


HIDA

Executive Conference

Aventura, Florida
March 14, 2006


Supplier/ Distributor Channel Productivity



WHAT'S THE PLAN?

1. Breeze through some sections
2. Questions, discussion any time (especially at end of sections)
3. Raise issue you don't see!

GOAL: "Interactive, Transformational, Co-opetive Learning Experience"




HIDA06 2ndpart 2

AGENDA

1. History of demand replenishment (again)
2. How to sell niche products
3. Outsource some to Asia; re-blend MDC* here?

*MDC - Master Distribution Center



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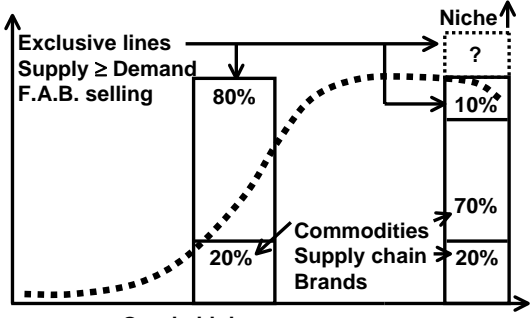
Part 1

History of Demand Replenishment


Drug, Grocery, McD's distribution (1980's)
 Quick response (1983 on)
 Vendor managed inventory (VMI) (1960's on)
 Integrated supply (1995 on)
 Dotcom dis-intermediation disaster (1995-2000)
 GOOGLE co-op strategy (?) (2005 →)

*McD's - Macdonalds

DEMAND REPLENISHMENT!



F.A.B. - Feature, Advantage, Benefit
Article # 4.9 at www.merrifield.com




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PRODUCT-CENTRIC → CUSTOMER TPC/PAT
DEMAND CREATION → LOW-COST FULFILLMENT

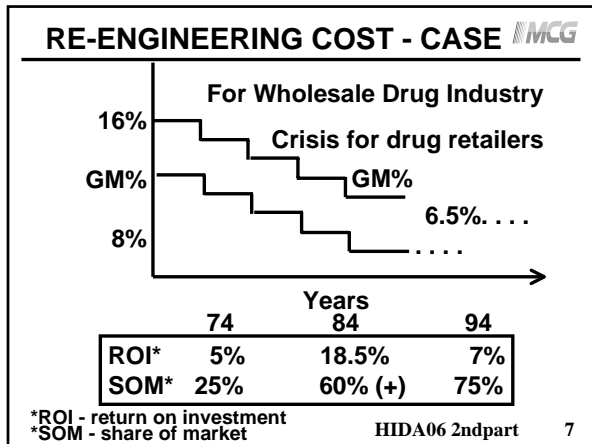
Supplier	10	50	10	Customer
		→		
		50		

PAT = Profit after tax
 TPC = Total procurement cost



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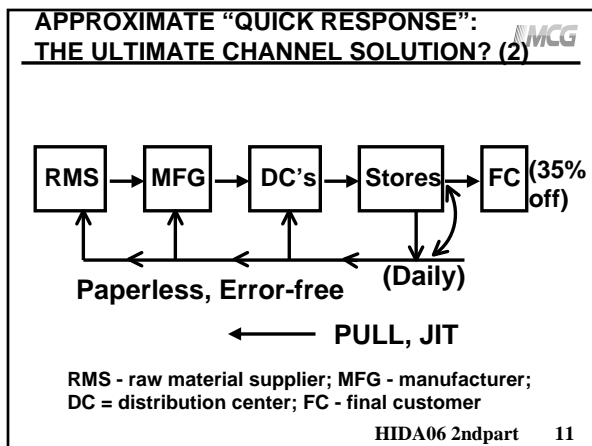
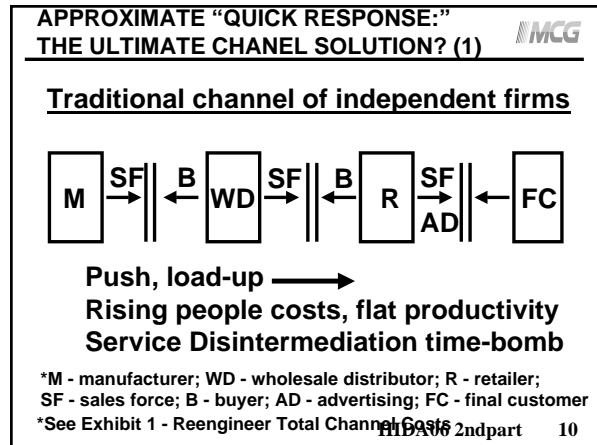
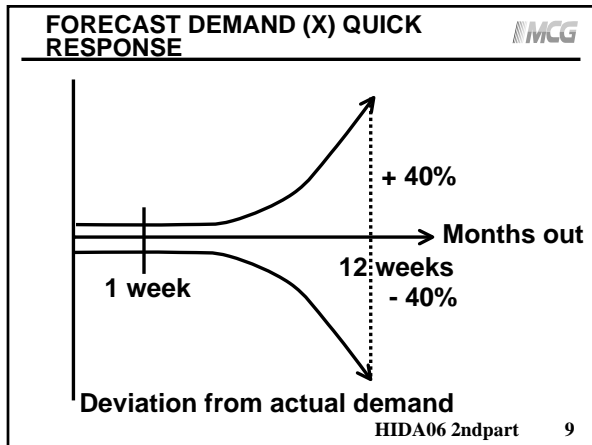
Presentation by:
D. Bruce Merrifield



