

LOGISTICS COST AND SERVICE 2009



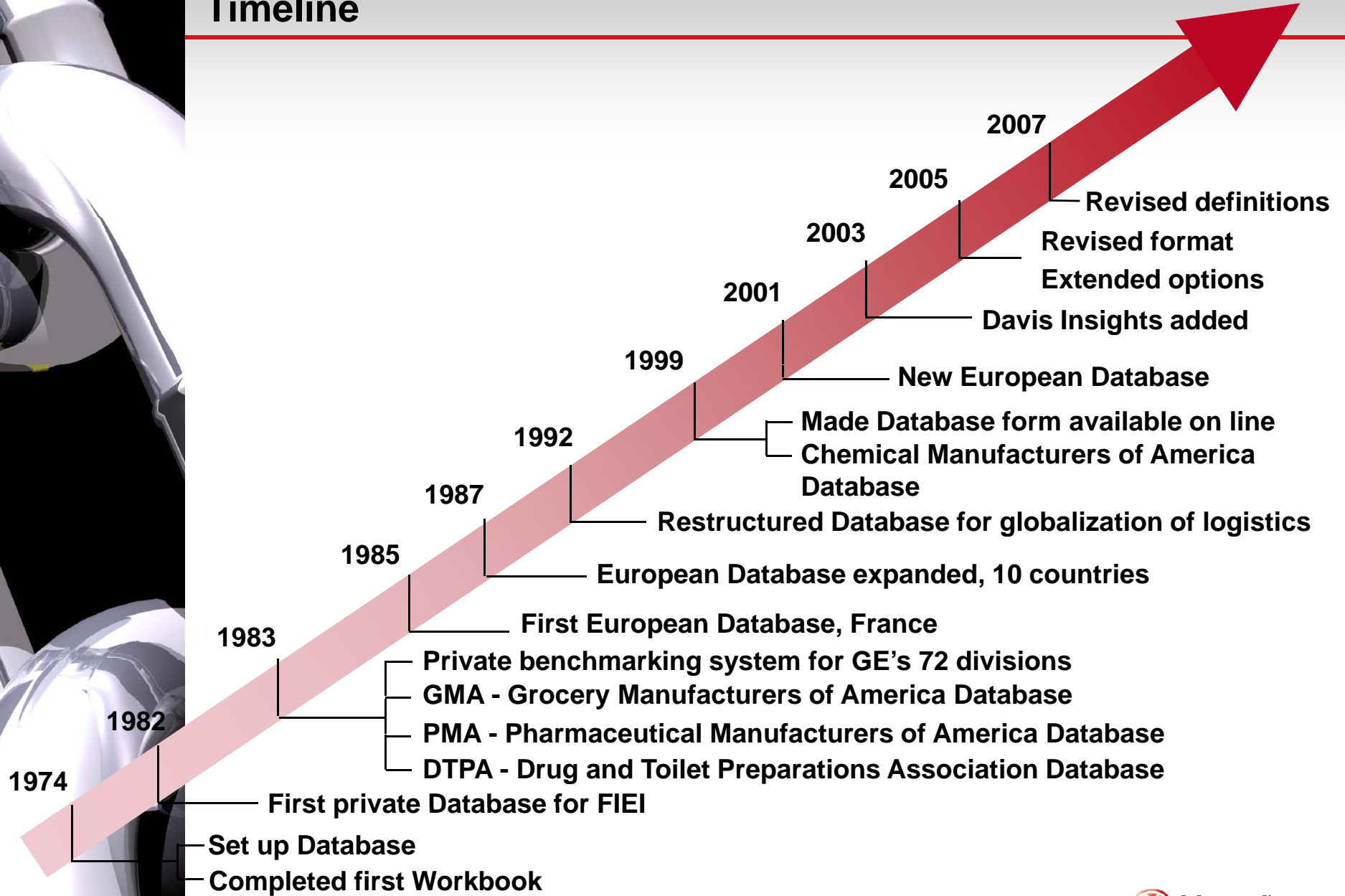


Introduction

The UnitedLog Logistics Cost and Service Database (David Database) was established in 1975 to:

- Define appropriate performance measures for logistics functions.**
- Provide worksheets to record functional costs by facility and in total.**
- Summarize the data received from participating companies and aggregate it into a useful database for benchmarking.**

Timeline





Key Findings – 2009

What is happening in terms of logistics costs?

The Economy

- ⑩ Overall, most companies felt a reduction in demand leaving most supply chains with excess capacity and excess costs.

Transportation

- ⑩ Continually shifting to smaller and smaller order sizes, increases the need for smaller, less-cost-effective shipments.

Warehousing

- ⑩ Many companies have outsourced their warehousing operations to minimize the risk of large swings in demand, however, many companies are either at the minimum contract level or are not reaching the same volume incentives.

Inventory

- ⑩ Increased pressure due to longer supply chains and the inability to shut down the “pipe-line” in a timely manner.

Administration and Oversight

- ⑩ A number of highly compensated supply chain executives have been “let-go” from their positions as downward pressure on demand has forced companies to tighten their belts and run their existing supply chain, rather than focus on strategies for improvement.



Trend group average:

- **Cost as a percent of sales is up 9.4%.**
- **Cost per hundredweight is up 10.7%.**
- **Sales are up 1.0%.**
- **Total costs in dollars are up 10.1%.**
- **Weight shipped is down 0.5%.**
- **Product value is up 1.3%.**

Interpretation for the Typical Company

If you had the following characteristics....

