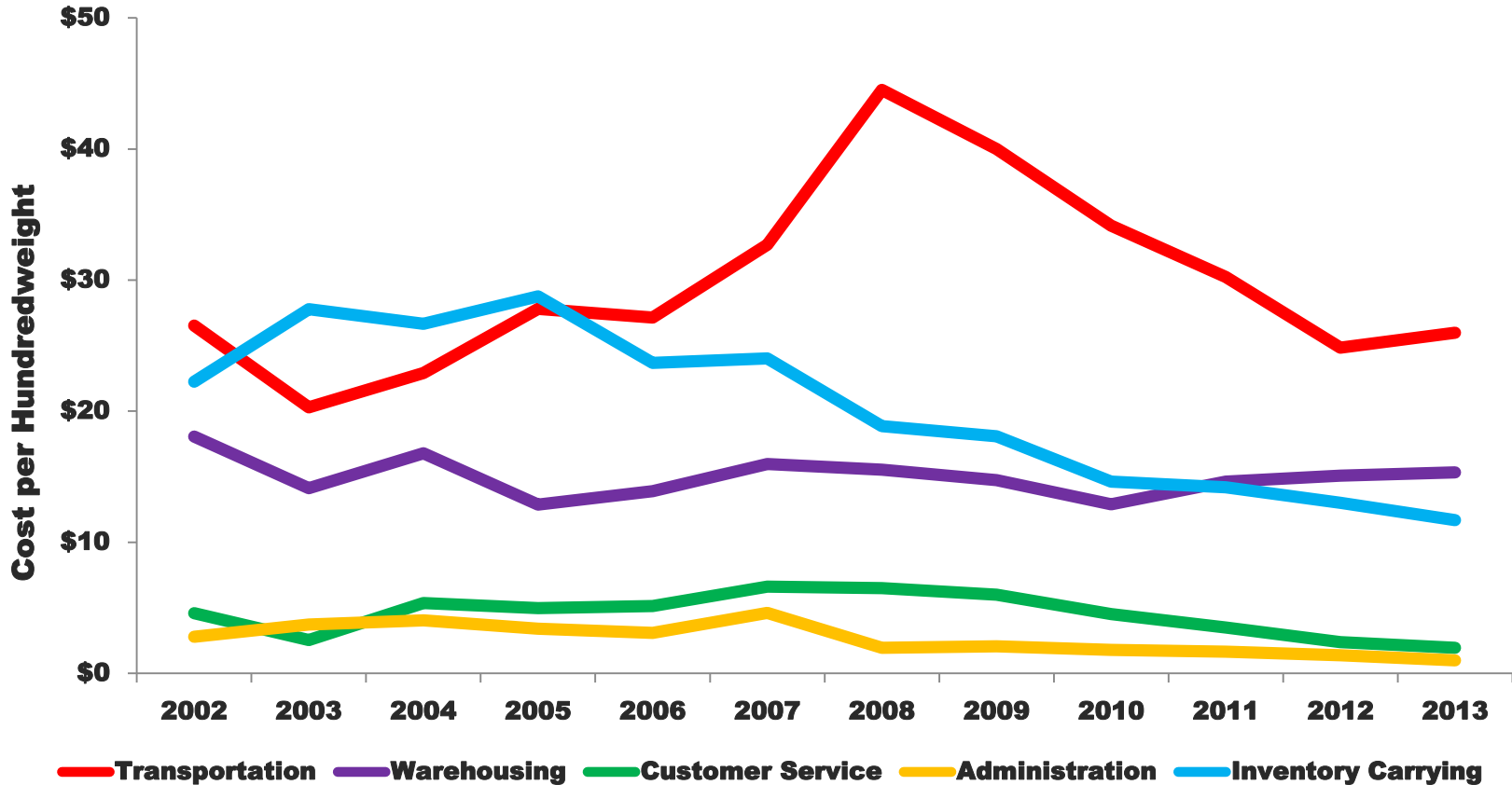
Cost as a Percent of Sales Over Time



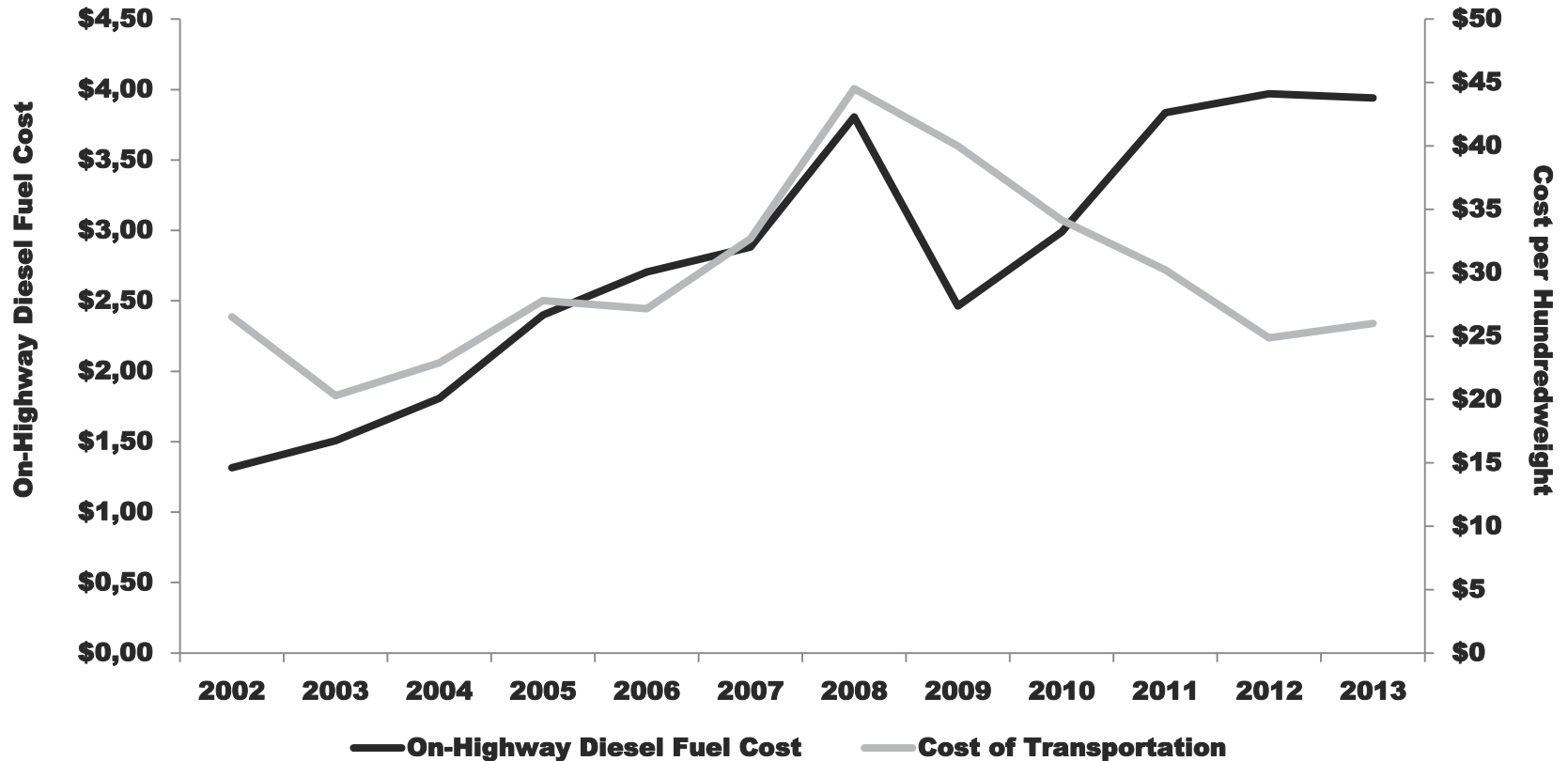
The Establish Davis Database - Average Company 2013 Logistics Costs

	Cost
	\$/CWT
Transportation	\$25.99
Warehousing	\$15.32
Customer Service	\$1.94
Administration	\$1.00
Inventory Carrying	\$11.70
Total Logistics Costs	\$55.95