WHOLESALE DRUG SERVICE CHANGES MCG

1974	1984
Salesperson	Customer Uses
Inside Sales	Bar-code Wand
Data Entry	Phones-Computer
Mistakes	
20 - 30% share	100%
Emergency buys	System buys
	(order size up 10x)
2%/Net 10th	N-15 days
16% GM	8% GM

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- ### WAL-MART QR BENEFITS MCG
1. Reduce inventory 50%; double turns
 2. Fillrates 90% → 99.6% + 9.6%
 3. Added SKUs 20,000 → 40,000 → 100k
 4. Same store sales '85 to '90 +73%
 5. Reduce operational costs -5%
 6. Cross-docking in DC's
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WAL-MART CASE LESSONS (1) MCG

- '83 K-Mart & J. C. Penney passed on QR
- '92- on 90% of grocery retailers passed too
- 03/93 K-Mart apologized to suppliers

Can two parties:

- Flowchart what is & what could be
- Tie two champions together
- Share both change costs and net savings ?

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WAL-MART CASE LESSONS (2) MCG

1. What does higher fill-rates on an even greater range of one-stop-shop items do for:
 - Customer satisfaction & retention
 - Average purchases per visit
 - Average payload/stop of truck in distribution
2. Master distributors → turn-earn \$ (+) “fill-rate economics”

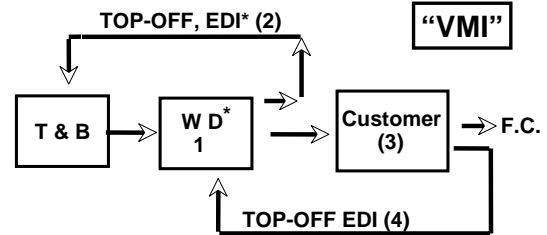
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FINAL MARGIN LEVELS? MCG

- 6.5% Drug, grocery & computer WD's
- 5% “Good” captive distribution center (DC)
- 4% (+) McDonald's suppliers
- 3 - 4% True cost of Wal-Mart DC's

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THOMAS & BETTS APROXIMATING “QR”! MCG



*EDI - Electronic Data Interchange

*W D - Wholesale Distributor

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THOMAS & BETTS CONCLUSIONS MCG

- The master distribution channel provided breakthrough benefits
- Thomas & Betts': order entry costs ↓ total freight ↓
- WD's: next day, pool-lane delivery add last hour needs did switch to electric order entry for fast/last hour delivery

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Achieving Win - Win, Integrated*, (Sole) Supply Contracts



*Implies same degree of paperless automation + outsourcing of internal supply activity

THIS TREND ISN'T NEW MCG

1. McDonald's and Martin-Brower - 1956
2. Bolton at Carborundum - 1964 (MRO)
3. Xerox prime vendors - 1978 (OEM)
4. Ryder inbounds at Saturn - late '80's
5. Commodity MRO stuff - '95 on

Fewer vendors = Lower T P C!

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PUBLICIZED SUPPLIER CONSOLIDATION PROGRAMS MCG

Firm	Start	End	% Change (+)
Xerox (OEM)	5,000	500 (-)	- 90%
Motorola	10,000	3,000	- 70%
* Miller Brew (MRO)	75+	20	
↓ Beth. Steel	200+	21	
United Air	12	4	

*Panelist statements about Power Transmission WDs at 1995 PTDA convention

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THEORETICAL BENEFITS MCG

- ▶ Easier to save a \$ than to grow one
- ▶ Low cost is vital to survival
- ▶ Reduce numbers of variables, errors, costs
- ▶ Deeper, systematic, cooperative last relationship
- ▶ Exchange buying changes for service changes

} ?