	<u>2008</u>	<u>2009</u>
Annual Sales – millions	\$2,000	\$2,020
Weight Shipped – million lbs.	500	498
Logistics Costs in \$ – millions	\$200	\$220
Logistics Costs as a % of Sales	10.0%	10.9%
Logistics Costs per CWT	\$40.00	\$44.00



Several Database Trends are Evident

- **Logistics costs have increased considerably from 2008 to 2009. There have been large increases in almost every element of the supply chain, except in the Administration and Oversight, where many companies realized a reduction in costs by reducing staff.**
- **Overall, the past year has not been a good one for logistics costs and service, with demand down for most of the year; although, it has been picking up in the past few months.**
- **Customer service levels remain flat, as most companies have focused on cost reductions rather than service improvements.**



Recent Industries

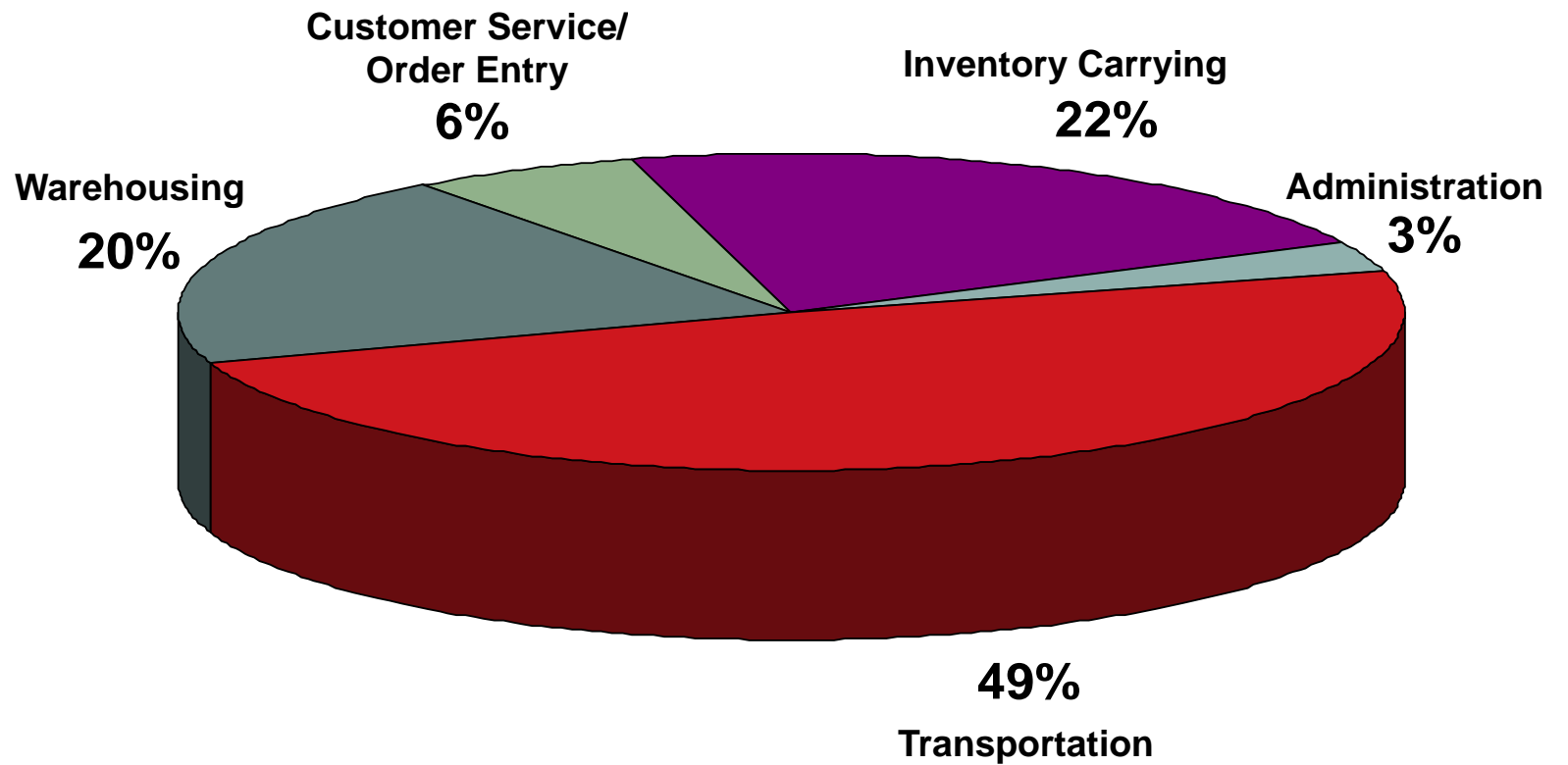
Consumer Electronics
High-Value Industrial Durable
Computers
Peripherals
Telecommunications
Industrial Replacement Parts
Chemicals
Industrial Supplies
Consumer Replacement Parts
Small Appliances
Large Appliances
Publishers
Tires
Consumer Packaged Goods
Building Supplies/Hardware Products
Low-Value Consumer 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 Chains
Mass Merchandisers
Low-Value Industrial Durable