Cost per Hundredweight Over Time

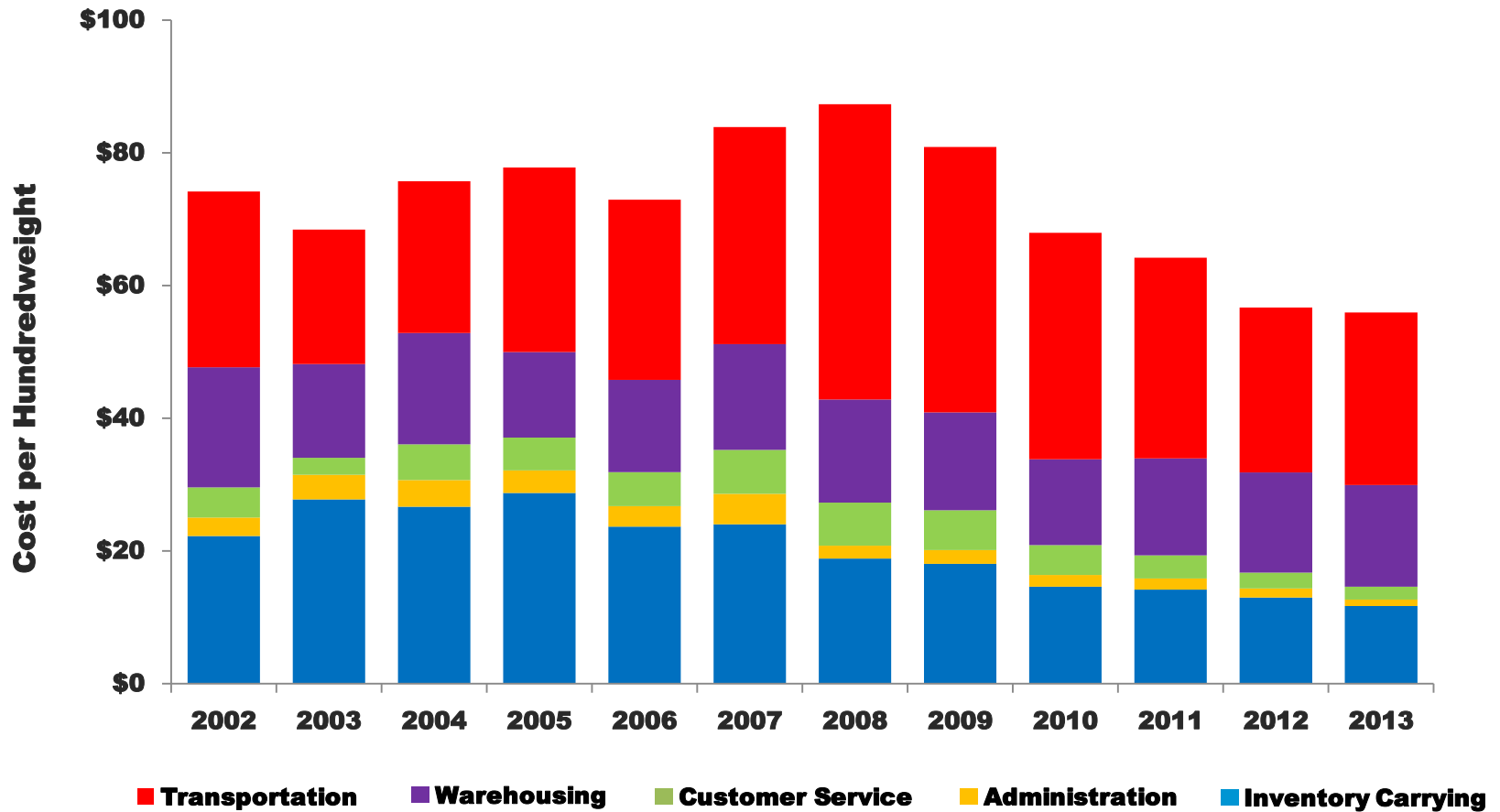


On-Highway Diesel Fuel Cost (Over Time)



