

The Power of We

How to get products to market faster, cheaper and greener using a shared distribution infrastructure.

A KANE Viewpoint

The Power of “We”

We.

It’s just one letter removed from “me,” but that slight change creates a word with enormously greater potential.

The word’s power is explained rather simply: apply the collective will of people with the same goals to achieve a better result for all.

Martin Luther King, Nelson Mandela, and Ghandi all showed us the power of “we” to end oppression, overthrow governments, and even change the course of history.

Every day our neighbors show us the power of “we” when they:

- Car pool to work, saving \$2,500 a year on gas alone
- Pool their money to buy power tools that each will use just a few times a year



Apply the collective will of people with the same goals to achieve a better result for all.

Businesses translate “we” into profit when they:

- Cooperate on material purchasing to reduce costs from shared suppliers
- Gain attractive insurance rates by going through an association or cooperative

With “we,” the orientation shifts:

- From mine to ours
- From owned to shared
- From discreet to combined

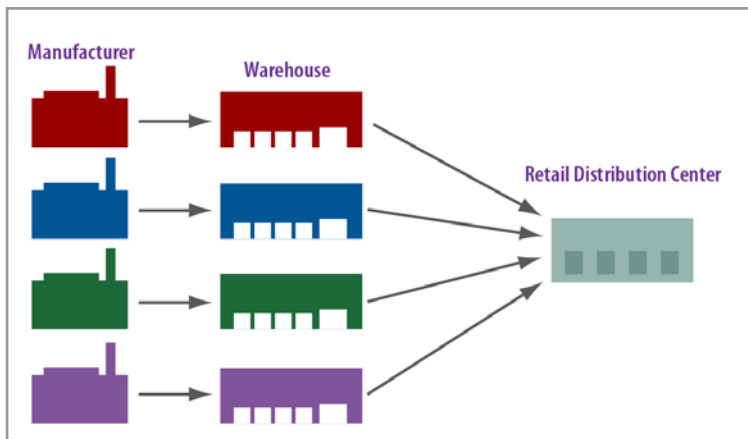
Sadly, that shift has not occurred in the supply chains for retail products.

Today, It's About "ME"

For the most part, consumer product manufacturers manage their own discreet lines of supply to retail customers. That's tens of thousands of insulated, isolated supply lines – many originating in the same region and ending up at the exact same retail distribution centers (DCs).

The idea of sharing a distribution infrastructure for mutual benefit seems sensible, but it's the exception. Today, it's still about "me," not "we."

As a result, half empty trucks ride side by side on the highway and pull up to adjacent dock doors at the DC. That's like taking an expensive taxi to the airport and learning that three of your neighbors were leaving on the same day and you could all have saved 60% on transportation costs by sharing a shuttle ride.



It's maddeningly illogical. Yet the model persists for a couple of reasons:

- **Change is scary.** It means admitting that certain supply chain functions are not a battleground for competitive advantage; they are simply tactical requirements that must be done efficiently.
- **Change is hard.** It's much easier to work within your silo where the culture, systems, processes and objectives are the same.

When a new company is launched in the U.S. and its goods are made overseas, no one says "OK, now we need to build a container ship to transport the goods and a port to receive them." That infrastructure already exists.

In product distribution, we need to stop "building container ships" and start utilizing a distribution infrastructure we can all share.

“Me” Sucks

The big picture

A “me” orientation for product distribution is not sustainable long term.

“Me” is unaffordable. Small and mid-market companies need to look at product distribution as a shared service among different companies, a proven model known to reduce costs. Board members, particularly the finance variety, understand that products that compete on the store shelf don’t compete in a warehouse or trailer. Trying to convince them otherwise may not be the best career move.

“Me” takes too long. It requires smaller companies, who lack the volume to ship in full truckloads (TLs), to use less than truckload (LTL) carriers. The LTL model, by its nature, is slower and much less predictable than direct TL shipments. For cross-country trips, LTL can add as much as 5 days, forcing retailers to keep more safety stock.



“Me” is choking our planet. The projected increase in freight emissions through 2040, if left unchecked, will be 190 million metric tons – the same greenhouse gas (GHG) impact as adding 39 million vehicles to the roads.¹ This comes at a time when we need to be reducing, not increasing, GHGs.

Continuing this company-centric approach to product distribution is like commuting before mass transit or buying music before iTunes.

There’s a better way.