Average Company—2009 Database

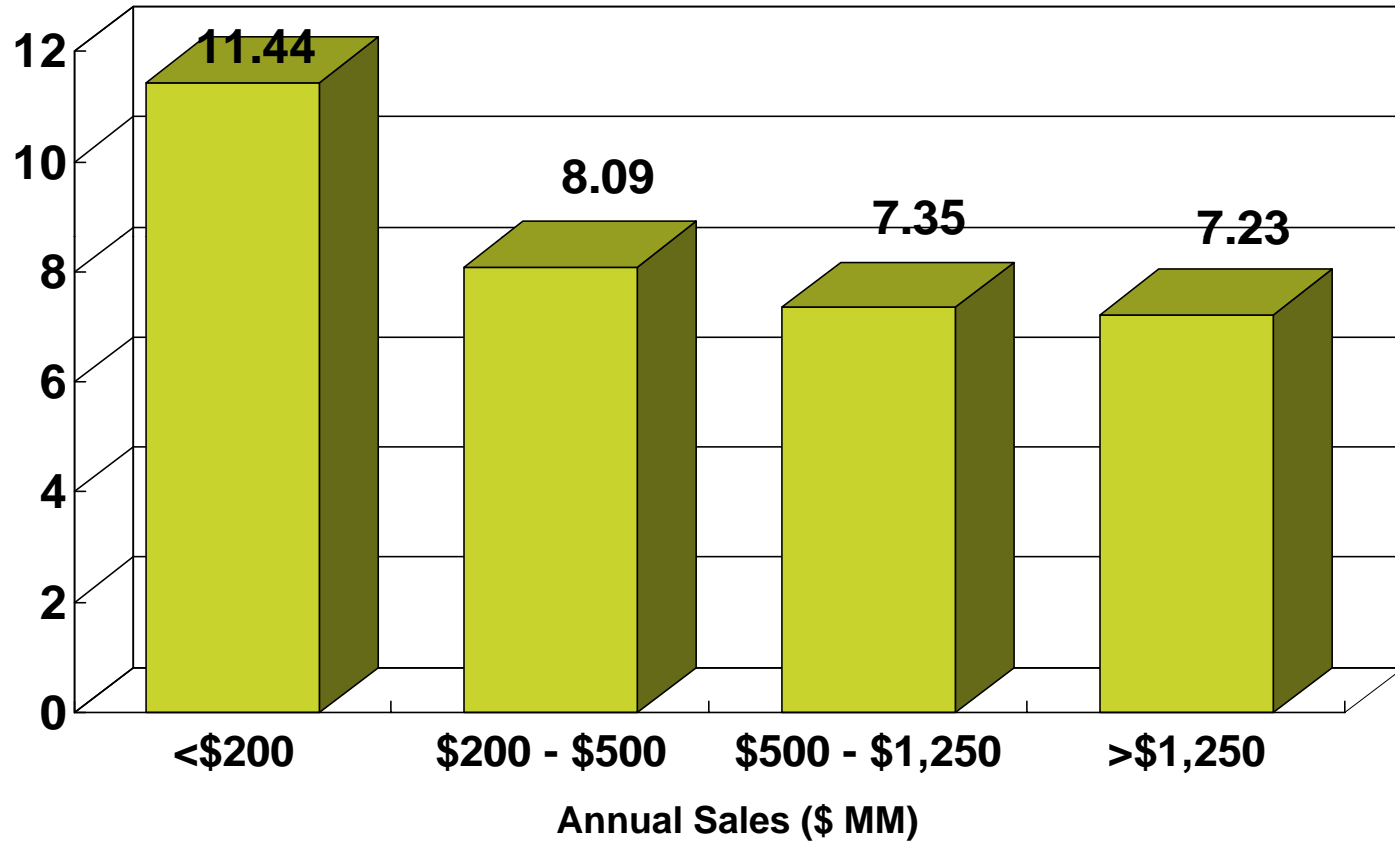
	<i>Cost In</i>	
	<u>% of Sales</u>	<u>\$/CWT</u>
Transportation	4.12%	\$40.00
Warehousing	1.73	14.73
Order Entry/Customer Service	0.54	6.01
Administration	0.26	2.07
Inventory Carrying	<u>1.83</u>	<u>18.08</u>
<i>Total Logistics Costs</i>	<i>8.48%</i>	<i>\$80.89</i>