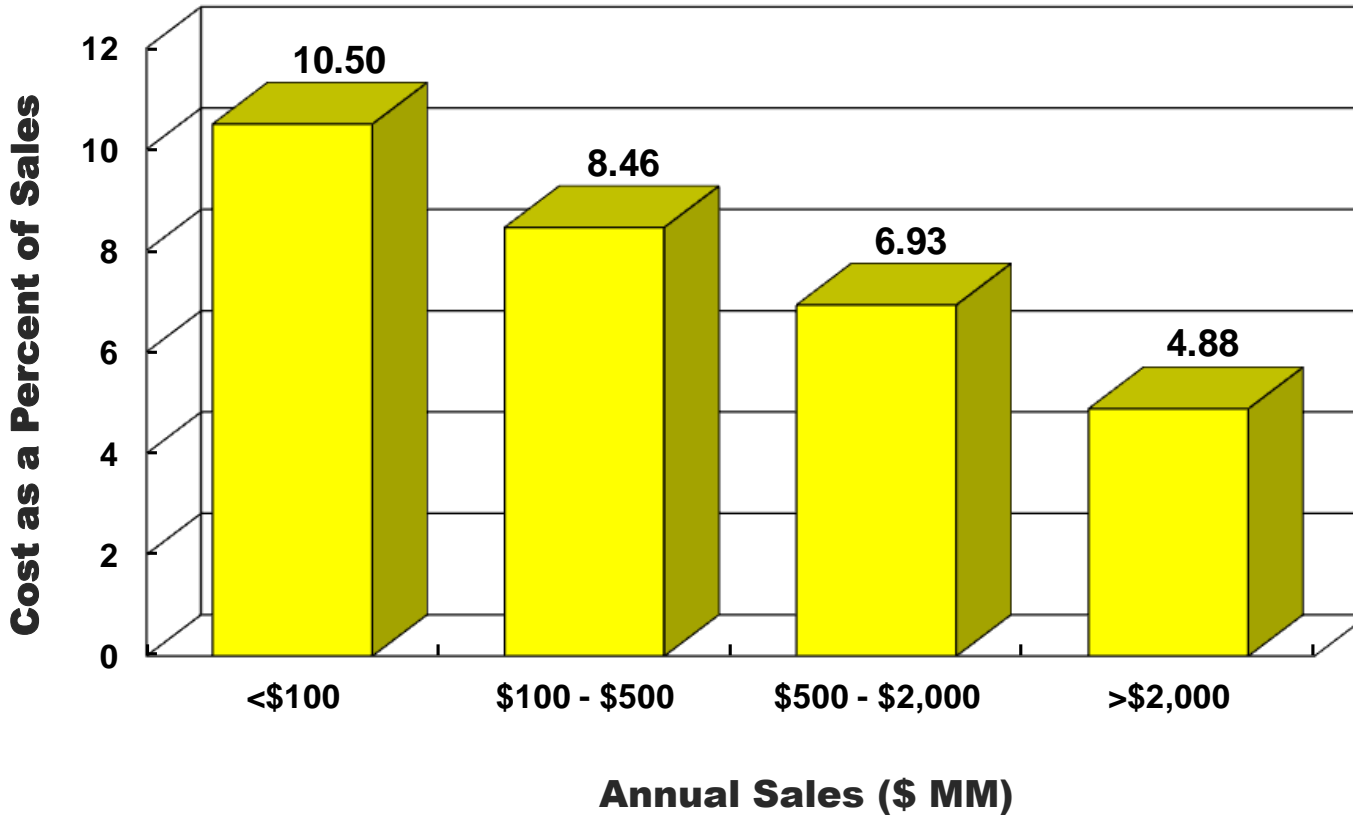
Source: U.S. Energy Information Administration