“Me” Sucks

The not-so-big picture

Every day, “me” creates a ton of profit-draining inefficiencies during the distribution cycle, for both manufacturers and their retail customers.

Manufacturers

- **High freight costs.** Smaller shipping volumes force mid-market companies to move freight using higher cost LTL.
- **Chargebacks.** Less predictable shipping schedules make it difficult to hit retailers’ requested arrival dates (RADs), resulting in penalties.
- **Higher inventory.** Longer supply lines require higher safety stocks to meet fill rate objectives.
- **Higher warehousing costs.** Shippers typically pay 5%-15% more in customer-owned and operated space versus sharing space and overhead costs in a multi-client DC.

Retailer

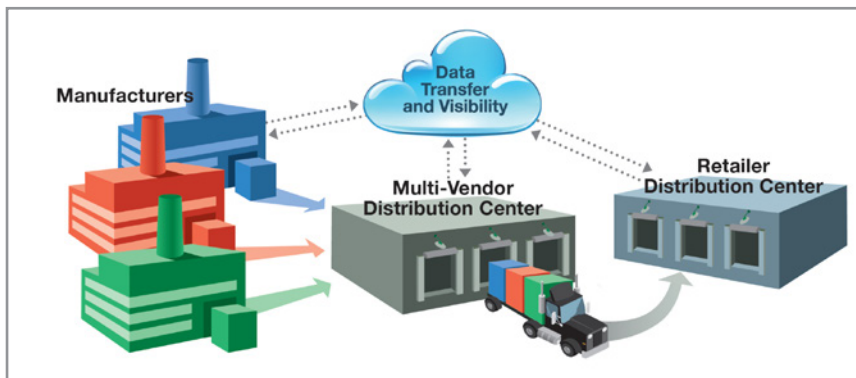
- **High labor costs.** Unpredictable inbound schedules make it difficult to plan labor to receive and process the inbounds.
- **Dock congestion.** Goods arrive from many different manufacturers, all in separate trucks, leading to congestion, longer waits, a higher carbon footprint, and inefficient receiving.
- **High supplier management costs.** Buyers’ time is sucked up managing relationships with hundreds of smaller, non-strategic suppliers.
- **Inflated inventory.** Retailers must hold more safety stock to allow for less predictable LTL delivery schedules.

Getting From “Me” to “We”

We can break this cycle of inefficiency, but it will require a mindset shift and a willingness to change.

In a collaborative distribution environment, consumer product manufacturers would consciously co-locate inventory in multi-client warehouses run by neutral third party logistics companies (3PLs) that house like products shipping to the same retailers.

To capitalize on these collaborative distribution campuses, retailers would change their purchasing processes. Instead of letting buyers order separately from hundreds of different suppliers, the retailer would instruct buyers to create consolidated orders for suppliers whose inventory is located at the same DC.



Manufacturers win by sharing storage costs and paying only for their share of a less expensive truckload move.

The 3PL would process orders and ship them out as a single TL shipment, equitably parsing out transportation costs based on the percent of the consolidated load each supplier’s product represents.

With collaborative distribution, manufacturers win by sharing storage costs and paying only for their share of a less expensive truckload move. Retailers win by receiving the same volume of freight in fewer, fuller loads. 3PLs win by establishing another level of added value, namely, an ability to bring together like shippers for shared savings. This ability will become a major criterion for 3PL selection in the future.

Shared Infrastructures Are Common Outside Logistics

Wireless service providers no longer build discreet infrastructures; they share cell towers to avoid redundant sites and reduce capital expenses. These days, towers are most often owned by neutral companies that do not provide wireless services.

Most companies don't use their own servers and IT staff to host their websites. For a fraction of the cost, they pay a third party web hosting company that manages a bank of servers to host hundreds or thousands of websites.

Instead of installing software in their own IT environments, companies reduce cost and complexity by buying software as a service. They can have secure access to the software via a web browser, but share the costs of the underlying infrastructure of networks, servers and storage.

As these examples illustrate, the power is not in the infrastructure itself, it's what you do with it. So why not create a shared infrastructure for product distribution? One run by neutral third parties that can customize a solution, even within a shared cost environment.



HUNTS POINT
PRODUCE MARKET
BRONX, NEW YORK

Fruit and vegetable sellers worldwide want access to the lucrative Greater New York City market, with its thousands of hotels, restaurants, and bodegas and 22 million people. But they don't need to worry about how to get their products to market here thanks to the Hunts Point Market, the largest wholesale produce market in the world.