Cost Breakdown Percent of Sales

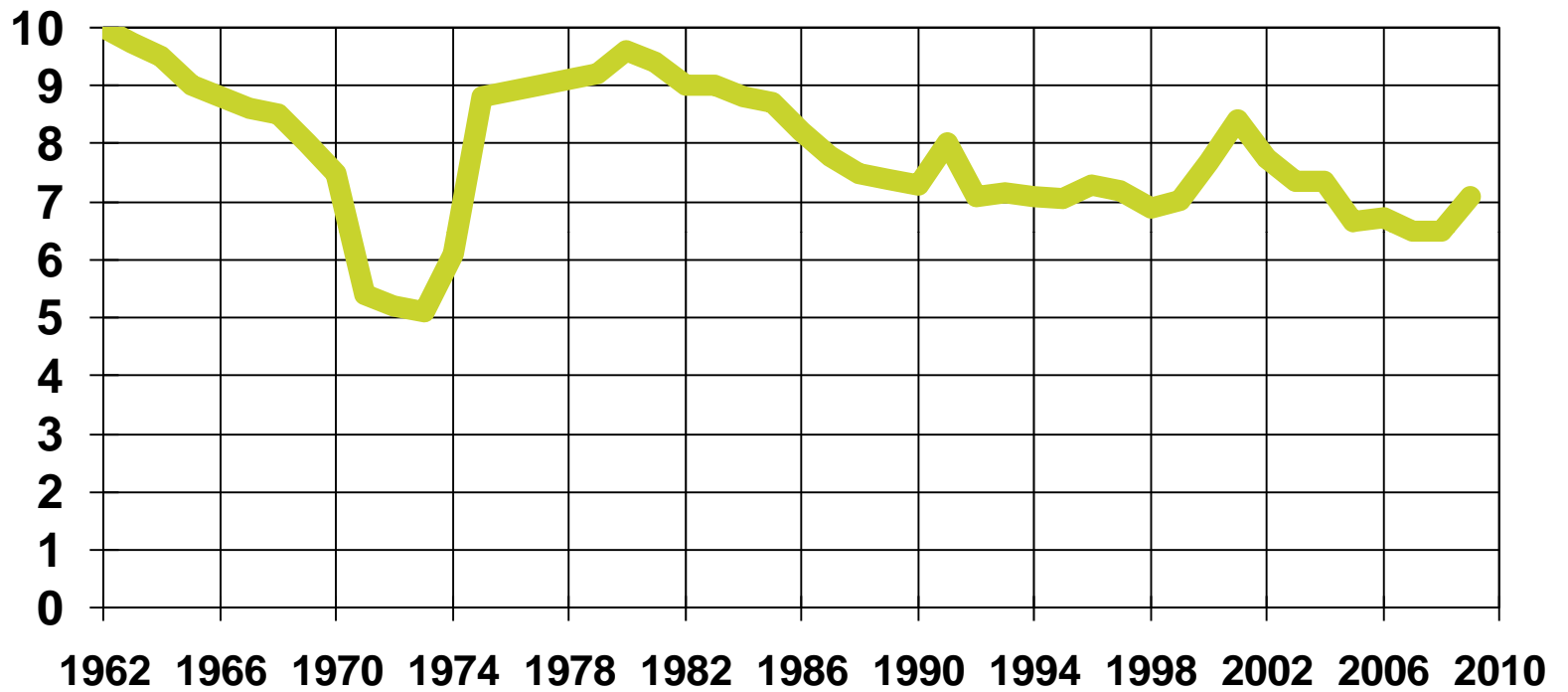


Company Size Small companies pay more

Cost as a
% of Sales

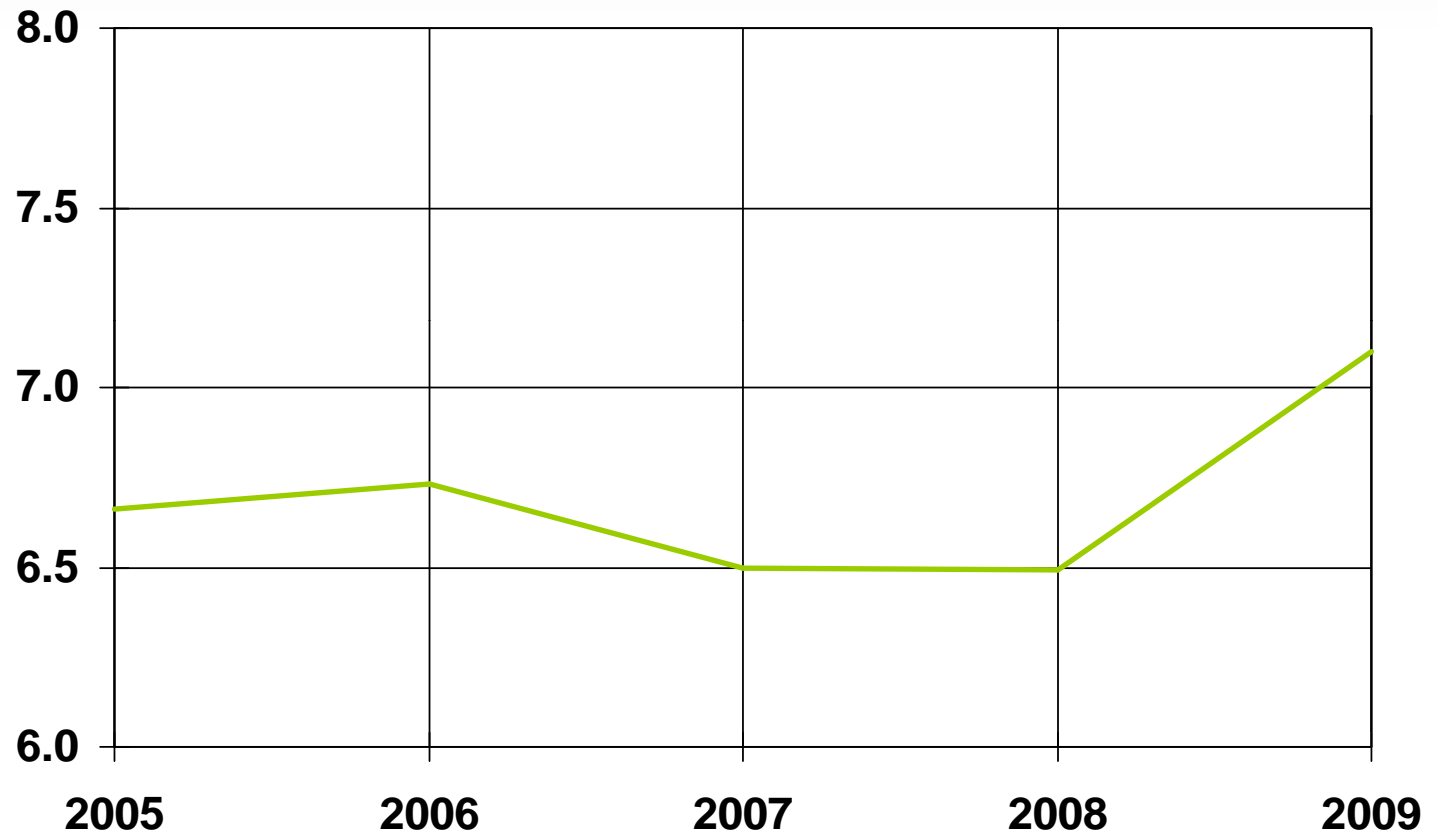


Logistics Cost—Percent of Sales



Logistics Cost—Percent of Sales

Last Five Years



Logistics Cost Change

	<i>2009 versus 2008</i>	
	<u>% of Sales</u>	<u>\$/CWT</u>
Transportation	+ 9.3%	+ 10.4%
Warehousing	+ 2.5	+ 3.7
Order Entry/Customer Service	+ 4.4	+ 5.4
Administration	- 16.7	+ 15.5
Inventory	<u>+ 10.9</u>	<u>+ 12.5</u>
Total	+ 9.4%	+ 10.7%