Cost per Hundredweight Over Time



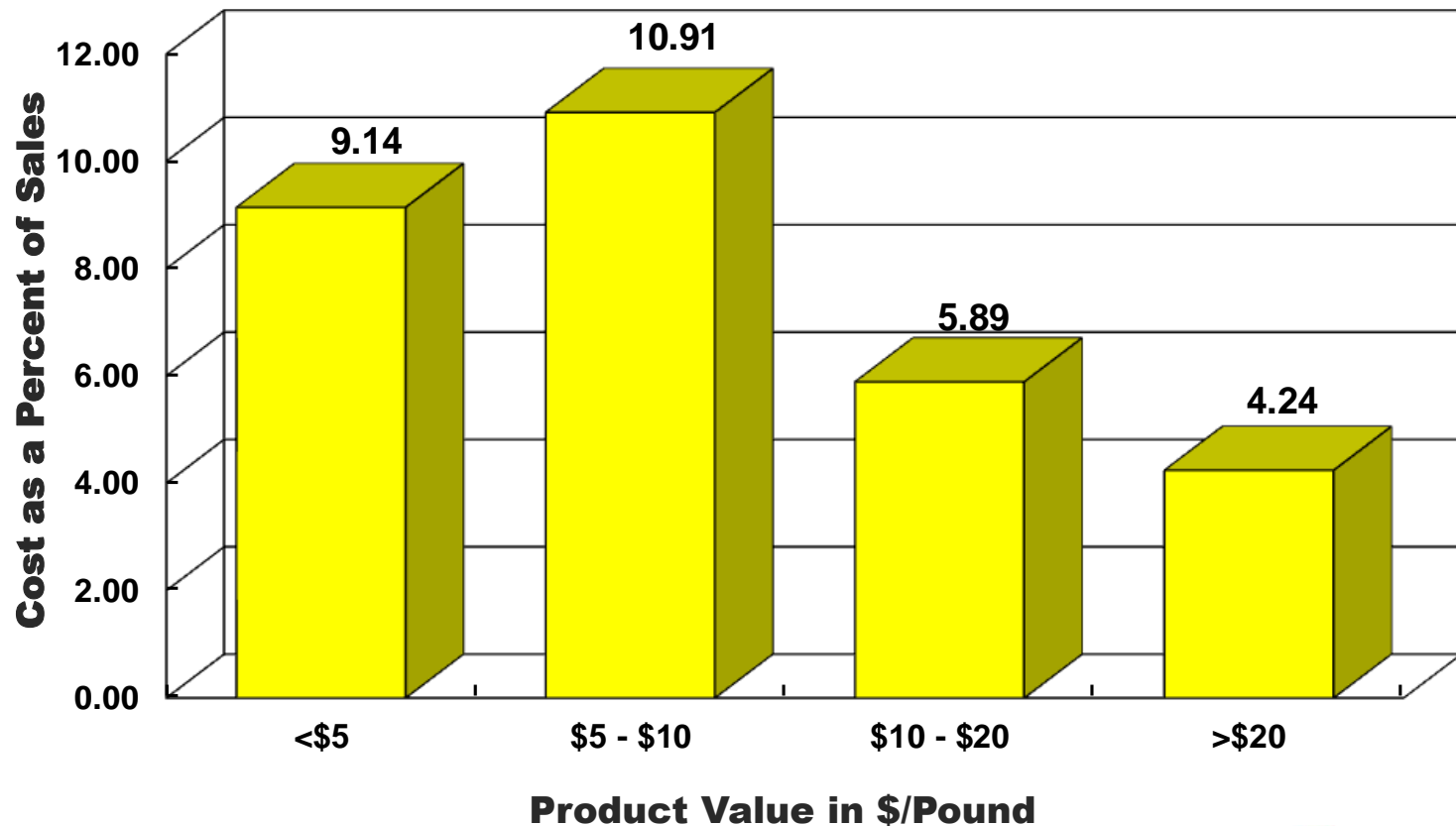
Company Size

Smaller companies continue to have higher logistics costs.



Product Value

Companies with higher product values continue to have lower logistics costs.



Customer Service Levels

2013 Measurements

- ▶ **Total order cycle time - 11 days**
- ▶ **Product Availability (Shipped Complete)**

Orders **85%**

Lines **95%**

Units **92%**

Average Performance Reported

		FULL DATABASE											
		<u>02</u>	<u>03</u>	<u>04</u>	<u>05</u>	<u>06</u>	<u>07</u>	<u>08</u>	<u>09</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>
Total Cycle Time	(Days)	8	7	8	8	8	9	9	8	7	7	10	11
Product Availability	(% Orders)	88	85	91	88	84	83	90	91	92	93	85	84
	(% Lines)	95	91	94	92	89	93	92	94	95	95	96	95
	(% Units)	93	93	91	94	90	94	94	95	95	95	94	91

What are companies doing to control/reduce costs and add capacity in this economy?



