
Creating Value with a Distribution Business

T and LA

Transportation and Logistics Advisors, LLC

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Distributors are an old business model that continues to create value for both manufacturers and consumers/end customers

Distributor Value Proposition

To Manufacturers	To Customers
<ul style="list-style-type: none"> • Sales channel to sell and service specific customer segments • Provide value added services • Perform customer service • Capitalize and carry inventory • Take customer credit risk • Manage local operations 	<ul style="list-style-type: none"> • Provide product bundles across OEMs • Manage supply chain • Manage inventory • Single point of contact across OEMs • Link together products, services, and processes to fill customer needs • Provide information and product knowledge • Provide credit

Distributors Add Value in Many Industries*

<ul style="list-style-type: none"> • Food and grocery • Industrial equipment and supplies • HVAC equipment • Ag equipment 	<ul style="list-style-type: none"> • Automotive • High-tech components • Medical equipment • Building materials • Electrical products 	<ul style="list-style-type: none"> • Oil and gas • Chemicals • Facilities maintenance • Construction equipment • Home Improvement
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*Representative

Distributors have two primary functions

Logistics

“Improve process/control costs”

- Provide warehouse network
- Hold and manage inventory
- Manage inbound transportation
- Manage outbound transportation
- “Kit” components into product bundles

Marketing and Sales

“Beat the competition”

- Have the right products and services available at the right time in the right location
- Target sales efforts on best customers
- Provide customers with superior service
- Provide knowledge, insights and solutions
- Provide outstanding after-sales service and support

A good distributor turns Logistics + Marketing and Sales capabilities into a competitive advantage

While an old model, distribution companies are continuing to evolve, and can be attractive investments

Distributors Can be Defensible

- Tend to have stable relationships on both the buy and sell side with repeatable business transactions
- Tend to have “brand loyalty” on both buy and sell side – partners look to them to fill needs
- Replacing them from the manufacturer side requires capital, facilities, and replacing on-going business processes... and disrupting existing customer relationships
- For customers to go manufacturer-direct requires adding a sourcing department, inventory, facilities... and adding people who can fill the product knowledge gaps
- Replacing distributors can lower shipment sizes, increasing transportation costs and slowing order to delivery cycles

Distributors Can Grow Value

- Opportunity to add complementary products – provide more to existing customers
- Opportunity to add e-Commerce sales and grow with new customers
- Opportunity to add new value-added services
- Opportunity to use new transport options to lower inventory or provide faster service
- Opportunity to add technology to lower supply chain costs
- Opportunity to lever fixed cost through growth

In the past, distributors created logistics value by optimizing trade-offs

	Key Factors	Trade-Offs
Sourcing	<ul style="list-style-type: none"> • Low cost suppliers • Consistent quality • Access and availability • Volume buying 	<ul style="list-style-type: none"> • Low cost sourcing often results in high transportation costs • Long-distance supply chains have more risk – requires more inventory
Warehousing / Inventory	<ul style="list-style-type: none"> • DC network to support business • Products to stock at each DC <ul style="list-style-type: none"> – Low turn vs. high turn – Product mix and bundles • Inventory management and visibility • Inventory ownership • Labor management • Value-added services 	<ul style="list-style-type: none"> • Stock-outs versus excess inventory • Stock-outs versus expedited transport • Breadth of portfolio versus low inventory turn • Single DC with high inventory turn, but also slower and more costly delivery, versus multiple DC's with higher DC and inventory costs
Transport	<ul style="list-style-type: none"> • Matching mode and service to requirements • Private fleet vs. for-hire • Carrier management • Service reliability and transit time 	<ul style="list-style-type: none"> • Cost versus time to delivery • Speed, cost, order size trade-offs • Single mode simplicity versus multiple mode service options

Today distributors can create logistics value without trade-offs, if they have the technology and processes to manage complexity

- **Better software** – what was once expensive is now available to the masses
 - SaaS “by the click” instead of big investment cost
 - Functionality/capabilities much better, and more connected
 - “Download and run it” versus big integration project
- **Better management** – utilizing technology
 - Lower operating costs
 - Lower inventory without changing stock-out ratio
- **More transportation options** – available in the market, for a wider range of shipments, many resulting from Commerce growth
 - Heavy goods home delivery can deliver to the customer’s customer
 - » Same day or next day
 - » Bypass the customer’s DC
 - Final mile delivery options
 - » Many different flavors for 8 oz. to thousands of pounds
 - » Ability to deliver to businesses, homes or “deliver to me”
 - Drop shipping to bypass distributor’s DC, or even customer’s DC
 - » Lower inventory costs
 - » More productive DC space
 - Improved ability to backhaul and utilize private fleet “dead time”
 - » Leverage broker networks or Uber Freight type networks
 - » Lowers private fleet costs - Turn cost center into a profit center

Many of the technologies and transport options are new and a result of the growth in e-Commerce. IoT will only expand the possibilities

In the past, creating sales and marketing value was dependent on management and execution – today there are more levers

In the Past

“Execute on the basics”

- Target segments and customers
- Solid Product and Service offering plan
- Effective Sales management
- Effective Pricing management
- Excellent Customer Service