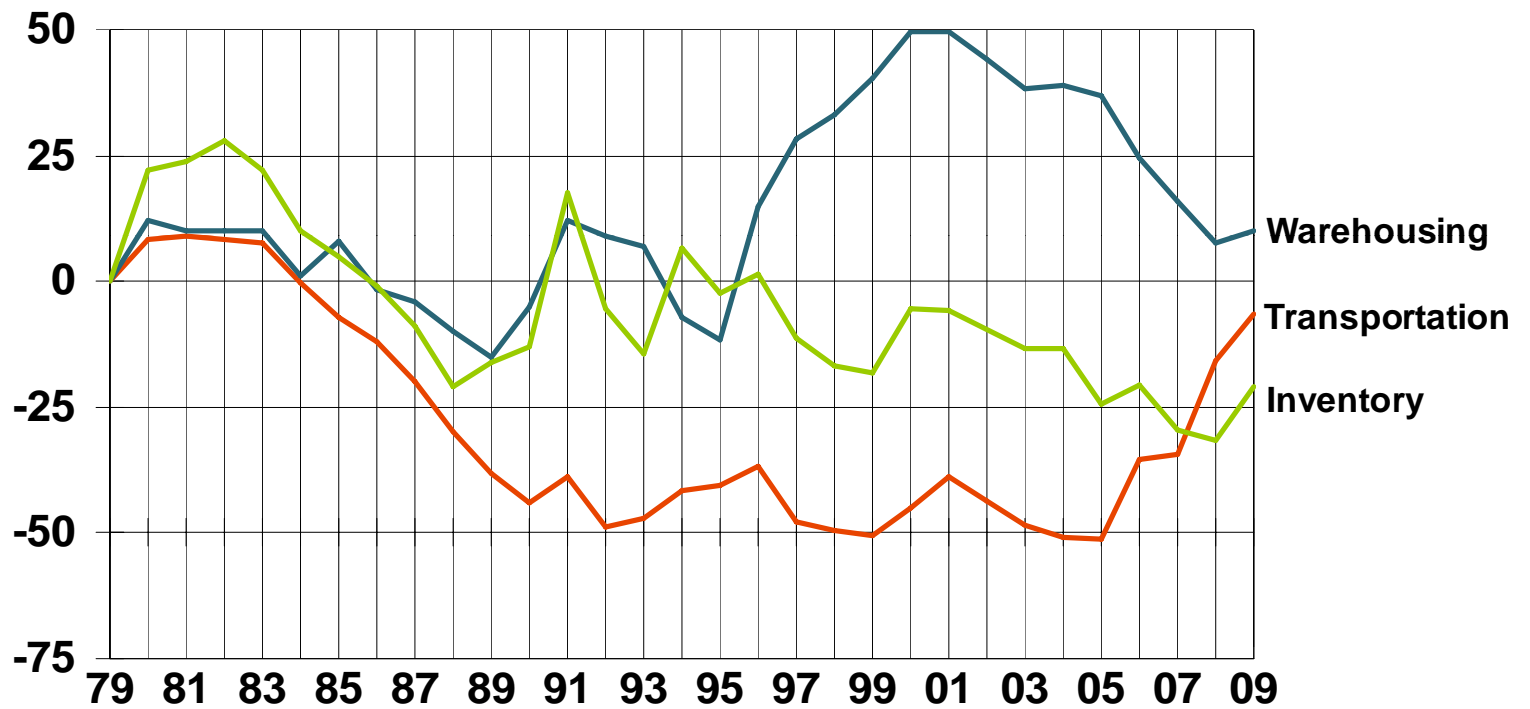


Why are Overall Costs Rising?