LOGISTICS NETWORKS

LOGISTICS NETWORKS

- ▶ **Shifting to a global perspective.**
- ▶ **Reconfiguring networks as a result of:**
 - **Shifts in the manufacturing and customer base.**
 - **Changes in carrier rate structures and service performance levels.**
- ▶ **Reconfiguring networks to consolidate the operations of:**
 - **Internal organizations**
 - **Acquired/merged organizations.**

TRANSPORTATION
(44% of the Logistics Spend)

TRANSPORTATION

- ▶ **Centralizing the purchasing of transportation.**
 - **Formalizing the carrier selection process.**
 - **Leveraging volumes (plants/DCs - inbound from sources/suppliers, transfers and customer shipments).**

- ▶ **Re-evaluating ordering patterns to identify consolidation, pool point, and cross dock opportunities.**

- ▶ **Separating imbedded transportation costs from the landed cost of materials/inventory from sources, to:**
 - **Identify, evaluate and control costs.**
 - **Leverage additional volumes.**

- ▶ **Acquiring/upgrading transportation management systems (TMS) to maximize control and cost reduction opportunities.**

WAREHOUSING
(24% of the Logistics Spend)

WAREHOUSING

- ▶ **Leveraging volumes when:**
 - **Purchasing supplies and equipment**
 - **Engaging the services of third party providers (3PL)**
- ▶ **Shifting to 3PLs and formalizing the engagement process.**
- ▶ **Using more temporary personnel.**
- ▶ **Increasing the capacity of existing warehouses by changing to denser storage methods and by expanding the cube (adding on, raising the roof, etc.).**
- ▶ **Purchasing factory rebuilt equipment.**
- ▶ **Adding/upgrading Warehouse Management Systems (WMSs).**
- ▶ **Increasing ASN requirements to improve receiving and put away productivity and efficiency.**

INVENTORY
(25% of the Logistics Spend)

INVENTORY

- ▶ **Improving the forecasting/inventory planning processes.**
- ▶ **Reducing the safety stock requirements by reducing the number of warehouses.**
- ▶ **Reducing inventory carrying costs and warehousing space requirements by:**
 - **Pushing inventory , all types, back to suppliers.**
 - **Disposing of excess and obsolete inventory.**

CUSTOMER SERVICE
(4% of the Logistics Spend)

CUSTOMER SERVICE

- ▶ **Migrating to automated attendants**
- ▶ **Outsourcing the functional activities**
- ▶ **Encouraging on-line order entry, tracking, etc.**

ADMINISTRATION
(3% of the Logistics Spend)

VS.

Zoom In...

Focus on the Details that Matter

Benchmark Company	Competitive Benchmarking Groups (Based on Your Company's Characteristics)											
	in Your Industry			Medium Product Value Companies	Low Product Value			Small Companies				
Annual Sales	Lower Quartile	Average	Upper Quartile	Lower Quartile	Average	Upper Quartile	Lower Quartile	Average	Upper Quartile	Lower Quartile	Average	Upper Quartile
Transportation	1.96	2.25	2.88	3.52	3.02	5.52	2.77	4.60	5.23	1.44	3.37	4.49
Warehousing	1.61	1.91	2.52	3.16	1.85	1.26	2.47	3.33	1.12	2.05	3.22	4.49
Order Processing	0.15	0.14	0.65	1.22	0.24	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Administration	0.16	0.14	0.82	1.79	0.24	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Inventory Carrying	2.67	1.21	2.39	3.30	2.13	2.54	1.07	2.05	2.55	1.11	2.05	2.51
Other Costs	-	-	-	-	-	-	-	2.11	1.1	0.08	0.75	1.40
Total*	6.55	7.41	8.22	9.18	7.79	14.4	6.99	9.9	5.72	3.37	5.18	7.18

THANK YOU