The market operates as a cooperative, with an elected board overseeing the internal affairs of 50 businesses and 10,000 staff. Members benefit from sharing overhead costs to operate the market and being part of "the place" to buy fresh produce in NYC. Customers benefit from an ability to get the majority of their vegetables and fruit from a single source, saving time and money.

The 1 million-square-foot facility serves as a market, not as a distribution center, but the characteristics of this "me to we" example are much the same as those of a consumer goods-to-retail model: it's a shared cost infrastructure for like products being sold to the same customers.

What's To Gain?

Manufacturers can shave as much as 35% off distribution costs by shifting to a more collaborative model.

Those savings will come largely from shifting from LTL to consolidated TL shipments and paying only for a portion of the freight shipment.

Additional sources of savings include:

- Sharing overhead, space and labor in the warehouse with other shippers.
- Flexing space and labor based on seasonal demand fluctuations, turning distribution into a variable expense.
- Increasing turns, since multi-vendor consolidation allows immediate fulfillment of retail orders.
- Reducing the time and administrative expense involved in carrier payments, which the 3PL now handles.

Retailers can shave as much as 45% off distribution costs for inbound products that move through a more collaborative model.

Those savings come largely from more efficient management of suppliers and supplier inbounds. Advantages include:

- Reducing inventory without stock-outs by receiving direct shipments on a more predictable schedule.
- Increasing labor efficiency at the retail DC by receiving fewer, fuller loads.
- Paying less for purchased products by enabling suppliers to reduce their shipping costs.

Unlike most manufacturers, 3PLs are very good at product customization. Retailers can request last-minute changes to packaging to create promotion packs and other configurations that provide a merchandising advantage.

The potential for pallet-to-store deliveries introduces a whole other level of savings. In a collaborative warehouse that houses many like consumer products, even competing products, 3PLs have a greater ability to create aisle-ready, multi-vendor pallets and prepare them for either cross dock handling at the retail DC or direct-to-store delivery.

How To Make “We” Happen

The biggest road block in the “me to we” journey is not logistics, it’s inertia.

The physical and technology infrastructure is in place to move from “me” to “we.” And third-party logistics providers can be the on switch. Here’s why:

- **3PLs have an established distribution infrastructure and base of shipping partners.** Collaborative distribution relies like shippers co-locating distribution operations. 3PLs that operate multi-client warehouses offer small to mid-market companies the ability to effortlessly “connect” with new shipping partners for mutual savings.
- **Neutrality.** Sharing warehouse and trailer space involves shared savings, and participants want to make sure they get their fair share of these savings. While individual manufacturers have been known to collaborate with rivals on their own, there is an advantage when the collaboration is fostered by a neutral third party that rivals can trust.

- **Technology platform.** The right 3PL partner will have sophisticated warehouse management and transportation management systems to process orders, build consolidated loads and give each participant the ability to track its own freight in a secure environment.

The biggest road block in the “me to we” journey is not logistics, it’s inertia. Collaborative distribution requires that we dismantle a retail distribution model that’s taken decades to build. But it’s a model whose time has come and gone.

Consumer product manufacturers must change.

They need to recognize that building and managing their own discreet lines of supply to retailers is not strategic.

Tomorrow, product distribution will be less about building and more about joining.

Retailers must change.

They need to get their buying and logistics groups to coordinate to create a streamlined inbound supply chain.

Social Media: Social Distribution

Few phenomena have had more of an impact in recent years than social media. At its core, social media connects people with similar interests. It facilitates interactions with people “like me.”

There is a strong “like me” component to collaborative distribution. Products must be compatible and must ship to the same customers. For that reason, we’ll see less variety in commercial warehouses of the future and, instead, see distribution centers for grocery products, for wines and spirits, for pet products and other commodity sets.

Shippers will choose 3PLs not just for the services they can provide, but for how the 3PL can connect them to shipping partners.

3PLs will be the logistics equivalent of social media networks like LinkedIn. Shippers will “join” not just for the services

3PLs can provide them individually, but for how the 3PL can connect them to shipping partners.

Like social media, “social distribution” has an egalitarian ethic. The mindset shifts from mine to ours, from proprietary to open. There is liberal idea sharing and companies stop trying to compete in the warehouse and the trailer.