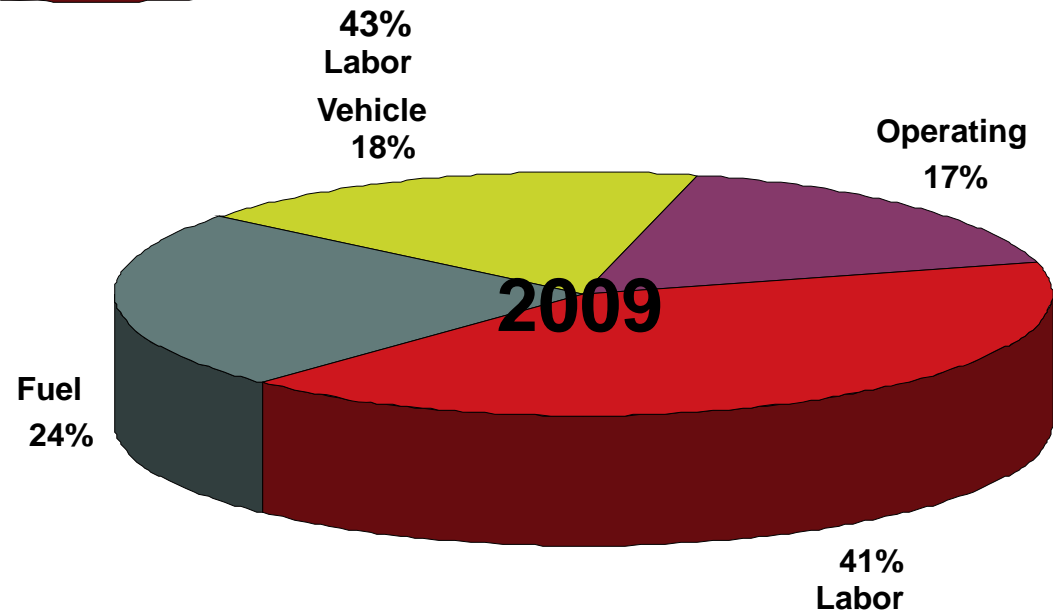
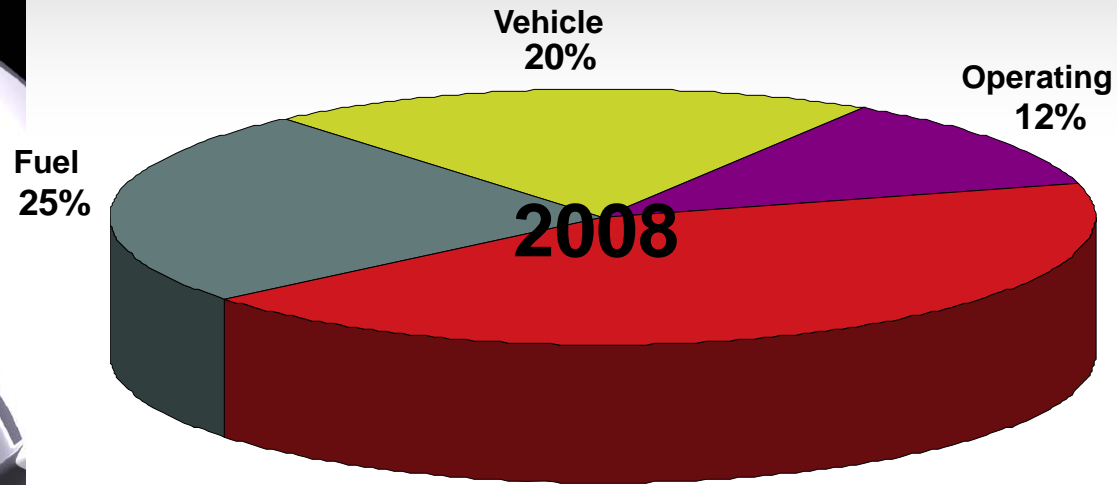
The average company in our trend group has incurred a cost increase in almost every cost category except administration and oversight.

- Some sharp reductions in demand are leaving many companies supply chains with excess capacity.
- Order sizes are continually decreasing with stricter delivery restrictions, increasing the need to use less cost-effective transportation modes.
- The increases in warehousing costs are related to demand variability and excess capacity.
- The increases in inventory are due to the lack of response time in some longer supply chains (product is often already in transit when demand drops).
- There have been other reductions in the oversight and management functions as staff levels were drastically reduced.

Annual Functional Cost Change (Percent of Sales)



Cost Breakdown Transportation Costs



Customer Service Levels

Definition

- The prompt and complete delivery of goods ordered

Measurements

- Prompt = 7.8 days total order cycle time

- Complete

<i>Orders</i>	91%
<i>Lines</i>	94%
<i>Units</i>	95%

Average Performance Reported

FULL DATABASE

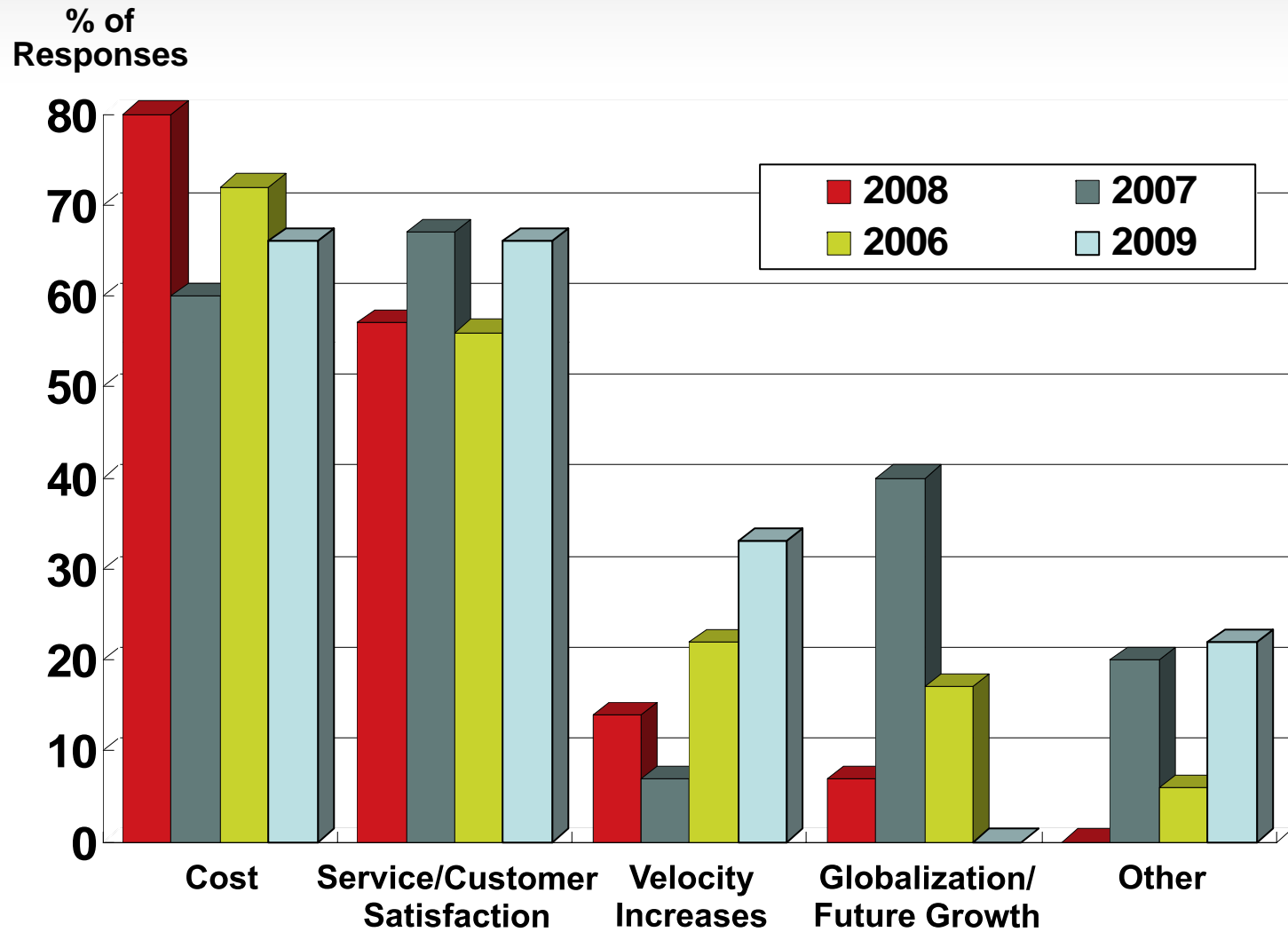
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Total Cycle Time	(Days)	8	7	8	7	8	8	8	9	9	8
Product Availability	(% Orders)	86	87	88	85	91	88	84	83	90	91
	(% Lines)	92	92	95	91	94	92	89	93	92	94
	(% Cases)	92	90	93	93	91	94	90	94	94	95