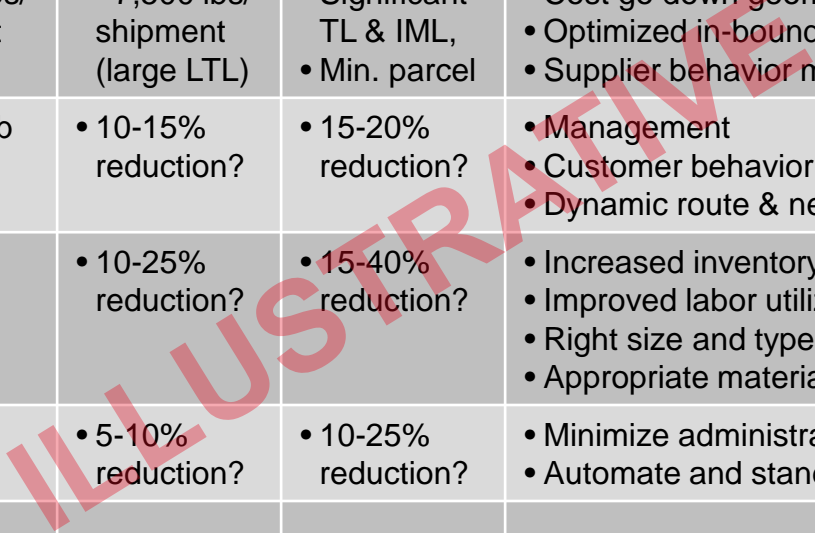
Today

“Find new way to add value”

- Add value through information
- Provide “value-added” services
 - Help customers make better decisions
 - Help them buy the right product
 - Show them how to use products and what is needed to use them
- Make new value-added products by “kitting” components into product bundles
- Offer multiple delivery time and cost options
- Offer product trade-off options

While distributors are relatively straight-forward businesses, there are usually multiple levers for improving financial performance

	Financial Levers	Current	Future	Best	Reason Why Achievable
Metrics	Inventory turnover	• Varies by product and market	• 40%-50% improvement	• 100+% improvement	<ul style="list-style-type: none"> • Leading distributors are in the Future or Best range • Go to two tiered network to manage low volume SKUs
	Inbound transportation	<ul style="list-style-type: none"> • ~\$0.085/ lb • ~4,000 lbs/ shipment (LTL) 	<ul style="list-style-type: none"> • ~\$0.065/ lb • ~7,500 lbs/ shipment (large LTL) 	<ul style="list-style-type: none"> • ~\$0.05/ lb • Significant TL & IML, • Min. parcel 	<ul style="list-style-type: none"> • Full TL in-bound is about \$0.03/ lb • Cost go down geometrically with volume • Optimized in-bound consolidation – high leverage • Supplier behavior management
	Outbound transportation	• ~\$0.73/ lb	• 10-15% reduction?	• 15-20% reduction?	<ul style="list-style-type: none"> • Management • Customer behavior management/VMI • Dynamic route & network optimization
	DC Operations	• 15% of cost	• 10-25% reduction?	• 15-40% reduction?	<ul style="list-style-type: none"> • Increased inventory turns • Improved labor utilization • Right size and type of facility, in right place • Appropriate material handling and storage
	Supply chain G&A	• 12% of cost	• 5-10% reduction?	• 10-25% reduction?	<ul style="list-style-type: none"> • Minimize administrative processes • Automate and standardize
Financial Impact	Margin				
	Assets / turnover				
	Return on assets				
	Working capital				
	EBITDA				



But achieving these financial improvements is typically dependent on executing both short and long-term initiatives

Financial Levers	Short-Term	Long-Term
SKU / brand Rationalization	<ul style="list-style-type: none"> • Stop purchasing - discontinue slow moving SKUs / brands • Drop ship, outsource for low volume but significant SKUs • Rationalize number of brands or SKUs of “same” product to increase velocity • For slow moving inventory – don’t buy until sell 	<ul style="list-style-type: none"> • SKU and brand analysis by customer • Product plans - Impact on customers, collateral products, in-bound consolidation, outbound transport, customer and supplier relationships • Brand substitution assessment • Balance shipper vs. distributor transport control
Warehousing	<ul style="list-style-type: none"> • Assess facilities as leases come due • Efficiency and cost reduction within 4 walls 	<ul style="list-style-type: none"> • Right DC network to service customers • Assess vs. impact on transportation costs • Coordinate sq. footage with inventory programs • Match material handling to volumes, velocities and SKU characteristics
Inbound Transportation	<ul style="list-style-type: none"> • Find immediate short-term cost savings opportunities within constraints of current network and products / brands <ul style="list-style-type: none"> – Re-bid truck transportation – Right carrier – right move (TMS) – Optimize economic order quantities and delivery frequency – Leverage inbound consolidation 	<ul style="list-style-type: none"> • Distributor vs. vendor-controlled shipments • Network and flow • Order size and transit time (balance inventory vs. transportation costs) • Optimize private fleet, dedicated and 3rd party fleets for dynamic supplier pickup • Intermodal
Outbound Transportation	<ul style="list-style-type: none"> • Route optimization • Alternative modes and providers 	<ul style="list-style-type: none"> • Real time optimization of order quantities, shipment sizes, shipment frequency, routes, timing, etc.

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