Instead of individual incremental gains, they look minimize the time and cost to get products to market. And the best way to do that is by SHARING – ideas, infrastructure and, ultimately, costs.

“Me to We” Examples

Retailer-Driven: Multi-stop Truckloads

CVS wanted to improve truck utilization by combining freight from suppliers in the same geographic areas. One of its pilot programs paired Colgate-Palmolive (C-P) and Kimberly-Clark (KCC), whose distribution centers were relatively close. Trucks leave the KCC warehouse and stop off at C-P to cube out trailers before going on to CVS. This pilot collaborative effort reduced inventory at CVS’s DC by 7%, improved in-stocks by 2% and saved 28.3 carbon tons.²

Manufacturer-Driven: Load Consolidation

Sun-Maid Raisins chose 3PL Kane Is Able, in part, based on KANE’s ability to coordinate a freight consolidation program. As a medium-sized company, Sun-Maid needs to ship with other companies to minimize higher-cost LTL shipments. This partnership with KANE in the Northeast has resulted in a 62% reduction in the company’s outbound freight costs for consolidated versus non-consolidated shipments. Sun-Maid pays only for its portion, by weight, of the TL shipment that its products represent.

Manufacturer-Driven: Establishing joint Infrastructure

The Hershey Company (Hershey’s) and Ferrero are investing in joint distribution operations to reduce carbon emissions and energy consumption in warehousing and freight. When the alliance was first announced, Hershey’s president and CEO, John Bilbrey, said, “Collaborative supply chain operations are a growing trend across industries as companies seek to fully leverage their logistics infrastructures.”

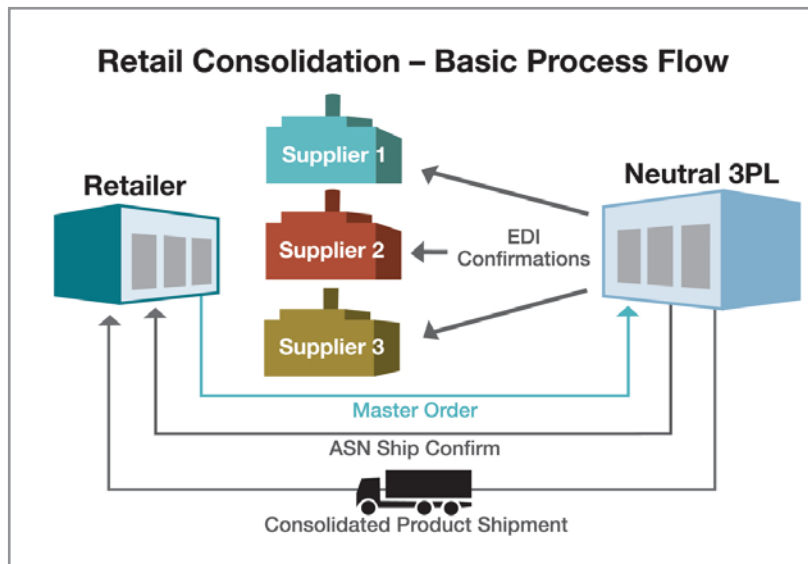
3PL-Driven: Pool Distribution

Recognizing that several of its candy manufacturer customers were using less-than-truckload (LTL) carriers to ship to the same regions of the country, third-party logistics provider Kane Is Able convinced these customers to consolidate separate loads. The cost was divided among customers with product on the truck, including The Topps Company. More than 95% of Topp’s LTL shipments were subsequently converted to lower-cost truckload shipments, cutting costs and reducing delivery times by 20%.

The Central Role of the Retailer

Without active retailer participation, collaborative distribution is nothing more than load consolidation with another name. Retailers are the key to making a new model work and driving supplier adoption.

When you co-locate inventory, retailers can send orders for multiple suppliers on one master order. The 3PL would process orders and ship them to the retailer as a single truckload shipment, dividing the transportation costs across suppliers on the truck. The back-end consolidation at the warehouse would be seamless to the retailer.



The resultant retailer benefits include:

- Lower inventory, since all vendors in the program would have sufficient inventory at the 3PL warehouse to enable the retailer to order just in time.
- Lower supplier administration costs as 3PLs handle all logistics details associated with smaller suppliers.
- Increased efficiency at the receiving warehouse since the same volume of goods arrives in fewer, fuller loads at predictable times.
- Increased store efficiency since the 3PL could create multi-vendor, aisle-ready pallets containing like items.