Davis Insights

1. Strongest forces driving decisions in logistics.
2. Most pressing issue in managing a logistics organization.
3. Most pressing issue in operating logistics functions.
4. Most difficult customer service requirement.
5. Most recent changes in logistics network.
6. Most recent change in systems that support logistics.

Strongest Forces *Driving Decisions* in Logistics





Most Pressing Issue in *Operating* Logistics Functions

- **Controlling and reducing costs.**
- **Managing complexity and variability.**
- **Continuous network optimization and transition.**
- **Customer delivery requirements.**
- **Managing temporary staff.**

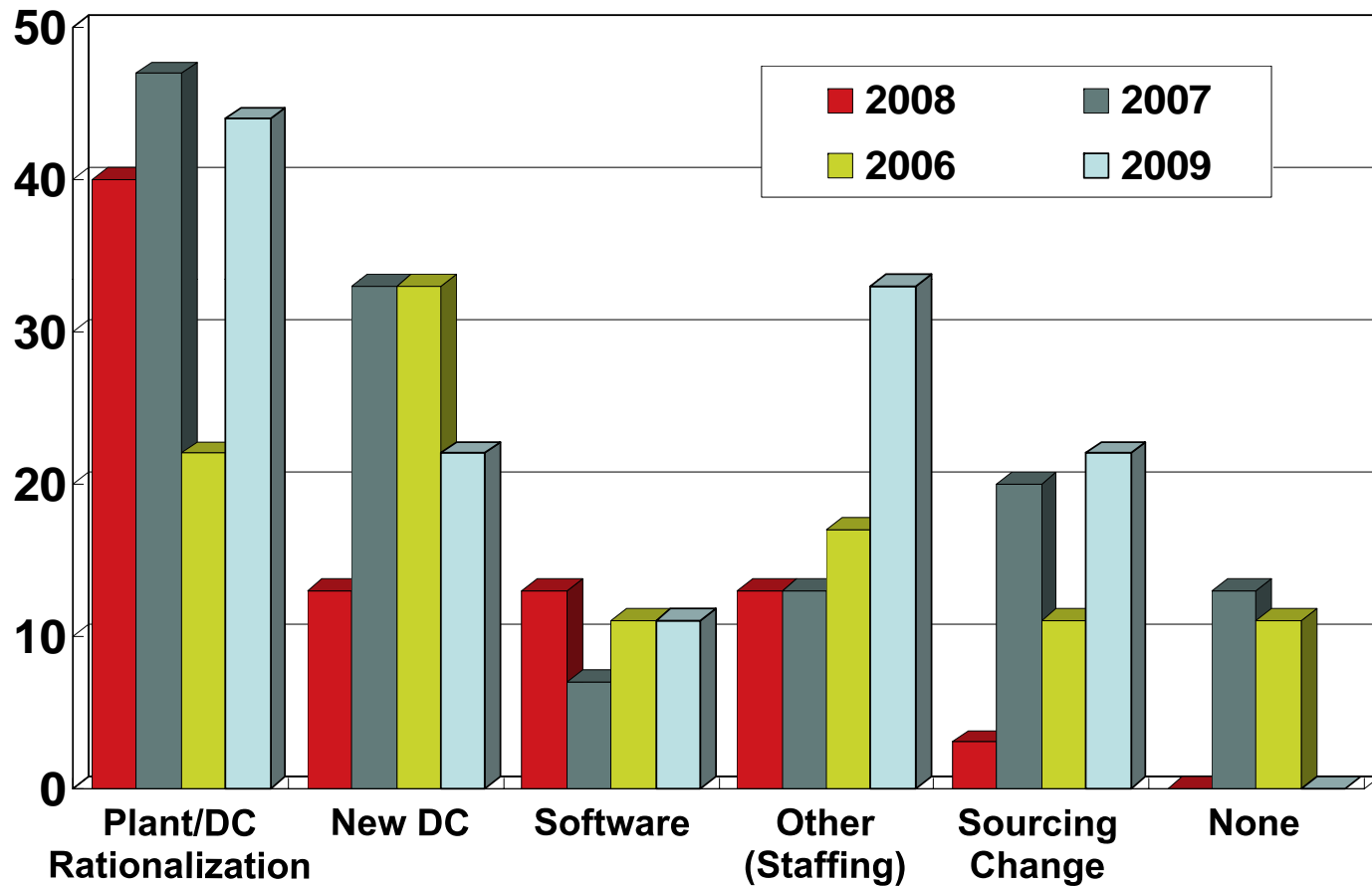


Most Difficult *Customer Service Requirement*