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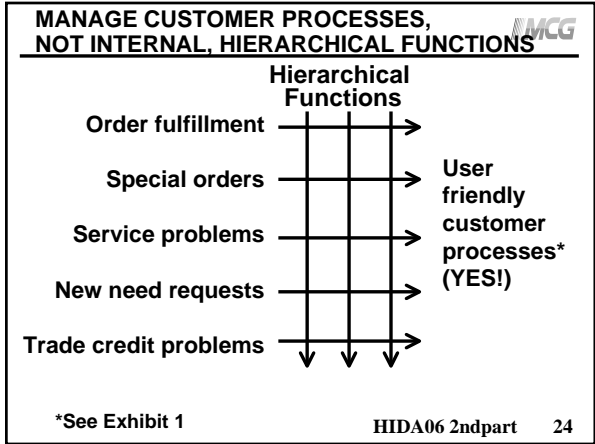
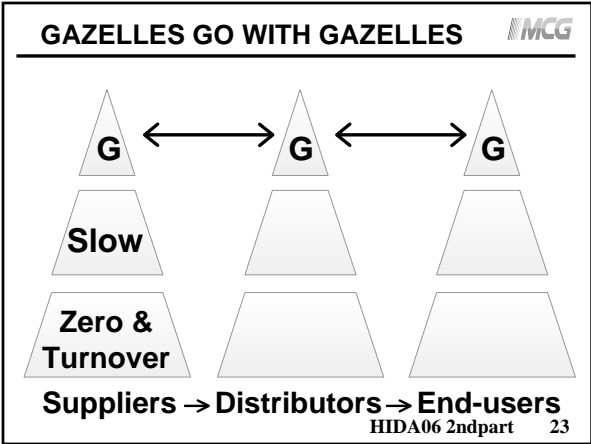
ADVERSARIAL TO PARTNERING CASE: MCG

“Our thinking has evolved from:

Find the guy with the lowest bid and monitor him so he doesn't fail to - find the guy who is the best and make him part of the process.”

A Boeing Vice President

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SIGNS OF THE SEARS SQUEEZE

1. Big customer initiates “win/win” contract
2. Lots of demands; ignore your concerns
3. Achieve synergy - 80% to them; (+); (+)
4. Systematically increase demands
5. Shop 6 - 12 months later: “Here’s last look”

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UPFRONT CONTRACT ON “PARTNER ABUSE”

Examples:

1. Ask for lower price without:
 - Linking to a cost reduction
 - Preserving win-win ratio
2. Ask for shared sacrifice in downturns?
3. Shopping deal against a “bargain price, bargain value” option, reverse auction with a skill.

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DEMAND REPLENISHMENT TREND/SPECTRUM

Big volume steady-flow consumables

- Wal-Mart (quick response `83-`88
- Groceries; drugs (`80's)
- Hospital supplies (HMO catalyst; `92-`99)

MRO integrated sole supply (`95 on)

- Pipe, valves & fittings - petro chem. Plants
- Industrial factory supplies: 20% of mkt.
- Lab products (x) large, multi-locations (?)
(small % of spend supplies most vulnerable!)

(Servicing local randomness & constant changes)

Small users (x) maint.; repair; custom
& job-shop needs

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HEALTHCARE SUPPLY CHAIN OPPS (1)

- ▶ Have two or more (x) product segments?
- ▶ Disaster recovery (sole-supplier risks)
- ▶ Supply chain integrity (drugs, equipment, grey market)
- ▶ Network complexity (for buying complex.)
- ▶ Disintermediation
 - ▶ like grocery channel for high volume (?)
 - ▶ direct from “long-tail” ??? manufacturers (?)

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HEALTHCARE SUPPLY CHAIN OPPS (2)

- ▶ Pricing deals (rebates) (x) forward buying
- ▶ RFID?
 - ▶ WMT wins, big manufacturers eventually (?)
 - ▶ Imagine better supply chain scenarios enabled by RFIT
- ▶ Better logistics, then EC (CoLinX)
not EC exchange to pave cow path (?)

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SUPPLY CHAIN PROFITABILITY IS EFFICIENCY

- ▶ Why pave over old cow paths?
- ▶ Why settle for incremental efficiencies
- ▶ If 30 - 50% of customers & products are un-profitable,
 - ▶ Shape them up before supply chain apps?
 - ▶ Leverage best items & customers first?
- ▶ Change sales incentives from volume → profitability?

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SUMMARY POINTS

MCG

If:

- ▶ 90% of sales are commodities, and. . .
- ▶ Most consolidating customers want total cost reduction solutions
- ▶ We make profits on customers > products

Then:

- ▶ Is our sales force aligned with realities?
- ▶ Team focused on 10% of accounts that matter?

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Part 2

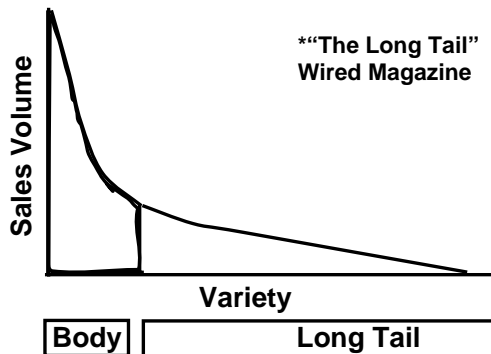
How To Sell Niche Products Through Replenishment Channels?