Retailers should be advocates for collaborative distribution not only because it's the right thing to do, but out of pure self interest.

“Me” is Incremental “We” is Monumental

Continuous improvement is a mantra in the logistics industry – and rightly so. But is it possible to be lean to a fault?

Yes it is, if fine-tuning processes to achieve incremental gains means you overlook a game-changing strategy.

Going from “me” to “we” gets us to a different place.

- Most trucks on the road today are either empty or underutilized. Capturing just half of this underutilized capacity would cut freight truck emissions by 100 million tons per year and reduce diesel fuel expenditures by more than \$30 billion annually.³
- Most small and mid-market consumer goods companies ship retail replenishment orders via LTL. Co-locating inventory at a collaborative distribution warehouse can shave up to 35% off LTL costs – that’s \$6.8 million in incremental profit for a \$200 million dollar company.
- According to Armstrong and Associates, 2013 total logistics costs in the U.S. alone was \$1.35 trillion. Even an ultra conservative reduction of 5% to supply chain costs would result in \$68 billion in savings.

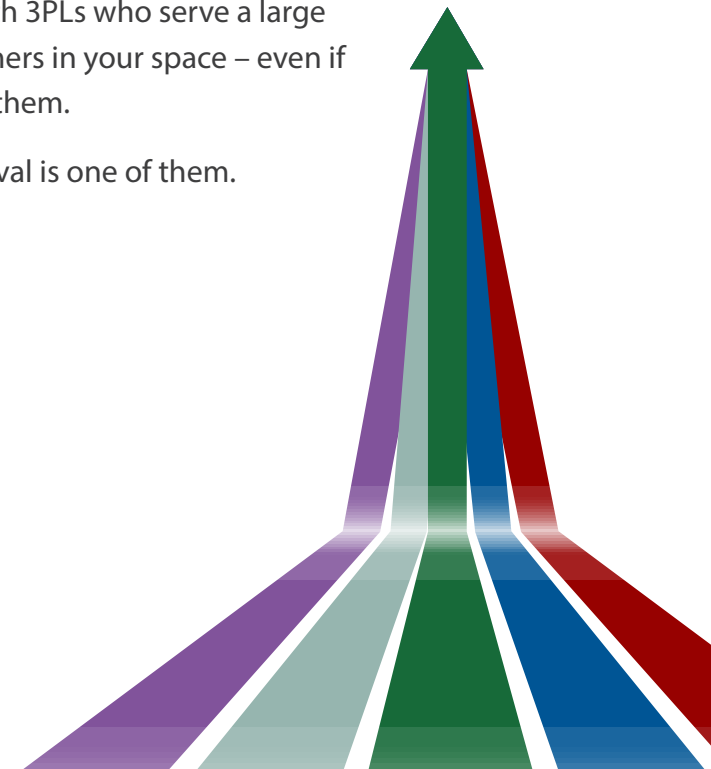
The shift from “me” to “we” in product distribution is inevitable. Strategies tend to follow the money, and there’s simply too much there to ignore. The question is really “how long before a new model takes hold?”

The next generation of supply chain professionals will be more hard-wired to see collaboration as an answer. They will be less concerned about who controls the physical distribution assets and more concerned with achieving the desired result.

But we need to act now.

Take the first step. Look for opportunities to place your inventory with 3PLs who serve a large concentration of customers in your space – even if your arch rival is one of them.

Especially, if your arch rival is one of them.



About KANE

About KANE

KANE helps consumer product companies get retail goods to market efficiently and effectively. We operate in every region of the U.S. and our logistics services include transportation, distribution, packaging, cross-docking, retail consolidation, and people logistics.

Looking for ideas to make your retail supply chain work better?

LET'S TALK

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Notes

1. Jason Mathers, EDF, Analysis of U.S. Energy Information Administration Annual Energy Outlook 2012, Table 19. Energy-Related Carbon Dioxide Emissions by End Use. September 2012.
2. Tom McHugh, Scott DeGroot, Anglea Hood, "Next Generation in Collaborative Shipping," Presentation at the National Association of Chain Drug Stores.
3. Russell D. Meller, Kimberly P. Ellis, Bill Loftis "From Horizontal Collaboration to the Physical Internet: Quantifying the Effects on Sustainability and Profits When Shifting to Interconnected Logistics Systems" Final Research Report of the CELDi Physical Internet Project, Phase I. September 2012.