- **Mass customization while reducing costs.**
- **Labeling and packaging requirements.**
- **Extended payment terms and charge backs.**
- **Delivery requirements (carriers, appointments, etc.).**

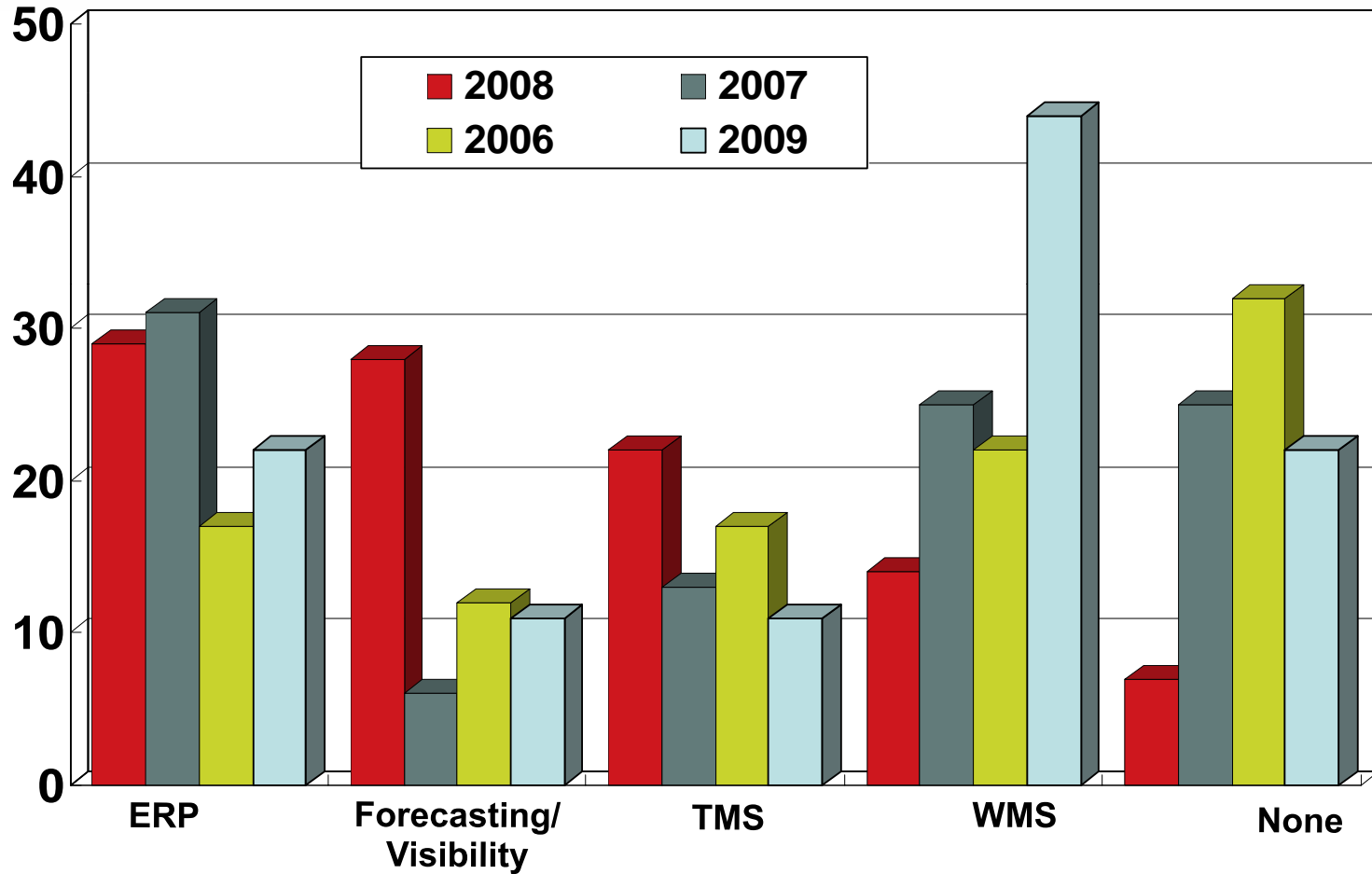
Most Recent Changes in Your *Logistics Network*

% of Responses



Most Recent Change in *Systems* that Support Logistics

% of Responses



In Summary

- **The average company in 2009 has logistics costs of 8.47% of sales.**
- **Year-over-year costs rose sharply in 2009 from 2008.**
- **Most companies are focusing on:**
 - **Reducing their cost levels while maintaining enough flexibility to react when demand improves.**
 - **Rationalizing the number of locations in their network.**
 - **Making improvements within their ERP or WMS systems.**