Long Tail Curve



SELL THE "LONG-TAIL"?

MCG



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LONG-TAIL E-COMMERCE STORIES

MCG

Amazon: 50% of sales below 130,000 rank
(inventory 2.3MM books)

Rhapsody (tunes)

Walmart.com 39,000 titles

Rhapsody. 500,000 titles

NetFlix. 25,000 DVD's

- How to re-intermediate distributors?
- How to balance push/pull in virtual utility?

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NICHE PRODUCT MFG'R CASE # 1

MCG

Bullard

- Safety helmets (etc.)
 - "It's your life & your worth it"
 - www.bullard.com (ed. & re-intermediate)
 - Multiple niche markets & types of distributors
 - Marketing consortium of producers (x) fire fighting
 - Some huge, special-needs customers direct
 - Be #1 in niches & profitable
- vs.
- #3 or lower in commodity segment with huge volume & no profits

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NICHE PRODUCT MFG'R CASE # 2

MCG

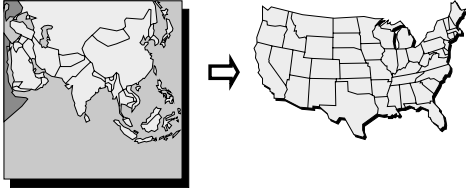
Hamilton Caster & Wheel Company

- Selling direct sort of*
- Founded 1907; 4th generation mgt.
- Story: March 1, 2004 article at this URL:
www.manufacturing.net/ind/article/CA355715.html?spacedesc-e-biz

*See articles # 8.4 & 8.16 @ www.merrifield.com
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Part 3

Outsource Some to Asia, Master Distribution Center Here?



OUTSOURCING TO ASIA

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1. Bedroom furniture early movers
 - cut a fat hog
 - retailers by-passed → value labels
 - early movers & slugs sued Chinese
 - and switched production elsewhere
2. Furniture Brands = stock market winner
 - outsourced too, but. . . .
 - reinvested premium margins in:
lower prices; MDC* service;
advertised brands

*master distribution center

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COLINX MFG'R UTILITY MODEL? MCG

www.colinx.com

www.ptplace.com

- distribution order entry "mall"
for 28+ online stores

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COLINX STORY (1)

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- ▶ 4 "premium brand" founders;
dotcom Plan B; '01 1st full year
- ▶ Outsourced all USA LTL activity & best
logistical people, assets & tools to
shared, 3PL, LLC
- ▶ FTZ*: 40 containers/wk from 30 countries
- ▶ Created a front-end web order entry
mail (ptplace.com)

*FTZ - free trade zone

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COLINX STORY (2)

MCG

- ▶ Factories: laid off warehouse jobs;
consigned goods to Crossville, TN
- ▶ CoLinX is an anti, anti-trust LLC with no
assets, profits or data
- ▶ 2200 channel DC's must now buy
30 - 70% of their products from CoLinX;
all use ptplace!
- ▶ Changed logistics = horse; e.c. = cart

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FINANCIAL ROI TO FOUNDERS? MCG

Total hard/soft sunk costs - "X"
(today .2x in 1/5 the time)

Net case savings as percent of "x"

2001	8.9	} 4 year payback (+) interest
2002	16.8	
2003	26.3	
2004	58.1	
2005	80.0 (projected)	

Other savings: inside sales, distributor
gains; agility & reach

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COLINX METRICS

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	'01	'02	'03	'04	'05	'06
Cost/Web trx.	2.63	1.92	.70	.31	.17	.13
Cost/LTL lb.	.057	.055	.058	.055	.059	.060
Brands Served*	7	8	13	17	18	19
On-line Stores*	4	9	16	24	26	28

*These increased mainly due to acquisitions by founders.
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DISTRIBUTORS' EVOLVING VIEW OF COLINX

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1. "They are going direct on us!"
2. "It favors the little guy."
3. Small chain asked to co-locate replenishment hub with CoLinx
-- turned them down!
-- open to all → profit utility company!

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SUMMARY POINTS (1)

MCG

1. CoLinx is a freak of nature
2. Created by radicals handed to custodians
3. Their existence & #s sell the vision
4. Their consulting (if not operating help) would collapse development time, cost & risk for other potential consortia

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SUMMARY POINTS (2)

MCG

5. The trends favor more consortia
 - outsource LTL/logistics to value-added 3PL
 - blend Asian containers with domestic goods
 - extend reach & agility of channel at lower total cost, higher service value edge
6. A pure MD could be a catalyst and co-located with utility

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